

Philip Morris Limited submission on a new Pacific trade and economic agreement

Philip Morris began operations in Australia in 1954 and **Philip Morris Limited** (PML) is now the second largest manufacturer and distributor of cigarettes in Australia.

PML produces quality tobacco products for the domestic Australian market and its cigarette brand portfolio includes popular brands such as *Peter Jackson*, *Alpine*, *Longbeach* and *Marlboro*. PML also manufactures tobacco products for sale in New Zealand and Pacific Island countries.

PML is an affiliate of Philip Morris International Inc. (PMI) which manages the world's leading international cigarette business. PMI's affiliates manufacture, market, sell and distribute high quality cigarettes in more than 160 countries and territories around the world.

Employees

PML and its local affiliates employ about 800 people in Australia and New Zealand, recruiting from a broad range of disciplines including Engineering, I.T., Marketing, Finance and Human Resources. Laurent Boissart has been PML's Managing Director since April 2009.

PML Australian factory

PML's head office and manufacturing facility are located at Moorabbin, Victoria, with Sales and Distribution offices across Australia. PML's affiliate, Philip Morris (New Zealand) Limited distributes PML and other PMI manufactured products in New Zealand.

Early in 2009 PML completed a major redevelopment of the PML Moorabbin site, including a significant investment in new machinery. This has increased factory capacity and brought significant operating efficiencies as well as improved quality.

PML exports from Australia

In 2008, about 5% of PML's cigarette volume was sold in Duty Free or exported to New Zealand and a number of Pacific Island countries (Cook Islands, French Polynesia, Kiribati, Nauru, New Caledonia, Independent State of Samoa, Republic of Marshall Islands and Vanuatu).

Excise paid

Excise is currently set at A\$258.33 per thousand cigarettes¹ in Australia. In 2008, sales of PML's products generated A\$2.2 billion in excise for the Australian Government². In addition, PML paid A\$96 million in corporate income tax.

¹ www.ato.gov.au

² All financial data is sourced from the Statement of Cash Flows contained in the 2008 Annual Report of Philip Morris (Australia) Limited and Controlled Entities.

PML business activities in Pacific Island markets

PML either has previously or currently distributes its cigarettes and tobacco products in the following Pacific Island countries:

- Cook Islands
- Federated States of Micronesia
- Fiji (tax discrimination against imported product makes it almost impossible to compete against locally manufactured product)
- French Polynesia
- Kiribati (current tax arrangements significantly favour one imported cut tobacco product)
- Nauru
- New Caledonia
- Palau
- Papua New Guinea
- Solomon Islands
- Republic of Marshall Islands
- Tonga
- Vanuatu

In the main, PML's business in these countries is done through local distribution agents.

Barriers to trade experienced by PML

PML faces tax and excise discrimination which impedes our ability to effectively compete in a number of markets.

Fiji – tariff and excise barriers – unequal treatment of imported tobacco products, contrary to Fiji's WTO obligations and GATT rules.

Kiribati – unequal tax treatment significantly favours one imported tobacco product over all others

Papua New Guinea - tax structure appears to confer competitive advantage on unfiltered tobacco products produced locally by a multinational company

Solomon Islands – unequal treatment of imported tobacco products, contrary to WTO obligations and GATT rules

Access to and availability of regulatory information

PML recognises the public health objective of reducing the harm caused by tobacco use. Given their serious health effects, the manufacture, marketing, sale and use of tobacco products should be regulated. Such regulatory measures should apply equally to all tobacco products. However, the rules must be clear, specific and readily available to all industry participants.

PML frequently experiences difficulty in obtaining accurate and up-to-date information about product regulatory requirements and copies of relevant legislation/regulations.

An example from earlier this year was PML's inability to obtain a printed copy of one country's tobacco control law and regulations. At a meeting to clarify the regulatory requirements in another country, government officials were referring to superseded legislation. In another instance, we have been unable to get any response from relevant authorities about the status of certain regulatory provisions that directly impact our business in that country.

Support for development and maintenance of publicly available, most logically via internet, legislative instruments including Acts, regulations, decrees, declarations etc, would help companies to do business in accordance with all relevant local laws.

Opportunities

As an Australian manufacturer doing business in a number of Pacific Island markets, PML believes a regional trade liberalization agreement should actively promote more consistent application of trade principles embodied in WTO and GATT rules, such that discriminatory import duty and excise structures be reformed to provide more equal treatment for all tobacco products irrespective of source.

We would welcome the opportunity to discuss these issues in more detail.

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