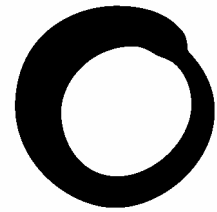


April 2003



**Friends of
the Earth**

UKplc: briefing



British American Tobacco plc (BAT): tobacco profits before human rights, health and the environment.

We know BAT produce and sell cigarettes that can damage our health. But BAT doesn't only make a deadly and addictive product. The methods the company uses to produce tobacco are also linked to ill health, environmental degradation and child labour. BAT is accused of supporting Burma's corrupt military regime and complicity in human rights abuse in Brazil. In recent years, the company has been implicated in smuggling operations and faced litigation in the USA and Australia.

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BAT profits

BAT recently announced that its pre tax profits for 2002 were up two per cent on the previous year. It is particularly proud that its four “global drive brands”, Dunhill, Kent, Lucky Strike and Pall Mall grew by eight per cent between them [1]. Of these, Dunhill, the most profitable, sold 30 billion cigarettes over the year.

BAT potential conflicts of interest

Kenneth Clarke is the non-executive deputy chairman at BAT. The Former Chancellor of the Exchequer is also a QC and a prominent member of the Conservative Party whose comments about investment in Burma are at odds with BAT’s Burmese operations and joint venture with the military regime.

Kenneth Clarke has said that:

“I must admit that I do sometimes feel uncomfortable about investment in that country... The problem in Burma arises when companies start collaborating with an extremely unpleasant regime which is totally contrary to our notions of civil liberties and democracy.” [2].

He has since clarified his stance and BAT has no plans to stop operating in Burma. Paradoxically Ken Clarke is also Chair of BAT’s Ethics Committee and has said that the company’s *“approach to corporate social responsibility was important in my decision to join,”* [3].

Company overview

British-owned multinational, BAT, is the world’s second largest international tobacco company. The group sells most of its cigarettes abroad and is keen to achieve leadership of the global tobacco industry. In total the company sells over 320 brands of cigarettes in 180 countries, operates factories in over 100 countries and employs over 100,000 workers worldwide. Through subsidiaries, BAT also operates as Brown and Williamson in the US, Souza Cruz in Brazil and P.J. Carroll & Co in Ireland [4].

BAT wants to be seen as a responsible cigarette company and in 2002 the company became the first tobacco company to publish a “Report to Society” giving an account of its social and environmental impacts. As part of its corporate social responsibility make-over, BAT also recently embarked on a process of stakeholder dialogue and social and ethical reporting [5].

But the reality is that across the world BAT puts financial profits ahead of social and environmental concerns and is not addressing many of its negative impacts.

BAT Impacts

Supporting Burma's brutal regime [6]

BAT's investment in Burma's military dictatorship has been exposed by **The Burma Campaign UK** in partnership with the **Federation of Trade Unions (Burma)** [7,8].

BAT is among the most significant of UK investors in Burma, a country ruled by one of the longest running and most brutal military dictatorships in the world. Burma is charged by the United Nations with a "*crime against humanity*" and internationally condemned for refusing to transfer power to the National League for Democracy Party [9]. Although this party was legally elected to Government in 1990 with a landslide of 82 per cent of the seats, political power has never been transferred from the military junta. Many party members have been tortured and died in custody since the elections.

Aung San Suu Kyi, the National League for Democracy leader and Nobel Peace Laureate, urges companies to withdraw from Burma. She said: "*Sanctions have a role to play because they are a strong political message, but also because they are an economic message.*" [10]. Over the past five years a large number of foreign companies, including Texaco, British Home Stores, Reebok and Premier Oil, have withdrawn from the country.

In a statement to mark the launch of the Burma Sanctions Coalition, Nobel Peace Laureate and veteran of the anti-apartheid struggle, Archbishop Desmond Tutu said: "*Burma is the next South Africa. Its people are engaged in an epic struggle for freedom. Burma's military has put millions of civilians into forced labour, imprisoned hundreds of political prisoners, has created more child soldiers than any other country in the world, and has forcibly 'relocated' half a million ethnic people.*" On the importance of sanctions he is clear: "*A journey of a thousand miles begins with one step. Collective action is the gathering of many individual actions. The UK can take a lead within Europe by imposing sanctions against Burma now.*"

But despite the clear views of the international community, the UN and the National League for Democracy Party, BAT continues to operate in Burma through its subsidiary – Rothmans of Pall Mall Myanmar a joint venture with the Union of Myanmar Economic Holdings, which is itself wholly run by Burma's military regime.

In 1996 the industrial area where BAT's cigarette factory is located was upgraded using child labour. At this factory, workers are paid around 23p a day. The annual salary of a BAT factory worker is approximately £68.52 a year. BAT chairman Michael Broughton's salary is £967,500 a year.

BAT is taking advantage of the situation in Burma where unions are banned, there are limited and rarely enforced health and safety laws and the minimum working age is 13 years [11].

Risking tobacco farmers' health in Brazil

Christian Aid and the **Departamento de Estudos Sócio-Econômicos Rurais** (DESER), a grassroots Brazilian research organisation, have produced an in depth report raising serious concerns about the health of Brazilian tobacco farmers [12,13].

BAT controls every aspect of tobacco cultivation in Brazil through its 74 per cent owned Brazilian subsidiary, Souza Cruz. BAT/Souza Cruz jeopardises the health of small-scale tobacco farmers and their families. Farmers are locked into producing tobacco through contracts that leave the farmers indebted to the multinational for years. They end up having to pay off these debts with the tobacco crops they farm. Farmers are paid \$1 per kilo of tobacco while counterparts in the US are paid around \$4 per kilo. The size of the crop fluctuates but average prices paid to farmers don't, suggesting that BAT/Souza Cruz may be distorting the tobacco market.

Chronic illness and suicide are common among Brazilian tobacco farmers and studies [14] have linked this with exposure to pesticides sold to them by BAT/Souza Cruz. Farmers' symptoms echo those of Gulf War veterans and sheep dippers exposed to organophosphates and include depression, anxiety, neurological dysfunction, muscle aches and Parkinson's disease like tremors. Suicide rates among tobacco farmers can be seven times the national average in tobacco-growing areas. Farmers also suffer from exposure to high levels of nicotine.

BAT knows that its family tobacco farmers in Brazil operate on such tight margins that they often rely on their children for free labour. This puts the children at risk of coming into contact with toxic pesticides and nicotine.

Court cases, smuggling and unhealthy record

In Australia, BAT has been involved in a court case over allegations of deliberate document shredding in order to deny justice to victims of smoking-related diseases [15]. The case is currently awaiting retrial. According to the anti-smoking campaign group ASH, BAT's main response has been "*to belittle the implications of the judgement and consequences of its own misconduct,*" [16].

ASH has also presented evidence to the British Parliament that links BAT to smuggling operations [17]. BAT has been accused of actively managing and developing the black market in its own products. It has also been involved in a government investigation in the UK and faces legal action in the US courts for racketeering and money laundering [18].

BAT is no stranger to legal difficulties. In the US, BAT subsidiary, Brown and Williamson was sued by the State of Mississippi over the costs of treating smoking-related diseases. This groundbreaking case was subsequently made into a successful film in 1999. 'The Insider' starred Russell Crowe as Jeffery Wigand, Brown and Williamson's ex vice president of research and development. Wigand risked the wrath of his former employer by giving evidence during the case. He revealed that Brown and Williamson had withheld information on nicotine addiction. Worse, the company had manipulated nicotine levels in cigarettes in order to encourage addiction to tobacco. Brown and Williamson's scientists knew of the dangers from documents dating back to 1963. Minutes from meetings were altered to protect

BAT and its subsidiary from liability actions.

Community opposition to BAT

People protest about BAT in Burma

Human rights groups have joined forces with Burmese workers' rights campaigners to persuade BAT to sever business ties with the military regime. The Burma Campaign UK and the Federation of Trade Unions (Burma) are leading this global campaign as people and organisations around the world respond to calls from Burma's democracy movement. They are backed by human rights groups such as the Burmese Government in exile and worker organisations such as UNISON as well as respected international states people including Glenys Kinnock MEP and the Rt Hon Sir David Steel.

The Federation of Trade Unions (Burma) representing Burmese workers has said:

"By entering a joint venture with the Union of Myanmar Economic Holdings, the BAT is pouring money directly into the pockets of the military junta in Burma, and funding their bloody rule based on forced labour, arrest and torture of political opponents, and denial of any sort of basic political freedom."

John Jackson, Director of the Burma Campaign says:

"BAT's business partners in Burma are rapists, murderers and torturers... BAT's collaboration with the regime is helping to keep this brutal dictatorship in power."

Brazilian farmers demand BAT pays health costs

The grassroots Brazilian group DESER, who represent farmers in southern Brazil, have joined forces with Christian Aid to secure more rights for tobacco farmers working for Souza Cruz [19].

Valter Bianchini, the director of DESER says:

"There needs to be a more democratic relationship between the farmers and the tobacco companies because as long as the industry imposes its will on the farmers, they will always be living on the breadline."

In Rio Grande do Sol, one farmer, José Wanderlei da Silva, is suing BAT/Souza Cruz in a bid to win compensation for the illness that he, his lawyers and his doctors believe was caused by the pesticides he bought from the company and sprayed on his tobacco. Should he win his case, hundreds, perhaps thousands of other Brazilian tobacco farmers may follow suit.

Jose Wanderlei da Silva has been forced to take BAT/Souza Cruz to court to make the company face up to its responsibility for his suffering. He said:

"I want compensation for the terrible damage they have done to my health and for the lack of income over the last few years and in the future"

"In other countries there are laws that govern the use of pesticides, I would like to see better

legislation that regulates and controls the use of pesticides so that companies like Souza Cruz cannot just sell these powerful poison bombs."

BAT greenwash

BAT has recently invested heavily in PR and high profile voluntary initiatives. Against the background of its damaging activities in Burma and South America such investment could be seen as a cynical marketing exercise and an attempt to control the tobacco agenda [20].

Local communities and pressure groups worldwide are calling for BAT to withdraw from Burma and stop risking the health of farmers in South America. Yet the company strategy seems to be an attempt to detract attention from the real need for laws addressing the environmental and social impacts of companies such as BAT.

Firms such as EQ Management, Weber Shandwick and the Tarrance Group have advised BAT on their public image and helped create a social responsibility report. On its website EQ Management describes BAT as "*vilified more than most*" and emphasises that BAT needs to "*demonstrate*" a serious commitment to change [21].

A 2001 leaked video CD revealed BAT's approach. Intended for Australian staff eyes only, "The Challenge of Change" featured comments by Brendan Brady, then-director of corporate and regulatory affairs for BAT Australasia, who made it clear that BAT wanted to regain control of the tobacco agenda.

"Even those people who are trying to put us out of business are stakeholders," he said. "We need to know what they are thinking, we need a license to operate in the future. We need to be able to plan five years or ten years out, and we can't do that unless we understand what people expect of us as a business ... We've got to set our own agenda and be pro-active," [22].

Company information also reveals a "stakeholder classification mapping" system has been designed to determine who should be invited to BAT's debates on 'Corporate Social Responsibility'. In this system stakeholders are categorised as having "hostility", "neutrality" or "sympathy" on a range of issues affecting business and are graded according to the "degree of flexibility" of these views. Invitations are then decided carefully with the aim of outweighing critics with sympathisers [23].

Despite BAT's negative environmental and social impacts across the world BAT's 2002 Annual Review and the International Chamber of Commerce website imply that BAT upholds UN Secretary-General Kofi Annan's Global Compact principles in human rights, environmental practice and labour standards. On the website BAT reports on a child labour initiative, giving the impression it is part of the Compact which it is not.

Ultimately, BAT is using the issue of social responsibility to improve the tobacco industry's image against a background of local and global opposition to their demonstrable lack of social responsibility in the areas of human rights and environmental standards.

BAT has adopted an international voluntary code for marketing and purports to support "*globally consistent international marketing standards*" which represent a "*raising of the bar and establish a benchmark for the industry worldwide*".

But a leaked memo from a Wall Street tobacco analyst for the Credit Suisse Group states that this initiative is in fact a way “to improve the tobacco industry’s image”. The memo suggests: “by proactively setting new international tobacco marketing standards, the multinationals could be trying to counter a number of proposals that the World Health Organisation has been working on to curb the amount of cigarettes that are consumed on an international level” [24].

BAT lowlights [25, 26]

- BAT’s factory in Burma is a joint venture with a brutal military regime that routinely uses rape and torture to suppress its own people [27].
- In Burma, the industrial area where BAT has its factory was upgraded by the military authorities using child labour [28].
- Aung San Suu Kyi, the leader of the Burma’s democratically elected party, the National League for Democracy Party, has asked companies not to invest in Burma [29].
- It would take 85 years for one of BAT’s factory workers to earn what BAT Chairman, Martin Broughton earns in a single day [30].
- In Brazil it would take around six years for a tobacco farmer to earn the daily salary of Martin Broughton and 2,140 years to earn his annual salary [31].
- In the tobacco growing region in Brazil, eight per cent of children aged 6-13 handled pesticides in tobacco in 1998 [32].

Change needed to UK Company Law:

BAT provides a clear example of why changes are needed to UK company law, to stop companies putting profits before people and the environment. This company is an example of how leaving big business to regulate itself on social and environmental issues fails.

The Government recently completed the most comprehensive review of UK company law in 150 years and it is expected to introduce its Company Law Bill into Parliament within the next couple of years. This represents a unique opportunity to create a legal framework that ensures UKplc behaves in a way which reflects stakeholder concerns, and helps deliver sustainable development.

Developing countries like Brazil often find it difficult to set up and implement appropriate regulations that make companies operate to higher standards. This is partly because multinationals like BAT can always take their operations to somewhere with lower social and environmental standards. And in Burma BAT others are able to continue trading and colluding with the brutal regime despite an international outcry and calls for sanctions.

Laws must raise standards

BAT's negative impacts in Burma and Brazil demonstrate why government legislation is needed that places duties on directors to take steps to minimise negative social and environmental impacts of their business operations. It also needs to provide mechanisms by which communities in the UK and abroad can hold the company accountable and seek redress when directors fail to uphold such duties.

These and other measures have been proposed in the Corporate Responsibility (CORE) Bill, tabled in the 2001-2002 parliamentary session and promoted by Amnesty International (UK), Christian Aid, Friends of the Earth, GMB Union, New Economics Foundation, Traidcraft, Unison and Unity Trust Bank amongst others (see www.corporate-responsibility.org for more information). The Bill has already secured the support of over 280 cross-party Members of Parliament (MPs).

But, at the moment, the Government's proposals contain no such measures. This will result in yet more unsustainable business as usual by companies like BAT both in the UK and abroad and we will be even further away from achieving sustainable development.

Links

For more about the The CORE Bill and corporate responsibility campaign:

www.corporate-responsibility.org

More about Friends of the Earth's campaigns calling for greater corporate accountability at a global level:

www.foe.co.uk/campaigns/corporates/index.html

The Burma Campaign UK and their efforts to urge BAT and other companies to withdraw their support for the regime in Burma:

www.burmacampaign.org.uk/action.html

Christian Aid's report on BAT/Souza Cruz's activities in Brazil:

www.christian-aid.org.uk/indepth/0201bat/index.htm

Federation of Trade Unions (Burma) website:

www.tradeunions-burma.org

For BAT's side of the story in Burma

www.bat.com

ASH: a campaigning organisation focussing on the impacts of smoking and the tobacco industry. For more on BAT see their 2002 report

www.ash.org.uk

Investigative reporting on the public relations industry

www.prwatch.org

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