



# HHS Public Access

Author manuscript

*Glob Soc Policy*. Author manuscript; available in PMC 2015 February 19.

Published in final edited form as:

*Glob Soc Policy*. 2012 August ; 12(2): 149–172. doi:10.1177/1468018112443686.

## “Trade policy, not morals or health policy”: the US Trade Representative, tobacco companies and market liberalization in Thailand

**Ross MacKenzie [Lecturer in Health Studies]** and

Department of Environment and Geography Faculty of Science Macquarie University Sydney | NSW | 2019 tel: +61 (0)2 9850 4425 ross.mackenzie@mq.edu.au

**Jeff Collin**

Centre for International Public Health Policy University of Edinburgh, Scotland

### Abstract

The enforced opening of Thailand’s cigarette market to imports in 1990 has become a *cause celebre* in debates about the social and health impacts of trade agreements. At the instigation of leading US-based cigarette manufacturers, the US Trade Representative (USTR) threatened trade sanctions against Thailand to compel the government to liberalize its domestic cigarette market. Thailand’s challenge to the USTR led to referral to General Agreement on Tariffs and Trade (GATT) arbitration. While GATT ruled in favour of the USTR on market access, it also found that Thailand could subsequently enact non-discriminatory tobacco control regulation without contravening the GATT agreement. This paper contributes to existing literature via its analysis of tobacco industry documents that highlight not only USTR responsiveness to lobbying from tobacco corporations, raising concerns about the drivers of globalization and the limited protection afforded to public health concerns in trade agreements. Significantly, the documents also indicate that USTR support of the tobacco industry was not unconditional, being subject to wider pressures of global trade negotiations. Such qualification notwithstanding, however, ongoing governmental willingness to advance the international interests of tobacco corporations remains a concern from a public health perspective, particularly given the failure of the US to ratify the World Health Organization’s Framework Convention on Tobacco Control.

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### Introduction

Increasing tobacco consumption and associated mortality in developing countries (Mathers and Loncar, 2006) reflect the dramatic global expansion of transnational tobacco corporations (TTCs) in recent decades. This shift has been driven by trade liberalization (Taylor et al, 2000; Chaloupka and Nair, 2000), the privatisation of state-run tobacco monopolies (Gilmore et al, 2009) and by the active support of ‘home’ governments in the US and UK (Durbin and Waxman, 2003; US GAO, 2003).

The dispute over access to Thailand’s tobacco market represents a particularly significant case study of trade liberalization and the expansion of transnational tobacco companies

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(TTCs). At the instigation of leading US-based cigarette manufacturers the US Trade Representative (USTR) threatened trade sanctions under Section 301 of the 1974 Trade Act against four Asian countries in the 1980s if they failed to remove import restrictions on tobacco products. Gaining access to the markets of Japan (Lambert, Sargent, Glantz and Ling, 2004) South Korea and Taiwan (Wen et al, 2005) was achieved comparatively easily. Thailand, however, mounted a substantive challenge to the USTR (Chaloupka and Laixuthai, 1996) that was ultimately referred to General Agreement on Tariffs and Trade (GATT) arbitration.

Thailand based its opposition on GATT's health exemption proviso, Article XX(b) (GATT, 1990), arguing that cigarette consumption would increase if the market were opened to imports and thereby constituted a risk to public health. This strategy required demonstration that market restrictions were both necessary to prevent increased smoking prevalence, and were the least restrictive option available (Eckhardt, 2002). The GATT panel rejected Thailand's claims, ruling that existing restrictions violated non-discrimination obligations under the agreement. Crucially however, the panel also ruled that comprehensive tobacco control legislation was permissible if applied in a non-discriminatory manner to foreign and domestic manufacturers (GATT, 1990), and allowed that excise tax and import duty could be levied on imported cigarettes.

The politics of the dispute have been analysed (Vateesatokit, 2003; Chitanondh, 2001), its implications for international tobacco control contested (Bettcher and Shapiro, 2001; Callard et al, 2001), and the case has become an oft-cited *cause celebre* in broader debates about the social and health impacts of trade agreements (Taylor et al, 2000; WHO and WTO, 2002; Trebilcock and Howse, 1999). The public availability of tobacco industry documents offers an unique opportunity to re-examine the dynamics of this key dispute. The documents allow for a detailed analysis of USCEA strategies to lobby support in Washington and overseas, and to counter health-based opposition to market liberalization that included well-organized campaigns aimed at reassuring politicians and the public, and its strategic use of both in presenting its case to the US and Southeast Asian media.

Particularly significant in this context is that while confirming the previously asserted close relationship between the US tobacco industry and the USTR, material contained in the documents demonstrates that the dynamics of that relationship are more complex than previously supposed. As the dispute progressed, USTR support for industry preferences became qualified, and the USTR decision to refer it to GATT adjudication was (contrary to previous understanding) strenuously opposed tobacco companies. This demonstration of the industry's determination to avoid recourse to multilateral adjudication, and clear preference to pursue their global goals via bilateral negotiations has important implications not only for understanding the dispute itself but for contemporary debates. Whereas to date debates about the compatibility of trade liberalisation and tobacco control have centred primarily on the extent of public health protections afforded via World Trade Organisation (WTO) agreements, particularly in the context of negotiating the World Health Organization's (WHO) Framework Convention on Tobacco Control (FCTC), this analysis highlights the potential value to tobacco companies of proliferating bilateral agreements that can undermine such flexibilities.

## Methods

This paper is based on analysis of previously confidential internal tobacco industry documents, made publicly accessible through litigation, and available electronically via the Legacy Tobacco Documents Library. The provenance, mechanics and limitations of using tobacco industry documents have been described elsewhere (MacKenzie et al, 2003; Carter, 2005). Document research for this paper employed an iterative search model in which initial use of broad terms and phrases, *Thailand, market opening, trade barriers, USTR, USCEA* for example, led to more specific searches using names of company personnel, and political figures in Thailand and the US. Analysis incorporated validation techniques within a hermeneutic process (Forster, 1994), and corroboration of interpretation between authors was particularly significant. Secondary research included reviews of tobacco industry publications, NGO reports and newspaper archives.

## Results

### Opening the monopoly markets of Southeast Asia

Having moved into Latin America in the 1950s (Shepherd, 1985), US cigarette manufacturers turned to the potentially hugely lucrative Asian markets during the 1970s as part of their ongoing global expansion (Yach and Bettcher, 2000; Campaign, 2001). Responding to the “unique challenges” (Philip Morris Asia, 1989) presented by import restrictions in a number of Southeast Asian markets, leading US tobacco companies formed the United States Cigarette Export Association (USCEA) in 1981 (Frankel, 1996) to represent their interests. Philip Morris (PM), the driving force behind the organization (BAT, 1993), was joined by RJ Reynolds (RJR) and Brown & Williamson (B&W); the combined output of the three companies accounted for almost 99% of US tobacco exports (US GAO, 1992). The USCEA’s specific remit was to lobby the US government for elimination of regional restrictions on imported tobacco products (Frankel, 1996), and to insulate US manufacturers from domestic advertising bans and other tobacco control regulations once market access was achieved (Economist, 1992). Significantly, the USCEA was formed amid growing US trade deficits with the countries targeted, which created a favourable political climate in which to highlight tobacco’s prominence as “one of only four product categories for which America shows a trade surplus” (USCEA, 1989). Association lobbyists also claimed that access to markets in Southeast Asia would generate considerable income (USCEA, 1990) and lead to domestic job creation (USCEA, 1989).

In 1985 and 1986, USCEA appeals to the Reagan administration concerning import restrictions in Japan and Taiwan were referred to the USTR, an executive branch agency responsible for US bilateral and multilateral trade policy. The agency has substantial autonomy under Section 301 of the 1974 Trade Act, and is distinctive in being wholly under executive branch control, authorising either the President or the USTR to identify restrictions on US imports, demand negotiations for their removal, and impose retaliatory trade sanctions against offending countries (Sherman, 2002). When the USCEA later sought USTR assistance in challenging closed markets in Korea in 1988, and Thailand in 1989 it petitioned the USTR directly (Chaloupka and Corbett, 1998), suggesting development of close links between the two organisations. A 1990 US General Accounting Office (GAO)

report detailed such connections between senior executives of USCEA member companies and government officials, and found that USCEA member companies offered market and technical information to trade negotiators, and employed “former senior White House officials as consultants to promote their interests in Taiwan and Korea” (US GAO, 1990).

From 1985-89, the USTR was headed by Clayton Yeutter, whose career reflects the close links between the agency, the US Republican party, and the tobacco industry. Having served in various offices under four presidents, Yeutter was Chairman of the Republican National Committee from 1991 to 1992 (Hogan and Hartson, 2009), and become a non-executive director of BAT’s in 1993 (Asian Development Bank, 2004; BAT, 1994). Under his leadership the USTR adopted a firm line in negotiations. Citing the operation of state tobacco monopolies in countries targeted by his agency, Yeutter dismissed public health justifications made for import restrictions on cigarettes:

when a nation violates its international trade obligations by restricting tobacco imports while allowing domestic sales, that constitutes discrimination against United States products. We have an obligation under the law to attack such discrimination, and we intend to do so - no matter the product (USCEA,1989a).

**Turning to the Thai market**—Thailand’s tobacco market has long been dominated by the Thailand Tobacco Monopoly (TTM). Formed in 1939 and granted monopoly control four years later, the TTM remains a consistently profitable enterprise for the Ministry of Finance (Thailand MoF, 2009). TTC attempts to enter Thailand through joint ventures and licensing agreements in the early 1980s (Norsworthy, 1983; Snyder, 1987; Scott, 1988) followed indications from within some government ministries that the monopoly was to be included in privatisation programmes (Norsworthy, 1988). An agreement reached between the USTR and the MoF to drop restrictions on US cigarettes imports, following confidential negotiations, was withdrawn in March 1989 after complaints by the National Committee for the Control of Tobacco Use and the Thai Anti-Smoking Campaign Project, a prominent NGO (Vateesatokit, 2003).

Subsequent inability to access the Thai market left the USCEA with “no choice but to ask for U.S. Government assistance” (USCEA, 1989a), and representatives approached the USTR to initiate proceedings against Thailand in April 1989. Carla Hills had replaced Yeutter, and reiterated her predecessor’s position that Thailand’s restrictions were aimed at protecting its monopoly rather than protect public health (Frankel, 1996).

The USCEA specifically petitioned US negotiators to accept only:

bona fide market access which feature [sic] the following pre-conditions:

- a. No manufacturer quotas.
- b. Independent distribution at individual manufacturers choice.
- c. Revised cigarette taxes that allow tax paid imports to be price competitive with contraband” (Jilla, 1989).

Its case rested on three economic planks: income generated by the opening of the Japanese, Korean and Taiwanese markets was estimated to have reached US\$1 billion annually (USCEA, 1990); tobacco's positive trade balance - particularly significant given Thailand's annual US\$2 billion trade surplus with the US (USCEA, 1989); and associated domestic job creation (Frankel, 1989). The USCEA also depicted its challenge to Thai trade policy as a test of US commitment to free market values, and association president Owen Smith warned in September 1989 that those opposed to the USTR's actions in Thailand would "provide foreign protectionist lobbies and enemies of free enterprise with additional pretexts for protectionist action and retaliation against U.S. producers and manufacturers" (USCEA, 1989b). Similar sentiments were voiced by the former Democratic Senator from Kentucky Walter Huddleston who described Thailand as the "only major country in the non-communist world (apart from Iran and Syria) that does not allow the sale of American brands of cigarettes" (USCEA, 1990).

USCEA members expected a swift and positive conclusion to negotiations with Thailand, given the resolution of the earlier 301 actions in the region. PM business projections for a liberated Thai market indicated that the country's economic expansion and growing middle class would lead to "a substantial market for a range of American consumer goods" (Philip Morris, 1990), and company officials were confident that the TTM's dominance would quickly dissipate given the monopoly's inefficient production methods (Philip Morris, 1990) which were attributed to the strength of the monopoly's workers' union (Wichers, 1987), a poor distribution network, and limited marketing capacity and expertise (Altizer, 1989).

### **Political support for US tobacco corporations**

Industry documents indicate that the USCEA, PM in particular, was consistently able to mobilise a powerful support network that encompassed Washington, US government officials overseas, and sections of the Thai business community. Andrew Whist, vice president of corporate affairs at Philip Morris International (PMI) reported in 1986 that:

[s]taff from Hong Kong and New York worked closely and cooperatively with the Washington Office in developing new strategies on trade issues and market access, strengthening our relationship with the U.S. Government, particularly with the United States Trade Representative's Office (USTR). The outcome will greatly enhance our business in Asia (Whist, 1986).

In 1990, US vice-president Dan Quayle declared that "[t]obacco exports should be expanded aggressively, because Americans are smoking less" (Economist, 1992). Other high profile Republican backers included Robert Dole, Republican senator for Kansas and 1996 presidential candidate (Frankel, 1996); John Block, Secretary of the Department of Agriculture in the Reagan administration (USCEA 1989b); tobacco belt senators Mitch McConnell of Kentucky (USCEA, 1990), and Jesse Helms of North Carolina (Frankel, 1996). During 301 talks with Japan, Helms had written to prime minister Yasuhiro Nakasone to recommend that "friends in Congress will have a better chance to stem the tide of anti-Japanese sentiment if and when they can cite tangible examples of your doors being opened to American products", and suggested a goal of 20% market share for US cigarettes within 18 months (Economist, 1992).

The recruitment of Howard Baker - former Senate majority leader, Chief of Staff under Ronald Reagan and, later, US ambassador to Japan - was particularly significant to PM's international strategy. In June 1989, Jim Dyer of PM Management Corporation informed colleagues that Baker had completed "his one year 'cooling off' period" after leaving elected office, and would "begin to play a more active role in our government affairs programs" (Dyer,1989). Baker's anticipated value as "an effective high level advocate of our policies" was based on his contacts within the Bush administration, Congress, the media and the business community which allowed him "access that few Washingtonians can ever hope to achieve." (Dyer,1989).

A series of dinners co-hosted by Baker and PM president and CEO Hamish Maxwell in late 1989 were described by Dyer as "the long awaited opportunity to use Senator Baker's considerable talents on behalf of Philip Morris" (Dyer, 1989a). These meetings with leading political figures were organized to "develop personal contacts, to demonstrate our good will and our citizenship, to promote their understanding of our needs" (Dyer,1989a), and included Bob Mosbacher, Secretary of Commerce from 1989-1992, and the USTR's Carla Hills. Mosbacher was described as potentially a "powerful ally very close to the President who can assist with any of our international activities" while the meeting with Hills would allow PM "to address any needs we have internationally, specifically with Thailand" (Dyer, 1989a). Other guests included Clayton Yeutter, members of the Senate Finance Committee and "other targets of opportunity" such as Robert and Elizabeth Dole (Dyer, 1989a).

The USCEA was also able to attract considerable bipartisan support. Key Democrat backers included Al Gore (Frankel,1996), former Democratic congressman and senator for Tennessee, vice-president and presidential candidate; former Texas governor Ann Richards; and George Mitchell, former Senate Majority leader and special envoy to Ireland and later, to the Mideast (Public Citizen 1998; Torry, 1998). Both Richards and Mitchell later worked as tobacco industry lobbyists for Washington DC law firm, Verner, Liipfert, Bernhard, McPherson and Hand (Torry, 1998). Other Democrat supporters included Huddleston, noted above, and congressman Robin Tallon from South Carolina (USCEA,1990). In 1990 testimony to the Senate Committee on Labour and Human Resources Tallon asserted that it was not immoral to remove trade barriers on tobacco products when, *inter alia*, "the country enjoys a trade surplus with the United States" (Tallon, 1990).

**Allies within Thailand**—Industry lobbying extended well beyond Washington and PM Asia's 1990-92 corporate affairs plan, for instance, highlighted the need to "educate U.S. government officials based in Asia and appropriate government ministries" (Philip Morris Asia, 1989). US Embassy positions and interactions with the Thai government were carefully monitored by the USCEA (Donner, 1989), and close links established within the Thai business and political communities (Baker and Phongpaichit, 2005) presented distinct opportunities for the USCEA. PM strategists sought to "create a climate favorable to participation in the market through building alliances and media and government contacts" (Philip Morris Asia, 1989). Support was also pursued with jewellery, furniture, food, garment and other industries that could be affected by retaliatory US trade sanctions (Schaverien,1989; Kennedy,1989), and representatives of these industries met with Thai trade officials to push for a quick resolution to the 301 case (Frankel, 1996).

## International support for Thailand's opposition to the USCEA

The Thai government's challenge to USTR demands for market entry rested on its claim that it was protecting its citizens from the public health threat posed by anticipated increases in cigarette consumption that market liberalisation would create (Chitanondh, 2001), and this argument underpinned the Thai health community's ability to build a public opposition campaign based on nationalist sentiment (Chantornvong and McCargo, 2001). Opposition also came from a protectionist camp, led by the TTM, that regarded market opening as a threat to its economic and political interests (Ross, 1989).

Although most US newspapers backed the USTR's actions (Kim, 1999), and the USCEA claimed substantial public support, the US government's role in the dispute attracted growing criticism from health advocates (US GAO, 1990). While publicly describing tobacco export policy as "a blueprint for other American industrial sectors to follow", the USCEA acknowledged that use of Section 301 had "caused anti-smoking activists to become far more vociferous in their attacks on the exportation of American cigarettes" (USCEA, 1989). The GAO's 1990 report noted that while tobacco market liberalization in Japan, South Korea and Taiwan appeared to be the "culmination of just another irritating trade dispute with the United States" (US GAO, 1990), Thailand's resistance had attracted greater media interest and broad support from domestic and international health advocacy groups. A PM situation assessment highlighted "links between the U.S. anti-smoking groups and their Asian counterparts" which had led to "the development of a strong and vocal opposition to U.S. cigarette exports generated by the success of our products in the recently opened markets" (Philip Morris Asia, 1989).

**USCEA response to criticism**—In response to growing domestic and international criticism, the USCEA downplayed the significance of health issues in the dispute and asserted that "[t]rade policy, not morals or health policy, is the fundamental issue involved in the exportation of cigarettes" (USCEA, 1989b), and argued that the USTR had adopted "the entirely justifiable position that discrimination against U.S. products exists when cigarette imports are restricted while allowing unfettered sales of domestic products" (Dollison and Donner, 1989). The association also rejected accusations that it was exploiting developing countries, insisting instead that member companies were selling "in countries where large numbers of the population already smoke" (USCEA 1989). The "real imperialists" according to the USCEA, "are those persons who attempt to impose their values on these foreign countries" (USCEA 1989).

In response to concerns that aggressive marketing associated with market liberalization would have significant health consequences for Thailand, the USCEA argued that TTM production and tax revenues undermined the public health defence (USCEA, 1989c), and attributed criticisms of aggressive marketing in the region to the vested interests of national tobacco monopolies aiming "to maintain market share and profitability" (Dollison and Donner, 1989). When the existence of robust advertising techniques were tacitly acknowledged, these were justified as "necessary to familiarize smokers with American brands and their attributes" (Dollison and Donner, 1989).

The USCEA public relations campaign was augmented by a special task force “to mount a campaign to counter increased actions by anti-smoking groups here and in Asia” (Ricke, 1989). Concerned both that “it would be more difficult to win a highly emotional public battle” and that further publicity could “cause the issue to spread beyond the predictable anti-smoking groups”, the task force concentrated on reaching policy makers and media via brochures and reports on the economic benefits of cigarette exports to the US economy for distribution in Congress; fact sheets prepared for congressional staff; materials for US and overseas commercial attachés; and press kits for the US media (Ricke, 1989a).

Strategies to create “a presence in Asia to counter attacks on U.S. exports and correct the misstatements and inaccuracies put forth by our opponents” centred on establishing contacts in the Asian media via invitations to journalists to attend sponsored events throughout the region (Philip Morris Asia, 1989). A bilingual industry booklet entitled *Setting the Record Straight* similarly stressed that the “purpose of 301 is to facilitate an agreement, not to retaliate indiscriminately and recklessly as some suggest” (Rekart, 1989), and the Asian Tobacco Council was established to monitor the Asia Pacific Association for the Control of Tobacco, WHO, and the International Organization of Consumers Unions (Philip Morris Asia, 1989).

### **Towards resolution and referral to GATT**

In July 1989, PM CEO Geoff Bible (1989) emphasised that the company’s USTR strategy was “extraordinarily important to us and we cannot allow pressure on it to be reduced.” USCEA expectations of a rapid resolution to the Thai 301 action were, however, frustrated by protracted negotiations. STC’s Ian Ross noted the “Thais’ finely honed ability to prevaricate” as a key element in the inability to resolve the dispute in his March 1989 progress report, and suggested that Thai officials were not as concerned by threatened trade sanctions as their counterparts in Japan, South Korea and Taiwan had been (Ross, 1989). A further complication noted by Ross was that the Thai government was simultaneously opposing intellectual copyright law and pharmaceutical patent protection, and that the US Embassy “has got its hands full on these two issues alone” (Ross, 1989).

In September 1989, USCEA president Owen Smith described the situation in Thailand as “more restrictive and egregious” than those in the other 301 states (USCEA, 1989b). As negotiations wore on, unease grew amongst association members over suggestions that a compromise solution would be reached whereby imports may be allowed into the market, but would be administered by the TTM (Donner, 1989; Downham, 1989; Ross, 1989a), and particularly by reports that the USTR was considering sending the dispute to GATT mediation. In response, the USCEA called on the trade agency to exert greater pressure on the Thai government to allow unrestricted market access (Kennedy 1989; Downham, 1989a).

Following public hearings in Washington and two rounds of talks, the USTR did refer the dispute to GATT’s arbitration panel in December 1989, a move congressman Chet Atkins described as “a stunning blow to the multinational cigarette firms” (Smith, 1990). Brandt’s (2007) suggestion that the decision to seek arbitration reflected concerns within the US government that escalating pressure on Thailand could have broader repercussions for



ongoing multilateral trade negotiations is seemingly borne out by contemporary industry correspondence. RJR's Donald Albert reported that during a September 1990 meeting, the USTR's Sandy Kristoff had stated that the timing of the Thai dispute in relation to the broader Uruguay Round of multilateral trade negotiations presented potential difficulties "at the political level within USTR", noting that there may have been "opposition just below the Ambassador Hills level to proceeding with retaliation just prior to the crucial negotiating phase of the GATT Uruguay Round" (Albert, 1990).

USTR assurances that initiating the GATT process would enhance the prospects for successfully negotiating a bilateral agreement with the Thai government (Oglesby, 1990) left USCEA members unconvinced. Donald Albert stated that he and his colleagues had "repeatedly warned USTR and other US Government agencies that the GATT route was unadvisable and we were dragged into the GATT kicking and screaming" (Albert, 1990). Ray Donner proposed that US Senators Helms and McConnell approach Hills, and that USCEA officials contact other trade officials to express their concern with developments. (Donner, 1989).

A key point of dissatisfaction in referring the dispute to GATT for USCEA members was that it enabled Thailand to withdraw from the talks with the USTR during arbitration, and RJR's Donald Albert conceded "that if the Thais are smart, they could take unilateral action and thereby undercut the bilateral process" (Albert, 1990). Adoption of such a strategy is confirmed in September 1990 RJR reports of the frustration of USTR negotiators' "with the Thai government's refusal to negotiate on market access outside of the GATT framework" (Oglesby, 1990a).

### **GATT arbitration; response and implementation**

Thai government negotiators based their defence on the qualified exemption for public health protection contained within the general exemptions described in GATT Article XX(b):

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(b) necessary to protect human, animal or plant life or health (GATT, 1990).

Thai negotiators argued that opening its domestic market to imports would lead to increased cigarette consumption, causing a related threat to the nation's public health. Their position required unambiguous demonstration that proposed market restrictions were necessary to ensure prevention of increased smoking prevalence; and that such restrictions were the least restrictive option available to meet the desired public health goals (Eckhardt 2002).

The arbitration panel's decision, made public in October 1990 and adopted by the GATT council the following month, rejected Thai claims that foreign imports would necessarily lead to increased cigarette sales, and agreed with the USTR that import restrictions violated

GATT. Significantly, it also ruled that domestic tobacco control legislation was permissible if applied in a non-discriminatory manner to both foreign and domestic manufacturers (GATT, 1990), and that Thailand could also levy excise tax and import duty on incoming cigarettes.

Considerable uncertainty regarding the details of market entry remained after the GATT ruling, and B&W's chairman and CEO RJ Pritchard noted in October 1990 that the Thai government's probable strategy would be "to preempt [sic] detailed negotiations" on issues of import duties, excise taxes and advertising regulation so that "they can claim compliance with GATT and yet maintain effective barriers to imports" (Pritchard,1990). TTM's managing-director largely confirmed Pritchard's assessment, observing that the "GATT ruling says we have to open the market, and we will. But we will do it as we see fit. GATT did not set a definite date as to when it should be opened" (Zimmerman,1990). Talks to resolve these technical issues allowed Thai officials to exploit uncertainty during implementation, delaying arrival of the first legal shipments of imported cigarettes until August 1991 (Aitken,1991; Aitken 1991a).

Frustrated by ongoing delays, the USCEA petitioned both US government and USTR officials (Payne,1991) to "reinstate negotiations aimed at achieving the kind of market opening that was obtained in Japan, Taiwan, and Korea" (Pritchard,1990). B&W officials convinced a number of US senators to meet with Thailand's ambassador to the US to express their dissatisfaction with his country's unwillingness to negotiate beyond the parameters of the GATT ruling, and Carla Hills was urged to apply pressure to the Thai government "now that the GATT ruling has had no practical effect on eliminating tariffs" (Pritchard, 1990).

In Thailand, David Aitken of BAT UK & Export (BATUKE) Thailand reported that the US Ambassador [Daniel O'Donohue] and Economic Counsellor John Mederios had met with Thailand's Finance Minister in April 1991 where "at the request of the USTR (prompted by USCEA) they raised the cigarette issue and asked why there had been such slow progress since liberalisation last October" (Aitken, 1991b). Aitken also noted that the US Embassy would then send a letter to the Minister "asking him to meet with the Industry along with the D.G. of Excise. This will avoid the MOF being able to say he doesn't know the details" (Aitken, 1991b). The GATT ruling however, effectively insulated the Thai government from such pressures.

### **Discussion; implications of the 301 dispute for global health**

Thailand's dispute with the USTR has had implications for the domestic tobacco market, but its most significant impact remains its relevance to broader discourse on trade liberalization, the tobacco industry and global health. In 2002, former USTR General Counsel and Trade Ambassador Ira Shapiro noted that "[t]rade liberalisation in tobacco products has worked in much the way the economics textbooks would predict" (Shapiro, 2002). In the case of the Southeast Asian '301' countries, per capita tobacco consumption rates in 1991 were nearly 10% higher in all four countries forced to acquiesce to USCEA demands than would have been the case had these markets remained closed to imports (Chaloupka and Laixuthai, 1996). Subsequent analyses have demonstrated a significant rise in smoking rates among

women in Japan (Honjo and Kawachi, 2000; Sato, Araki and Yokoyama, 2000), South Korea (Lee et al, 2009) and Taiwan (Chaloupka and Laixuthai, 1996).

The outcome of the dispute with the USTR has been described by one Thai participant as a defeat in trade but a victory for health (Chitanondh, 2001). The dispute did serve to accelerate Thailand's enactment of far-ranging tobacco control legislation, particularly the 1992 Tobacco Products Control Act (Thailand, 1992). TTC challenges to unfavourable legislation (Vateesatokit et al, 2000; Chitanondh, 2003; Mackenzie et al, 2004) and tactical use of indirect advertising, sponsorship schemes and brand stretching in defiance of domestic legislation (Chitanondh, 2000) were, importantly, heavily circumscribed by national legislation, and never reached the levels or intensity of marketing seen in the other 301 countries (MacKenzie et al, 2007).

Nevertheless, Thailand's compliance with GATT significantly altered its domestic tobacco market by expanding imports of cigarettes considered by consumers to be superior to those produced by the national tobacco monopoly, and led to an overall increase in tobacco consumption (Taylor et al, 2000). Following commencement of cigarette imports in August 1991, both total tobacco consumption and packs consumed per capita began to rise. Having fluctuated around 38.7 billion and 38.8 billion sticks between 1989 and 1991, total consumption reached 48.3 billion sticks by 1997 before declining during the Asian economic crisis of the late 1990s (Thailand MoPH, 2005).

Assisted by extensive restrictions on all cigarette promotion, the TTM continues to dominate the domestic market, but has experienced a seemingly inexorable loss of sector share. In 2001, the monopoly accounted for 85% of cigarette sales, with PM brands making up 90% of the remainder (Dalvey Group, 2004). By 2006, TTM sales had dropped to 72% of total, the remainder split between PM (24%), BAT (2%) and Imperial Tobacco (1%) (Euromonitor, 2007). In this newly competitive context, the TTM has become a more assertive commercial enterprise, testing national legislation with marketing and promotional strategies (Thailand Tobacco Monopoly, 2003), exporting its brands to Southeast Asian and Middle Eastern countries, and targeting the Russian and Polish markets (Deboonme, 2008). Such developments suggest an evolving corporate philosophy resembling those of its international competitors.

**Implications of the dispute for global health policy**—Beyond its significance for Thailand, the dispute retains powerful contemporary relevance and a contested place in debates about the compatibility of tobacco control and trade (Eckhardt, 2002; Zeigler, 2006), and the health impacts of economic globalization (Bloche and Jungman, 2003; Howse, 2000; Price et al 1999). Proponents of policy coherence between trade liberalisation and tobacco control highlight the range of non-discriminatory, WTO consistent measures recognised by the GATT panel and effectively implemented by Thailand (WHO and WTO, 2002; Bettcher and Shapiro, 2001). Conversely, for advocates concerned that trade agreements restrict the scope for domestic regulation, the case demonstrates that GATT's public health exception under Article XX(b) is narrowly framed, circumscribed by a stringent necessity test, and insufficient to protect discriminatory measures that may have an important public health function (Callard et al, 2001; Weissman, 2003).

US policy on international tobacco and trade issues since the 1990s has displayed striking persistence, but the use of US diplomacy in advancing the global interests of TTCs has not gone unchallenged. Since 1994, the ability of the of the US Department of Agriculture's Foreign Agriculture Service (FAS) to use funds to promote the sale or export of US tobacco or tobacco products overseas has been circumscribed by the 1992 Durbin Amendment to the Agriculture Appropriations Act (US GAO, 2003a; Waxman and Durbin, 2003), while a 1998 directive issued to all US diplomatic posts encouraged promotion of tobacco control measures in host countries (Weissman and Hammond, 2000). These measures, however, have been undermined by lack of enforcement. The FAS has, for instance, continued to "gather and disseminate tobacco-related information that identifies foreign production and consumption rates, import trends, and changes in foreign regulations" and "provided insights into market niches for tobacco exporters" (US GAO, 2003a).

Most notable among such efforts has been the 1997 Doggett Amendment to the FY98 Appropriations Act for the Departments of Commerce, State and Justice and related agencies. The amendment held out particular promise in its stipulation that funds provided by the Act could not be used to:

promote the sale or export of tobacco or tobacco products, or to seek the reduction or removal by any foreign country or restrictions on the marketing of tobacco or tobacco products, except for restrictions which are not applied equally to all tobacco or tobacco products of the same type (Taylor et al, 2000).

Though often seen as indicative of a substantive policy shift under the Clinton administration (Callard et al, 2001; Weissman and Hammond, 2000), the purported aim of Doggett, "to get the government out of the overseas tobacco business altogether" (Beelman and Davidson, 1999) was significantly compromised by the provision for measures to be taken against restrictions deemed discriminatory. The amendment maintains the *status quo* that accords priority to trade principles where these come into conflict with health objectives and leaves scope for further actions such as those taken in the Thai dispute. The global health ramifications of USTR powers in this context were again evident for Thailand when it was placed on the Special 301 priority watch list in 2007 after issuing WTO-compliant compulsory licenses for three pharmaceuticals.

Concerns have also been raised by reportedly widespread flouting of the amendment, including the example of US ambassador to Thailand Ralph Boyce organising a meeting between tobacco companies and the Thai minister of public health in August 2006 at which company representatives voiced their opposition to national advertising regulations (Waxman and Doggett, 2006). But a more fundamental concern is that the Doggett amendment perpetuates the subordination of health objectives to trade principles that has been characteristic of the US approach to international tobacco issues.

**Tobacco control and multilateral trade agreements**—US positions adopted during the Thai dispute are echoed in the FCTC context. The USCEA's interaction with, and apparent influence over, the USTR seem replicated in the Bush administration's broad adoption of positions in FCTC negotiations requested by PM in meetings with government officials (Waxman, 2002; Yeoman, 2003). Similarly, the insistence that the 301 dispute

should be narrowly conceived as a trade issue rather than a question of public health is mirrored in the state department later encouraging “trade and agriculture ministry participation in developing country positions” during FCTC negotiations (Waxman et al, 2003). The continued reluctance of the US to ratify the FCTC can be seen as a failure of national responsibility given the key role of US tobacco companies as vectors of the tobacco pandemic. Having enacted domestic legislation that places the tobacco industry under the regulation of the US Food and Drug Administration (Mitka, 2009), ratification of the FCTC by the Obama administration would demonstrate a comparable commitment to advancing global tobacco control.

Beyond US failure to ratify the treaty, there is a broader need to re-engage in questions around the relationship between trade agreements and health (McGrady, 2007) that have not been satisfactorily addressed by the FCTC. An alliance of delegates from many low and middle-income countries (LMICs) and NGOs to secure specific language that gave public health and tobacco control measures priority over trade agreements during FCTC negotiations (Yach, Wipfli H and Hammond 2006) received unexpected support in 2002 from former USTR General Counsel and Trade Ambassador Ira Shapiro (2002). Shapiro acknowledged the potential value of a protectionist case for public health (such as that previously advanced by Thailand), arguing against the presumption that harmful products should be freely traded. While the majority of participating member states favoured the inclusion of language prioritising ‘health over trade’, this was successfully opposed by a group of high income countries including the United States, the United Kingdom, Germany and Japan (Collin and Lee, 2009; Mamudu et al, 2009).<sup>1</sup>

The increasing salience of trade agreements for the tobacco control policy agenda is suggested by ongoing disputes within the WTO. In July 2010, for example, the trade organisation’s dispute settlement body established a panel to arbitrate on a claim brought by Indonesia against the United States, in something of a reversal of the latter’s role in the Thai cigarettes case. Indonesia claims that Section 907 of the US Family Smoking Prevention and Tobacco Control Act prohibiting the production or sale in the US of cigarettes with a “characterizing flavor” other than menthol or tobacco constitutes trade discrimination against Indonesian clove-based kreteks (World Trade Organization, 2011a). In June 2010 over twenty WTO member states expressed concerns about Canada’s ‘Cracking Down on Tobacco Marketing Aimed at Youth Act’, claiming that measures prohibiting some flavourings and additives would preclude traditional blended cigarettes and thereby breach obligations under the Technical Barriers to Trade agreement (World Trade Organization, 2010a). Ukraine has similarly requested the establishment of a panel to review its claim that Armenian legislation levies discriminatory internal taxes on imported tobacco products, imposing duties in excess of WTO obligations (World Trade Organization, 2010b).

The rejection in June 2011 of Thailand’s appeal of an earlier ruling in favour of the Philippines against a Thai tax on tobacco imports strongly echoes the dispute analysed

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<sup>1</sup> Recognition in the Foreword to the convention that the tobacco epidemic is “facilitated through a variety of complex factors with cross-border effects, including trade liberalization and direct foreign investment”, and the statement in its Preamble that parties to the convention are “*Determined* to give priority to their right to protect public health” [formatting in original] (WHO, 2009) notwithstanding, the FCTC does not incorporate language giving it priority over trade agreements.

above. The Philippine case was predicated on claims that Thailand's customs valuation practices, excise, health and other taxes imposed unfair obstacles to cigarette importers in contravention of GATT (World Trade Organization, 2011b).

**Tobacco control and trade agreements: beyond the WTO**—The analysis presented above also raises particular concerns in the context of the shifting politics of global trade, whereby the limited public health protections afforded by multilateral WTO agreements are being eroded by via bilateral and regional agreements (Smith et al, 2009; Correa, 2006) that often provide for investor-state disputes that are precluded within the WTO. The Canadian government's decision to drop its proposal for plain cigarette packaging in the mid-1990s is an explicit example of the potential value to tobacco companies of such agreements. In 1994, the Canadian government was informed by PM and RJR Reynolds, represented by former USTR chief Carla Hills, that the proposed legislation threatened intellectual property rights inherent in brand logos, and constituted an actionable infringement of the North American Free Trade Agreement (NAFTA) to which Canada was a signatory, as well as GATT. Recent research suggests that industry officials had been made aware that this approach was unlikely to succeed and that their threatened protests to trade bodies were disingenuous, but the Canadian government's decision to drop the proposal in 1996 represented an important triumph for the industry (Physicians for a Smoke-Free Canada, 2009).

A key related finding from the analysis presented here is the previously unrecognized strategic preference of tobacco companies to pursue their global objectives via bilateral negotiation, in which possibilities for collective action by LMICs are restricted. Following resolution of the Thai dispute, B&W's vice president and general counsel Ernest Pepples (1991) suggested, for instance, that "[t]he referral of recent trade issues to the GATT for resolution, e.g., Thailand, and the ineffectiveness of the GATT process, as compared to bilateral trade negotiations, does not bode well for the 301 process as a tool for the industry to liberalize other markets."

The US has increasingly sought to achieve its trade policy objectives via the negotiation of bilateral agreements; pressure that can be exerted can reasonably be expected to ensure favourable outcomes, and negotiations largely occur away from the intense scrutiny accompanying the WTO. Signatory to just one comprehensive bilateral free trade agreement before 2000, the US had entered into nine by 2011; agreed others with Colombia, South Korea, and Panama that were awaiting congressional approval in July 2011; and was in negotiations with Malaysia, Thailand and the UAE (USTR, 2011). The US has also negotiated bilateral investment treaties (BITs) with forty countries since 1989 (USTR, 2011) further indicating the shift toward to two-party trade agreements. The potential risks of bilateral agreements are demonstrated by the elimination of Singapore's tariff on incoming tobacco products as part of the 2003 US-Singapore free trade agreement. This enables investors, including tobacco companies, to challenge governmental regulation at local, state, and national levels directly, and pursue compensation for profits lost due to rules that fail to comply with strict investment obligations detailed in the agreement (Shaffer, Brenner and Houston, 2005).

The increasing significance of bilateral agreements for tobacco control is underlined by PMI's recent initiation of a claim against Uruguay, alleging that key provisions of Uruguay's recent tobacco control program, including enlarged health warnings and restrictions on branding, breach its bilateral investment treaty with Switzerland (International Centre, 2010; Peterson, 2011). Similar arguments have been raised in Australia following the government's announcement that it would legislate introduction of plain packs by 1 January 2012. In June 2011, PMI's Australian subsidiary announced it would challenge the proposed legislation on the grounds that it breaches the country's bilateral trade agreement with Hong Kong (ABC, 2011), and concerns related to potential trade restrictions have reportedly been raised by the European Union (Kerr and Dunlevy, 2011), and by the governments of Mexico and Indonesia (Johnston, 2011).

Such developments highlight the need for further research to provide more detailed understanding of how bilateral trade agreements may advance corporate interests in ways that undermine public health. They suggest also that the debate regarding the relationship between tobacco control and trade liberalization should no longer be framed with primary reference to WTO, and demonstrate the continuing importance of efforts to more effectively represent public health concerns within the work of the USTR (Center for Policy Analysis, 2010).

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