

## RESEARCH PAPER

## Global leaf companies control the tobacco market in Malawi

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**Objective:** To examine the influence of US-based tobacco leaf-buying companies, Universal Corporation and Alliance One International, on Malawi's economy and trade policy in 2000–6.

**Design:** Analyses of ethnographic data and tobacco industry documents.

**Results:** Universal Corporation and Alliance One International, through their subsidiary companies Limbe Leaf and Alliance One, respectively, in Malawi, control policy-making advisory groups and operate a tobacco cartel to influence Malawi's economic and trade sectors. Limbe Leaf's corporate secretary and lawyer is a member of several policy-making committees that advise the Malawi government on tobacco-related trade policy. The corporate representative's presence prevents other committee members from taking positions against the tobacco industry and ensures government policy that advances industry interests to obtain low-cost tobacco. The World Bank and Malawi's Anti-corruption Bureau report allegations of collusion between Limbe Leaf and Alliance One over prices at tobacco markets. Allegations of collusion between Limbe Leaf and Alliance One prompted Malawi President Bingu Mutharika in 2006 to warn the companies to end non-competitive practices or leave the country, but there was no meaningful follow-up action. Findings from interviews with small-scale tobacco traders in Malawi suggest that Universal and Alliance One International purchase smuggled raw tobacco from the neighbouring countries, Zambia and Mozambique, undermining growers' efforts to benefit from tobacco farming in Malawi.

**Conclusion:** These actions restrict competition, depress tobacco prices for Malawi's farmers and contribute to poverty in Malawi, while keeping the country dependent on tobacco growing.

Malawi (fig 1) is the 13th poorest country in the world.<sup>1</sup> In all, 76% of Malawians, survive on less than US\$2 (£1.02, €150) per day.<sup>1</sup> Malawi derives 65% of its foreign earnings from tobacco, making Malawi the most tobacco-reliant country in the world.<sup>2</sup> Tobacco accounts for 43% of the agricultural gross domestic product,<sup>3</sup> 13% of the overall gross domestic product<sup>4</sup> and 23% of Malawi's total tax base.<sup>4</sup> Out of a total workforce of 5 million people, between 600 000 and 2 million people are employed in Malawi's tobacco sector.<sup>5</sup> Land devoted to tobacco growing in Malawi occupies 122 000 hectares out of 4.6 million hectares under cultivation.<sup>6</sup> Over 98% of Malawi's leaf (mostly burley tobacco<sup>8–9</sup>) is exported to 68 countries,<sup>3–5 10</sup> with the European Union (EU; 44% of exports) and US (13% of exports) being the top destinations.<sup>11</sup> US-based leaf-buying companies Universal Corporation and Alliance One International purchase Malawi's tobacco and sell it to Philip Morris and British American Tobacco (BAT).

*Tobacco Journal International*, a tobacco industry trade publication, reported in September 2006 that low and uncertain tobacco prices in Malawi created friction between tobacco farmers and leaf-buying companies.<sup>12–13</sup> This trade publication, however, did not analyse the role of leaf companies, through their buying practices, in influencing tobacco prices or identify the cigarette manufacturers as the beneficiaries of Malawi's low and uncertain tobacco prices. Our study goes beyond the *Tobacco Journal International* report to reveal how leaf companies and manufacturers hide behind explanations of supply and demand to deflect discussion on tobacco sectors and public dialogue on tobacco prices in Malawi from the economic practices of leaf companies and manufacturers to market forces. The purpose of this paper is to show the ways Universal and Alliance One, the main buyers of Malawi's tobacco, control the local tobacco sector, influence Malawi's trade policy to ensure access to low-cost raw tobacco and depress raw tobacco prices, preventing Malawi from benefiting from tobacco growing.

## METHODS

One of the authors (MGO) conducted semistructured interviews in accordance with protocols approved by the University of California, Irvine and San Francisco Committees on Human Research with 124 government officials, policy makers, health advocates, trade unionists and tobacco farm workers in Malawi during six visits (totalling 17 months) between 1998 and 2006. Research participants were selected on the basis of their knowledge of Malawi's tobacco trade policy and the tobacco sector generally, and their roles in influential organisations relevant to trade policy in Malawi. We compared findings from interviews, with information from participant observation, archival research, newspaper stories, grey literature, scholarly literature, tobacco industry websites and tobacco industry documents, to identify recurrent themes and use these themes as the basis for the analysis. The time period covered by the study was 2000–6.

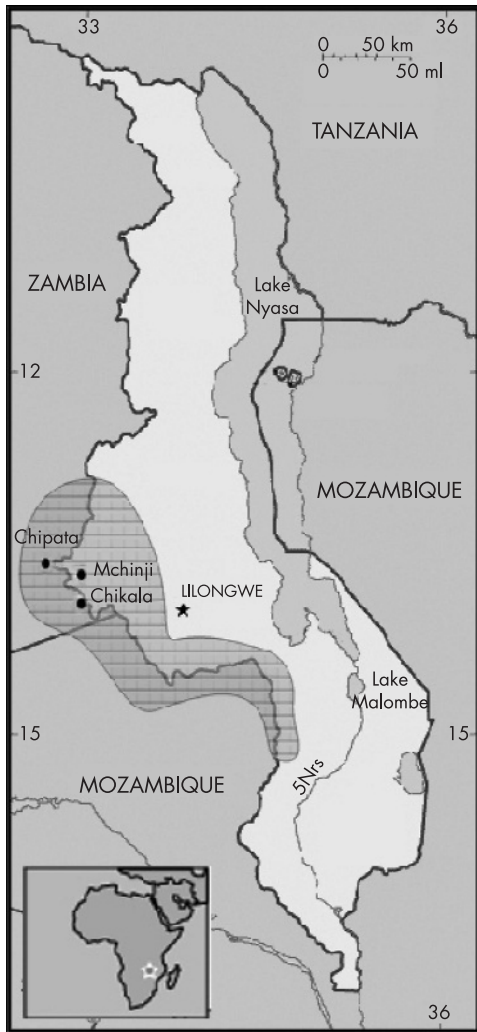
We used standard approaches to identify documents<sup>14–18</sup> in the Legacy Tobacco Documents Library (<http://www.legacy.library.ucsf.edu>) and the British American Tobacco Documents Archive (<http://www.bat.library.ucsf.edu>) between February 2006 and October 2006 beginning with the terms "Malawi", "economy" and "trade policy". The names of key individuals and organisations, and adjacent page (Bates) numbers were used to conduct follow-up searches. We obtained 601 hits and found 45 relevant documents.

## RESULTS

## The global trading system and poverty in Malawi

The global trading system and poverty in Malawi are linked through the influence of developed countries and multinational corporations such as Universal, Alliance One, Philip Morris and

**Abbreviations:** AGOA, African Growth and Opportunity Act; BAT, British American Tobacco; EU, European Union; WHO, World Health Organization



**Figure 1** Malawi is a landlocked country that transports its tobacco overland to ports in Mozambique and South Africa. Smuggling raw tobacco occurs in both directions along Malawi's borders with Zambia and Mozambique (shaded area).

BAT. In global trade talks such as the World Trade Organization, the US, members of the EU and other developed countries pressure developing countries such as Malawi to reduce trade barriers and provide market access to goods from developed countries.<sup>19-20</sup> Simultaneously, these developed countries refuse to end or reduce tobacco-related subsidies paid to their tobacco farmers that depress prices paid to farmers in developing countries.<sup>21-22</sup> The influence of developed countries and corporations is revealed through the easy access of developed countries and corporations to policy makers and trade talks. Many of the global trade talks are secret; representatives of developed countries and corporations have access to the meetings, whereas officials from Malawi lack the economic and political influence to participate in such secret trade talks. The trade policies that reflect the interests of developed countries and corporations in the current global economic system contribute to poverty in Malawi and other developing countries because these countries produce commodities for export markets instead of food for their own consumption, and depend on costly agricultural chemicals that pollute water supplies, erode soils and contribute to deforestation.

Leaf-buying companies (fig 2) are required to pay a tax on tobacco exports and are subject to export licenses in Malawi.<sup>23-24</sup>

An export tax on tobacco trade of <1% exists in Malawi, generating 0.5% of the total government revenue.<sup>3</sup> The mainstream economic thinking is that low tariffs and other trade preferences improve economic efficiency and productivity<sup>25</sup> and expand exports to increase economic growth in developing countries.<sup>26</sup> These policies also allow tobacco companies to enter markets with cheap cigarettes and aggressive marketing.<sup>27-29</sup> Tariff reductions as part of free trade agreements increase the amount of cheap raw tobacco imported to the US, depressing prices for raw tobacco in Malawi, Zimbabwe and other tobacco producing countries.<sup>30-31</sup> Market imperfections, such as the price-fixing and the oligopsony of Universal Corporation and Alliance One International in the global leaf market, prevent the higher demand resulting from an increase in higher tobacco prices.<sup>32-34</sup>

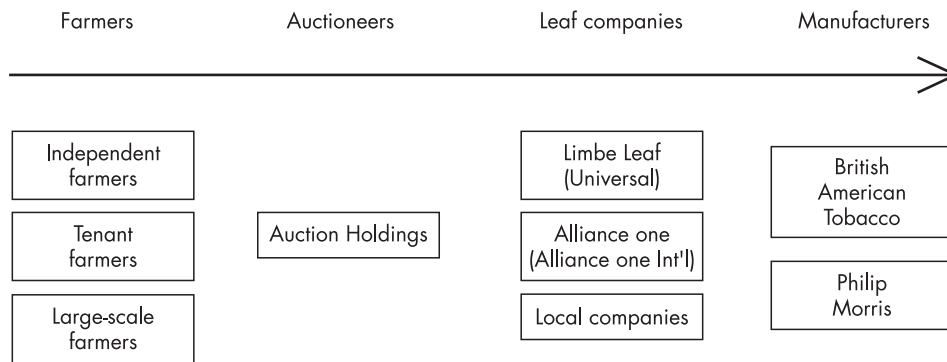
### Malawi and free trade agreements

The Cotonou trade agreement governs the raw tobacco trade relations between Malawi and the EU, and the African Growth and Opportunity Act (AGOA) governs the raw tobacco trade relations between Malawi and the US. In 2000, in Cotonou, Benin, 77 African, Caribbean and Pacific countries and the EU signed a 20-year trade agreement that provided developing country members tariff-free access for tobacco exported to all European member states.<sup>35-36</sup> Malawian tobacco accounts for 84% of the total tobacco imported to the EU under the Cotonou agreement.<sup>37</sup> Malawi's burley tobacco accounts for 6% of burley tobacco imports to the EU.<sup>38</sup> As of 2006, Malawi's tobacco was projected to remain an important trade item in the EU, whereas EU domestic tobacco production was expected to decrease by one-third between 2006 and 2008.<sup>39-42</sup> The trade preferences of Malawi and other countries participating in the Cotonou arrangement will end on 31 December 2007 and will be replaced by preferences in the Economic Partnership Agreements negotiated between 2006 and 2008<sup>43</sup> that fulfill the trade requirements of the World Trade Organization.<sup>44</sup>

In 2000, US President Bill Clinton signed AGOA into law, offering "tangible incentives for African countries to continue their efforts to open their economies and build free markets".<sup>45</sup> Malawi and 36 other African countries signed the AGOA, an agreement providing reduced tariffs and improved trade access for participating countries to the US for tobacco and other products.<sup>36</sup> Under the AGOA, tariffs on tobacco are selectively applied and different types of tobacco are allowed to enter the US market tariff-free.<sup>46</sup> In all, 98% of tobacco traded under AGOA that enters the US is from Malawi.<sup>37</sup> Malawi's burley tobacco accounts for 24% of US burley tobacco imports.<sup>47</sup>

Malawi is a party to regional trade arrangements such as the Common Market for Eastern and Southern Africa, and the Southern African Development Community. These trade arrangements regulate formal cross-border trade in southern Africa, and are less important than the Cotonou and AGOA agreements because Malawi exports limited amounts of tobacco (only 6% in 2005<sup>11</sup>) to southern African countries.<sup>48-49</sup>

In theory, the Cotonou and AGOA agreements were designed to provide Malawi and other low-income countries opportunities for economic diversification and improved economic efficiency.<sup>25-26</sup> In practice, the agreements provided rents to the US and European countries that imported tobacco from Malawi, and to tobacco companies in Europe that imported tobacco from Malawi rather than to Malawi. As tobacco companies benefit from EU and US tariff reductions that were meant to be captured by Malawi, Malawi remains economically vulnerable and dependent on tobacco growing.<sup>41-42</sup> Competition among the importing firms in the developed countries was expected to force the prices received by the exporting firms to climb by the amount of tariff previously collected by the EU and



**Figure 2** The raw tobacco commodity chain involves multiple steps from tobacco farms to leaf-processing factories in Malawi to cigarette-manufacturing plants in the US and other countries. Licensed farmers deliver tobacco from farms to satellite depots in rural areas, where the tobacco is stored until the auction authorises depots to deliver the tobacco to auction. Limbe Leaf and Alliance One are licensed by the government of Malawi to buy raw tobacco at auction. After auction, tobacco is delivered to Limbe Leaf and Alliance One's processing factories adjacent to the auction, where threshing machines remove stems from the tobacco, turning the raw leaf into unmanufactured tobacco. Leaf companies load the tobacco in shipping containers and transport containers by rail or trucks to ports in Beira, Mozambique or Durban, South Africa. Containers are loaded onto ocean-going ships and ultimately arrive at Philip Morris and British American Tobacco cigarette-manufacturing facilities.

US as revenue, permitting Malawi and the other exporting countries to capture this income.<sup>50</sup> Because there is little or no competition among Limbe Leaf, Universal's subsidiary in Malawi, and Alliance One, Alliance One International's subsidiary in Malawi, as tobacco buyers in Malawi, the country did not capture this money.<sup>50</sup> Limbe Leaf and Alliance One and the companies they sell to, particularly Philip Morris and BAT, reaped the benefit of low or non-existent tariffs in trade agreements between Malawi, and the EU and US.<sup>41 42</sup>

### BAT and Philip Morris in Malawi

According to executives with leaf-buying firms with subsidiary companies in Malawi, BAT and Philip Morris dictate raw tobacco prices in Malawi.<sup>51</sup> BAT, Philip Morris and other cigarette manufacturers establish prearranged contracts with Limbe Leaf and Alliance One to purchase tobacco in Malawi.<sup>52</sup> Godfrey Chapola, general manager of the Tobacco Control Commission, the government body that nominally regulates the tobacco industry, including corrupt practices among tobacco buyers, explains how Limbe Leaf and Alliance One affect prices:

The [raw tobacco] price that is paid to the producer, it starts from the cigarette manufacturer. Because the manufacturer tells, [Limbe Leaf or Alliance One] 'can you buy me so much tobacco, deliver it at my doorstep at four dollars twenty?' The local supplier [with Limbe Leaf or Alliance One] here will then do his arithmetic, putting all their costs. So, that will be the price that at the end of they will be competing for at the auction floor.<sup>53</sup>

Limbe Leaf buys 51% of Malawi's leaf and Alliance One buys 40% of Malawi's leaf<sup>54 55</sup> (three locally owned companies purchase the remaining 9%<sup>12 13</sup>). Limbe Leaf's shareholders are US-based Universal (58%) and Press Corporation Limited, a Malawi government-owned company (42%).<sup>55</sup> BAT and Philip Morris do not have ownership interests in Universal or Alliance One. Tension between leaf companies and tobacco farmers is driven by leaf companies' ability to set low tobacco prices independent of supply and demand, influence government officials and policy making through economic and political lobbying, and remain unshaken by the food insecurity of farmers from cycles of drought and famine in Malawi.

BAT and Philip Morris, as key buyers of tobacco from companies in Malawi, and as companies that advertise and sell

cigarettes in Malawi, influence Malawi's tobacco sector. BAT controls 91% of Malawi's cigarette market.<sup>56</sup> BAT billboards advertising Embassy cigarettes are prominently displayed near hospitals, churches and schools in urban centres and in village towns in Malawi.<sup>57 58</sup> BAT provides bicycles to traders to transport cigarettes to vendors and distributors in rural areas in Malawi,<sup>59</sup> sponsors a soccer field in Blantyre,<sup>60</sup> and between the early 1980s and 2003 sponsored a national soccer tournament involving 10 leagues.<sup>61</sup> BAT and Philip Morris, through the International Tobacco Grower's Association, a front group for global tobacco companies, have lobbied representatives of the Tobacco Association of Malawi, the organisation of licensed tobacco growers in Malawi, to oppose the World Health Organization (WHO) Framework Convention on Tobacco Control.<sup>57 62</sup>

Philip Morris' presence in Malawi is limited. Philip Morris representatives use the offices of Limbe Leaf and reside at the Limbe Leaf guesthouse in Lilongwe when they visit Malawi. Philip Morris and BAT representatives visit Malawi to participate in national meetings on the tobacco industry and monitor the progress of child labour-free projects of the Eliminating Child Labor in Tobacco Growing Foundation.<sup>57</sup> Philip Morris, BAT, and other major cigarette manufacturers and leaf-buying companies fund the Eliminating Child Labor in Tobacco Growing Foundation.<sup>57</sup> In 2002, David Nicoli, vice president for corporate affairs at the Philip Morris Management Corporation, presented a speech on child labour to tobacco industry officials in Malawi, speaking about Philip Morris' US\$25 000 (£12 667.22, €18 732.53) donation to the children's ward at the Lilongwe Central Hospital.<sup>63</sup> Philip Morris' and BAT's financial contributions to Malawi through social responsibility projects, and their status as the manufacturers that purchase the majority of tobacco from Limbe Leaf and Alliance One, provide them with leverage to influence Malawi's economy and trade policy.

### Economic dependency on tobacco growing in Malawi

The World Bank and the United Nations Food and Agriculture Organization expect tobacco to be Malawi's main contributor to economic growth in the short and medium terms.<sup>5 64</sup> In 2004, Malawi's Ministry of Economic Planning and Development projected that the tobacco crop would increase annually by 6.8%.<sup>65</sup> Speaking about the tension over tobacco prices between tobacco farmers and leaf companies in Malawi in a interview in *The Courier*, a EU trade magazine, Charlie Graham, managing

director of Limbe Leaf, said that Limbe Leaf needs “to make sure that more tobacco is produced in Malawi”.<sup>66</sup> In the 2000s, the Malawi government started devoting more efforts to identify new markets, such as Egypt, for Malawi’s tobacco.<sup>23 67 68</sup> Government and donor studies and projects since the 1960s concerned with the development of substitute crops and alternative livelihoods have been unable to put an end to the country’s dependence on tobacco growing.<sup>5 23 67 68</sup> Despite exporting US\$162 million in raw tobacco in 2005,<sup>69</sup> Malawi’s trade deficit was US\$173.8 million.<sup>70</sup>

Farmers continue to grow tobacco because they have virtually no other options, and the tobacco industry keeps reminding farmers that they have no option except to grow tobacco.<sup>57</sup> Chronic poverty in Malawi pressures farmers and their family members to remain in the tobacco sector. Farmers and workers sell their labour to tobacco landlords for food that landlords loan them, because the former are established in rural areas, where land shortages, food insecurity and unemployment are rampant. The food available to farmers and workers is one of the reasons they remain in the tobacco sector, even though landlords may pay farmers and workers little or no money for their tobacco crop. Rafael Sandramu, the secretary general of the Tobacco Tenants and Allied Worker’s Union of Malawi, said “you know, a poor man, when you are poor, you don’t have a choice” about whether to grow tobacco or pursue an alternative livelihood.<sup>71</sup>

At some point, the depression of prices could make it uneconomical to grow tobacco in Malawi. Universal’s Limbe Leaf and the World Bank agree that the structure of Malawi’s producer-marketing arrangements needs to be revised,<sup>42 72</sup> but, in the short and medium terms, the industry’s influence will ensure the continuation of prices that barely enable farmers to earn money from tobacco or cover their costs of production. This situation in turn allows political leaders who operate farms in Malawi to enrich themselves through tobacco profits, whereas the livelihoods of farm workers and their family members deteriorate. The willingness of countries such as Mozambique, Tanzania and Zambia to grow increasing amounts of tobacco and the continued leaf company investments in these countries provide a ready supply of tobacco for leaf buyers and cigarette manufacturers. Despite the adverse economics for individual farmers, the UN Food and Agriculture Organization projects that total tobacco leaf exports will grow by 0.8% each year between 1991 and 2010, and that tobacco leaf production in Malawi and other developing countries will increase from 76% in 1991 to 87% in 2010.<sup>73</sup>

Tobacco companies’ cartel and collusion over prices at auction depresses tobacco prices in Malawi.<sup>8 12 53 74 75</sup> A 2005 study by Malawi’s Anti-Corruption Bureau concluded that Limbe Leaf and Alliance One operate a tobacco cartel and collude with each other, reducing competition and decreasing prices at auction.<sup>12</sup> Limbe Leaf and Alliance One privately agree on percentages of tobacco that each company is supposed to buy each day at auction, cautioning each other when either of them purchased more than the percentage allotted to them.<sup>12</sup> According to Malawi’s Anti-Corruption Bureau,

Those who are cautioned respond by just walking on the line of buying [at auction] pretending as if they are buying. They bid in such a way they should leave the bales to those buyers who are low in terms of percentage so that they should catch up. This behavior triggers a reduction in prices as competition is defeated.<sup>12</sup>

In 2005, Clive Stanbrook, a Belgium-based international lawyer, in his report *Preliminary note on tobacco sales in Malawi* to the Tobacco Association of Malawi, said, in Malawi, “there is

sustained, blatant and comprehensive collusion between the buyers. This is deep-rooted collusion that appears to go back over at least a decade as between the three principle buyers (now two). It can be fairly said that the structure of the industry is not conducive to competitive activity, nevertheless the careful analysis and maintenance of market share and close correlation of prices point directly to market manipulation by the major buyers [Limbe Leaf and Alliance One].”<sup>75</sup>

Limbe Leaf and Alliance One’s cartel and price collusion contributed to average burley tobacco prices per kilogram of US\$0.99 (£0.52, €0.74) in 2005, a drop from US\$1.61 (£0.82, €1.21) in 1996, when the average price per kilogram of tobacco had peaked in Malawi.<sup>76</sup> Malawi’s Tobacco Control Commission has been unable to end price-fixing and collusion between Limbe Leaf and Alliance One, because these companies, who would be affected by the Tobacco Control Commission’s policies, are board members of the Commission.<sup>12</sup>

Limbe Leaf’s Charles Graham, interviewed in a documentary film, said, “I think it is quite ridiculous [to suggest] that such big and competitive companies would participate on the auction floor in the way we do and collude on pricing. We have to gain market share with every single customer. We are competing.”<sup>73</sup> The Tobacco Exporter’s Association of Malawi, which is chaired by Charlie Graham, denied the existence of a cartel and argued that global supply and demand determine raw tobacco prices in Malawi.<sup>77</sup> In fact, price-fixing and other questionable buying practices extend to the global level through Limbe Leaf’s parent company Universal Corporation. In 2004, the EU imposed fines of US\$135 000 and US\$14.5 million on two of Universal’s subsidiaries, Tabacos Espanoles in Spain and Deltafina in Italy, for “colluding on the prices paid to, and the quantities bought from, the tobacco growers in Spain”.<sup>78</sup> In 2005, the EU imposed fines of US\$36 million on Universal and Deltafina jointly, for breaking antitrust laws associated with buying and processing tobacco in Italy.<sup>78</sup> In 2006, the US Securities and Exchange Commission launched an investigation into alleged violations of the US Foreign Corrupt Practices Act by the Universal Corporation for payments to unknown recipients of US\$1 million over a 5-year period, involving Universal’s subsidiaries.<sup>79</sup>

The decrease in tobacco prices and increased tobacco production between the late 1990s and 2006 forced farm workers and their family members to work harder and for lower tobacco prices each season. This situation prompted the government to widely criticise Limbe Leaf and Alliance One for the first time in March 2006,<sup>9 53</sup> when President Bingu Mutharika directed Limbe Leaf and Alliance One to pay a minimum price of US\$1.10/kg (£0.56, €0.82) for low-quality tobacco at the opening of the tobacco auction.<sup>77 80</sup> Between March and October 2006, President Mutharika repeatedly called Limbe Leaf and Alliance One “exploiters” and “thieves”, owing to their monopolistic practices and refusal to pay fair tobacco prices at auction.<sup>69 81–83</sup> President Mutharika said, “poor smallholder farmers in Malawi have remained poor because they are cheated by an international cartel that connives to buy our tobacco at exploitative prices and yet they sell the same tobacco at huge profits in their countries.”<sup>77</sup>

Limbe Leaf and Alliance One ignored the President and paid prices as low as US\$0.50/kg (£0.25, €0.37) of tobacco at auction in 2006,<sup>84</sup> resulting in several protests over prices from farmers.<sup>69</sup> The government responded to Limbe Leaf and Alliance One’s non-competitive practices by creating a leaf-processing company—Malawi Leaf Company Limited—as a subsidiary of Malawi’s government-run Auction Holdings Limited, to increase the number of companies competing for tobacco and break the Limbe Leaf and Alliance One cartel.<sup>77 85</sup> During the 2006 tobacco season, Malawi Leaf purchased 5% of

the tobacco sold at auction and was seeking global markets to sell its tobacco.<sup>77-85</sup> As of early 2007, it was too early to tell whether Malawi Leaf ended the tobacco cartel. The experiment in minimum price setting had been effectively abandoned. When Universal Corporation and Alliance One International refused to purchase tobacco and there were no alternative purchasers, on 24 July 2006, the government relaxed marketing conditions, and the companies were again able to buy tobacco at the prices they offered.<sup>13</sup>

### Tobacco leaf companies' influence on trade policy in Malawi

Universal and Alliance One drive trade policy in Malawi, particularly with tobacco trade between Malawi and the EU. The Corporate Secretary of Universal subsidiary Limbe Leaf, lawyer Lloyd Muhara, is the main tobacco industry lobbyist for trade policy in Malawi. Muhara chairs or participates in several trade-related committees that inform the government of Malawi's trade policy, and is vice-chairman of the Malawi Trade Policy National Working Group that advises the government on trade policy and trade agreements. The Working Group was constituted as part of the Cotonou agreement in 2000. Muhara is also the chairman of the National Development Trade Policy Forum, a subcomponent of the Trade Policy National Working Group. He is the Chairman of the Malawi Competition and Fair Trade Commission established in 2005 to encourage competition among businesses by ending anti-competitive behaviour and protecting consumer welfare.<sup>86</sup>

Temwa Gondwe, the trade programme manager with the Malawi Economic Justice Network, a coalition of 100 civil society groups that work on economic governance in Malawi, and a participant on trade-related committees with Muhara, stated that tobacco issues are always brought up in committee discussions and that Muhara's "presence would deter people from making attacks on the industry".<sup>87</sup> According to Alice Clarke, an economist with the Ministry of Trade and Private Sector Development in Malawi, Universal and Alliance One are powerful companies, "deciding what trade policy is like in Malawi so they don't represent the smaller companies that trade regionally and bilaterally".<sup>88</sup> Speaking about the influence of the tobacco industry in Malawi's trade policymaking, Rafiq Hajat, director of the non-governmental organisation, Malawi Institute for Policy Interaction, said, "the tobacco industry is all pervasive; it influences everything in Malawi."<sup>89</sup> Speaking on the role of tobacco companies in Malawi's trade policy, H Chanza, deputy director for agricultural investment programme in the Ministry of Agriculture, said that, in addition to trade policy, "the tobacco industry influences every sector of the economy."<sup>90</sup>

### Smuggling

It is well documented that Philip Morris and BAT have been involved in global cigarette smuggling,<sup>91-93</sup> but there has been no attention to global raw tobacco smuggling. The influence of Alliance One and Limbe Leaf's parent company Universal in Malawi extends to tobacco smuggling. In addition to Limbe Leaf and Alliance One's licenses to purchase tobacco in Malawi and export the tobacco to other countries, Limbe Leaf and Alliance One in Malawi hold licenses from the government of Malawi to import tobacco from Zambia and Mozambique. The licenses, however, do not permit the companies to import smuggled raw tobacco.<sup>94-95</sup> Two tobacco smugglers along the Malawi-Zambia border area, in interviews with Marty Otañez in 2006, said that Universal and Alliance One, through their subsidiaries Zambia Leaf Tobacco and Alliance One in Zambia and Mozambique, openly buy smuggled tobacco from Malawi. The companies process the tobacco in Zambia and Mozambique or transport the tobacco to Malawi for processing in Limbe Leaf

and Alliance One's factories there.<sup>42-96</sup> By purchasing smuggled tobacco, Universal and Alliance One access low-cost tobacco and enjoy the savings from avoiding taxes collected at auction by the Malawi government.

Estimates of the total trade in smuggled raw tobacco in Malawi vary widely. The World Bank estimates that up to 10 000 tons (91 million kg) of Malawian tobacco was diverted across the borders of Zambia and Mozambique and then reimported as "Zambian" or "Mozambican" tobacco to Malawi in 2003,<sup>42-97</sup> equivalent to 9% of the 106 000 tons of tobacco sold at auction in 2003.<sup>98</sup> *The Nation*, Malawi's largest newspaper, estimated that smugglers traded 50 000 tons of tobacco valued at US\$59 million across Malawi's borders in 2005, equivalent to 34% of the 145 000 tons of tobacco sold at auction in Malawi in 2005.<sup>99-100</sup> According to the *Tobacco Farm Quarterly*, "Fifteen percent of the tobacco on the Zambian market is smuggled from Malawi, according to Zambia's Eastern Province Tobacco Sponsors Association. The group contends that the tobacco is being smuggled into Zambia because it can fetch more money on auction floors in Zambia than in Malawi."<sup>101</sup>

Small- and large-scale smugglers in Malawi sell tobacco to subsidiary companies of Universal and Alliance One in Zambia and Mozambique. Each small-scale smuggler may trade up to three tons of tobacco per year using hired cars and bicycle taxis to transport tobacco using village paths across the border. Each large-scale smuggler may trade as much as 30 tons of tobacco per year loaded onto trucks that use unmarked roads at night to cross the border. In an interview with Otañez in April 2006, Rafael Sandramu, secretary general of the Tobacco Tenants and Allied Worker's Union of Malawi, said that independent traders and farmers, and "people at high levels", such as government officials, are large-scale tobacco smugglers.<sup>71</sup>

The subsidiaries of Universal and Alliance One buy tobacco from farmers and traders in warehouses in the border areas of Malawi, Zambia and Mozambique. Subsidiary representatives are recognisable by the company logos on the shirts of company bosses and on the doors of company vehicles. Universal and Alliance One's subsidiaries have warehouses in Chikoka and offices in Chipata, Zambia, 40 km from Chikoka. The subsidiaries process tobacco purchased from Zambian farmers in factories in Chipata. Independent buyers also buy tobacco at Chikoka and other illegal markets. These buyers may be Malawian or Zambian traders who operate warehouses at Chikoka and live in Malawi or Zambia. The buying and selling of smuggled raw tobacco by Universal and Alliance One, tobacco farmers, and cross-border traders occurs in the context of corrupt practices by customs officials and police officers, underpatrolled borders, and underfunded customs authorities at Malawi's borders with Zambia and Mozambique.<sup>96-102-103</sup> Universal and Alliance One access low-cost tobacco through the purchasing of smuggled tobacco, undermining Malawi's legitimate trade in tobacco.

Smugglers of raw tobacco in Malawi sell tobacco at illegal markets in Zambia and Mozambique in an effort to obtain higher net profits per kilogram of tobacco than is available at auction in Malawi. In some cases, they will accept a lower price per kilogram of tobacco than the price at auction, to avoid the inefficiencies and overhead costs of the auction system.<sup>99</sup> For example, based on discussions with two smugglers along Malawi's borders with Zambia in 2006, we estimate that a smuggler earns a net return of US\$0.60/kg (£0.30, €0.45) of tobacco after receiving US\$1.10/kg (£0.56, €0.82) at illegal markets in Zambia and deducting costs for transportation, fertilizers and other production costs. A farmer selling his tobacco at auction for US\$1.18/kg (£0.60, €0.88), a higher price per kilogram than what smugglers receive, only earns a net return of US\$0.34 (£0.17, €0.25) after subtracting deductions

at auction and costs for fertilisers, seeds, hired labour and other marketing transaction expenses.<sup>42</sup>

Smuggled tobacco could sell at a higher price, because of the availability of different tobaccos like burley and flue-cured, the quality of the crop, the closure of the auction floor due to arguments over prices between buyers and sellers, the risks of smuggling, such as being caught by police officers and customs officials at Malawi's borders with Zambia and Mozambique, and increase in taxes and levies at auction floors in Zambia. Even when smugglers accept a lower price at illegal markets than the price at auction, they still profit because they avoid deductions at auction that represent 20% of the selling price.<sup>42 94 99 104</sup> Deductions at auction include withholding tax, a cloth bag for wrapping bales charge, transportation costs to satellite depots and the auction floors, bank charges, and charges from the Auction Holdings Limited, the Tobacco Control Commission, the Tobacco Association of Malawi, and the Agricultural Research and Extension Trust.<sup>8 41 42</sup> Selling tobacco illegally allows smugglers to avoid delays of several months in receiving payments from auction, directly negotiate with buyers, and bypass corruption among auction officials who accept bribes from farmers to move tobacco ahead in a line of trucks waiting to sell at auction.<sup>94 99 104</sup>

The report entitled "Regional trade" by the Malawi Diagnostic Trade Integration Steering Committee, comprised of government officials, private sector representatives, development officials and non-governmental leaders, states, "indeed there is some question as to whether some of Malawi's tobacco exports to South Africa are truly intended for that country's market or are simply goods in transit. If South Africa is shown as the country of destination in the exporter's declaration then it is considered the country of final destination even in cases where the goods are re-exported."<sup>105</sup> The Trade Law Center for Southern Africa, in its study *Trade policy options on Malawi's regional and bilateral trade arrangements*, made a reference to "South Africa being used as a transit avenue for Malawi's key commodity export of tobacco to overseas markets, which are recorded as if they are destined for South Africa", but did not provide details.<sup>106</sup> Malawi is a landlocked country, and tobacco companies mainly use the ports of South Africa to transport their cargo by large shipping vessels to importing countries. Declaring South Africa instead of the US, for example, as the final destination of Malawi tobacco would enable tobacco companies to benefit from South Africa's duty-free policies and make tobacco shipments more difficult to track and easier for smugglers to illegally trade raw tobacco.

## DISCUSSION

Tobacco companies promote tobacco-friendly trade policies in Malawi by putting industry representatives on policy-making committees that advise the government, exaggerating the economic importance of tobacco in Malawi, and funding community leaders to participate in free-trade meetings abroad.<sup>107</sup> We present new data and analyses on the influence of the Universal Corporation, through its local subsidiary Limbe Leaf, on trade policy making in Malawi, the extent of tobacco companies' influence in Malawi, and on activities of Universal Corporation and Alliance One International involving smuggled tobacco in Malawi-Zambia border areas. The near monopoly of Universal and Alliance One allows them to influence trade policy and profit from low or no tariffs. The lack of competition among leaf companies prevents raw tobacco price increases equivalent to the amount of tariff that was eliminated or reduced due to Malawi's preferential status in the Cotonou and AGOA trade agreements.<sup>50</sup>

Public health researchers have already examined the tobacco industry's pressure, through lobbying, on governments in

African countries to obstruct effective tobacco control measures,<sup>62 108-110</sup> but have paid insufficient attention to leaf companies' price-fixing and influence on trade policy. Research on tobacco control in Africa should be expanded by identifying the successful local efforts to hold tobacco companies accountable to their harmful health and economic practices, and analysing conditions that make growing countries vulnerable to the tobacco industry's influence.<sup>111-114</sup> Better understanding of the tobacco industry's influence on economies in developing countries may help health advocates in developing countries to counter industry strategies to advertise cigarettes and obstruct effective tobacco control measures.<sup>115-117</sup> Tobacco control advocates may learn, from experiences in Malawi, ways to identify and reduce tobacco industry's interference in local trade policy making, and remove an imposing barrier to Malawi's search for crop substitutes and alternative livelihoods to tobacco.<sup>118-120</sup>

## Limitations

Our study was limited to the trade and economic aspects of Malawi's tobacco sector. The social and environmental aspects of the tobacco sector may also help in explaining the influence of global leaf companies. Another limitation is the reliance on 124 individuals involved in Malawi's trade policy making and tobacco sector generally. This approach could introduce bias if the individuals interviewed were not representative of the perspectives of individuals more centrally involved in Malawi's tobacco sector. We included in the study key decision makers from the trade and economic sectors involved in Malawi's policy making, based on government reports and studies by non-governmental organisations. We may be underestimating tobacco industry's influence in Malawi by not fully taking into account the extent of influence of the tobacco companies on officials at high levels of the government and the donor community. Without having access to the views of the President and other high-level officials, who typically possess a concentration of authority over the economy in Malawi, we have been unable to document the experiences and perspectives of all the stakeholders concerned with the lobbying by tobacco companies on the government of Malawi, and we may therefore be underestimating tobacco industry's influence in Malawi.

## Areas of future research

More research needs to be done on the influence of Universal Corporation, Alliance One International, Philip Morris and BAT on government officials, public health advocates and tobacco farmers to prevent trade policies that break Malawi's dependency on tobacco, to counter public health measures to control tobacco consumption, and impede research and public debate on a mix of alternatives (agricultural and non-agricultural) to tobacco production. More research could be carried out on tobacco companies' lobbying in developing countries for global trade policies that allow companies to freely trade tobacco and access new cigarette markets, contributing to expanding tobacco-related death and disease in developing countries. A related area that requires further research is the role of international law and litigation against cigarette manufacturers and leaf companies as a public health strategy for ending illegal practices of tobacco companies, such as price-fixing in Malawi and other tobacco-growing countries.

## Policy suggestions

A policy intervention to solve problems of a tobacco cartel, price-fixing, tax avoidance and industry's influence on key trade policy making committees in Malawi could be the creation of a government-sanctioned committee to monitor

leaf-buying companies in Malawi. The committee could be comprised of representatives from civil society (eg, the Malawi Center for Social Concern and the Consumers Association of Malawi), government (ministries of trade, economics and labour) and the donor community (World Bank and the UK Department of International Development). Such a committee could have the power to issue regular public reports on industry practices, and to implement penalties on tobacco companies that engage in price-fixing, tax avoidance and other illegal activities, to demonstrate that Malawi does not accept a tobacco cartel and price-fixing in the tobacco sector. The committee working in collaboration with the Tobacco Tenants and Allied Worker's Union of Malawi, the national trade union seeking to improve the wages and working conditions of tobacco farm workers, could enact policies to reduce the indebtedness of tobacco farmers to farm authorities and tobacco companies, and encourage the Malawi government to sign the WHO Framework Convention on Tobacco Control to strengthen tobacco control measures and prevent a future rise in tobacco-related death and disease in Malawi.<sup>121</sup>

## CONCLUSION

On account of low or no tariffs on unmanufactured tobacco imports to the EU and the US, Philip Morris and BAT, through Universal and Alliance One, have access to low-cost tobacco and increase their profits. Public health advocates need to be more aware of the relationships between tobacco industry lobbying in trade issues such as reductions in tobacco tariffs and Malawi's economic reliance on tobacco. Health policy makers interested in the implementation of the WHO Framework Convention on Tobacco Control in tobacco-producing countries need to understand that tobacco farm workers and their trade unions do not fully benefit from tobacco growing in the absence of trade justice, worker empowerment and a living wage.

By advocating a living wage and supporting legislative changes to uplift the labour and health conditions of farm workers, health advocates could begin to develop the basis for collaborative relationships with tobacco-growing countries. Together, health advocates and farm worker trade unionists could explore alternative livelihoods to tobacco and promote the reduction of tobacco from 65% to 40% of Malawi's total foreign earnings from 2006 to 2016, as suggested by Temwa Gondwe with the Malawi Economic Justice Network.<sup>87</sup> Health advocate–trade union alliances could help to remove tobacco from trade agreements, advocating that health is more important than corporate profits. Precedents exist for establishing tobacco-specific trade rules—for example, hazardous waste, landmines and small arms have been carved out of free-trade

agreements.<sup>122</sup> Tobacco was excluded from trade agreements in Vietnam and Jordan.<sup>122–123</sup> Alliances between health advocates and farm worker representatives may promote and implement policies that allow Malawi to capture the tariff rents currently accruing to tobacco companies from tobacco imports from Malawi. Malawi could use the revenues to build the financial and technical capacity to promote alternative livelihoods to end dependency on tobacco growing.<sup>42</sup>

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## What this paper adds

- Malawi is economically dependent on tobacco cultivation.
- Global leaf-purchasing companies Universal Corporation and Alliance One International control Malawi's tobacco economy by controlling tobacco prices, influencing trade policy, and through purchasing smuggled raw tobacco in Malawi–Zambia and Malawi–Mozambique border areas.
- These actions restrict competition, depress tobacco prices for Malawi's farmers, and contribute to poverty in Malawi, while keeping the country dependent on tobacco growing.

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### Webcast: International Forum on Quality and Safety in Health Care

Plenary sessions at this year's International Forum on Quality and Safety in Health Care were filmed and broadcast live over the internet. The sessions are still available to view free, on demand and at your own convenience at <http://barcelona.bmj.com>. Each session is accompanied by a panel discussion.

The webcast includes the following, in either English or Spanish translation:

- **Donald M Berwick:** Can health care ever be safe?
- **Richard Smith:** What the quality movement can learn from other social movements
- **Lucian Leape and Linda Kenney:** When things go wrong: communicating about adverse events
- **John Prooi and Harry Molendijk:** Partnering for patient safety