

## Investor Day Presentation

12 July 2011

### **Matt Phillips – Corporate & Legal Affairs Director**

#### **Unlocking Our Potential – Shaping our environment**

My agenda for today is on how we shape our environment to support the long-term sustainability of our business.

My presentation will focus on how we combat illicit trade and manage regulation.

#### **Engaging with Regulators**

Our engagement with regulators is based around three key issues: regulation, excise and illicit trade – our triangular agenda.

Regulation, excise and illicit trade are inextricably linked – get excise wrong, get regulation wrong and illicit trade will flourish.

#### **Three Lessons**

Regulators often fail to recognise the relationship between regulation, excise and illicit trade.

We can see this even as far back as the seventeenth century when James 1 of England, a staunch opponent of tobacco, increased tobacco taxes by 4,000 per cent – later reversed to counter the huge increase in illicit trade that followed.

We can take away three lessons from this example – attacks on the tobacco industry aren't new; consumers have always been very resilient (still more than a billion smokers worldwide today) and regulators have a history of failing to see how regulation, excise and illicit trade interlink.

#### **Global Scale of Illicit Trade**

Illicit trade continues to be a major issue for the tobacco industry and other stakeholders.

The scale of the problem is huge and the adverse impact it has on tobacco companies, governments, retailers and consumers is significant.

Only the criminals, the orchestrators of illicit trade, benefit.

#### **Strategy for Defeating Illicit Trade**

We have a clear and effective strategy for tackling illicit trade.

We work closely with governments and law enforcement agencies worldwide to combat the problem.

Our long-term agreement with the EU, signed last year, is a core element of our anti-illicit trade activities.

Last year the intelligence we supplied to our anti-illicit trade partners resulted in the seizure of a billion illegal cigarettes worldwide, the closure of counterfeiting factories and a number of arrests.

#### **Case Study – Ireland**

The scale of the illicit trade problem in Ireland was highlighted in October 2009

## Investor Day Presentation

12 July 2011

when a container containing 120 million cigarettes was seized in a small port on the east coast of Ireland.

Illicit trade was flourishing as a result of excessive regulation and tax increases.

### The Problem

We had long raised concerns about the regulatory and excise environment in Ireland but the government was unwilling to engage and discuss the issues.

Large tax increases and a tobacco product display ban in 2009, fuelled the illegal trade in tobacco.

Tobacco was only visible on the street, sold at markets and even delivered directly to people's homes.

Retailers had to register with the Office of Tobacco Control to be able to sell tobacco, dismantle their in-store display units, put tobacco out of sight and sell cigarettes at an average price of €8.55 for 20.

Criminals did none of the above – and sold their illegal products at less than half price.

### And its Consequences

The consequences were severe – illicit trade increasing from 8 per cent of the market in 2005 to 27 per cent in 2010 with a particular spike in 2009, the year the product display ban was introduced.

### Engagement Focus

We developed a detailed engagement plan to highlight the issue to key stakeholders.

Our aim was to get illicit trade to the top of the public and political agenda in Ireland.

### The Result

Considerable success was achieved with excise on tobacco frozen for two years and no further regulation that would exacerbate illicit trade.

Customs have invested in additional tobacco scanners at ports and smuggling fines were increased 10-fold in the 2010 Finance Act.

### Protecting Freedoms

The fight against illicit trade is a priority for Imperial Tobacco, as is proactively protecting three key freedoms.

Our freedom to make tobacco products: to produce products that consumers will enjoy; our freedom to compete (to be able to innovate and for retailers to be able to display our products); and the freedom of our consumers to be able to consume tobacco.

## Investor Day Presentation

12 July 2011

### Regulation

We support reasonable, proportionate and evidence-based regulation including written health warnings; ingredients disclosure and youth smoking prevention.

We oppose regulation that is unreasonable, disproportionate and not supported by clear and credible evidence, such as product display bans, public smoking bans and plain packaging proposals.

Our preference is constructive dialogue but where this is not possible we will take a more robust approach including, although always as a last resort, legal action.

### Australia Plain Packaging

This is the high profile campaign we have been running in Australia against the plain packaging of tobacco products.

It has included TV, radio and newspaper advertising, petitions and a dedicated campaign website.

As a result of our campaign over 200,000 people have contacted their MPs to voice their concerns about plain packaging.

We took this step because the Australian government refused to engage with us on plain packaging, something that we and a number of other governments and influential international business organisations oppose.

We will continue to fight to get our voice heard and if necessary will take legal action to stop plain packaging, which is not supported by any credible evidence and will significantly increase illicit trade.

### Engaging with Regulators

To conclude; this triangular agenda is at the heart of our engagement strategy.

We encourage regulators to take a joined up approach and to recognise the relationship between regulation, excise and illicit trade.

We focus on proactive engagement and seek constructive dialogue with stakeholders.

Where we are excluded from the debate, we will take a more robust approach in order to protect our business, our consumers, our trade partners and the interests of our shareholders.

Thank you.