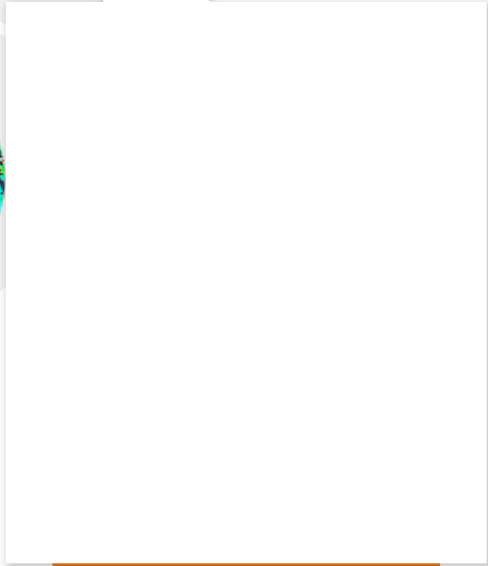






Kingsley Wheaton



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1 *The Role of Tobacco Growing in Malawi*, DD International, commissioned by British American Tobacco, 2011.





Tobacco taxes provide a source of funds for many governments and can account for an important part of their revenue. Unsurprisingly, when difficult economic times reduce a country's national budget, taxes on tobacco products are often viewed as a strong potential source of income.

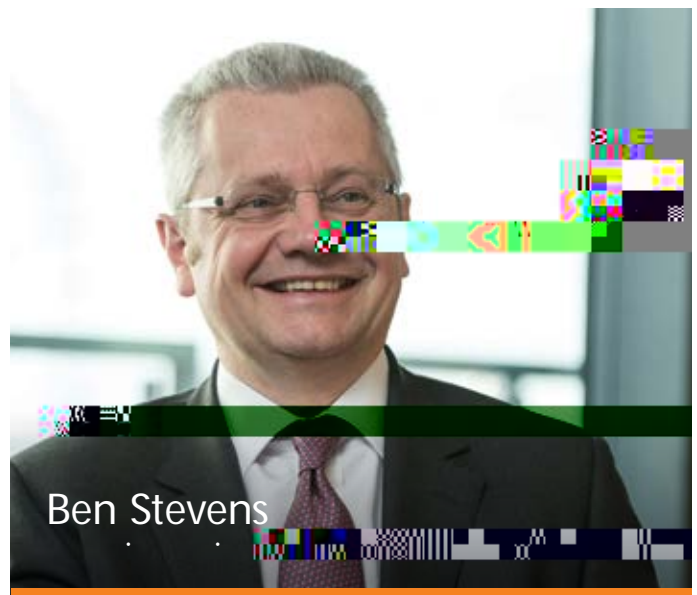
High taxation rates can be used to support specific policy objectives. Some governments seek to cover the costs considered to be associated with tobacco use, such as healthcare costs. Health advocates might also put pressure on governments to increase tobacco taxes in an effort to reduce consumption. However, 'shock' increases in tobacco taxes often fail in both of these goals as consumers increasingly look towards the black market.

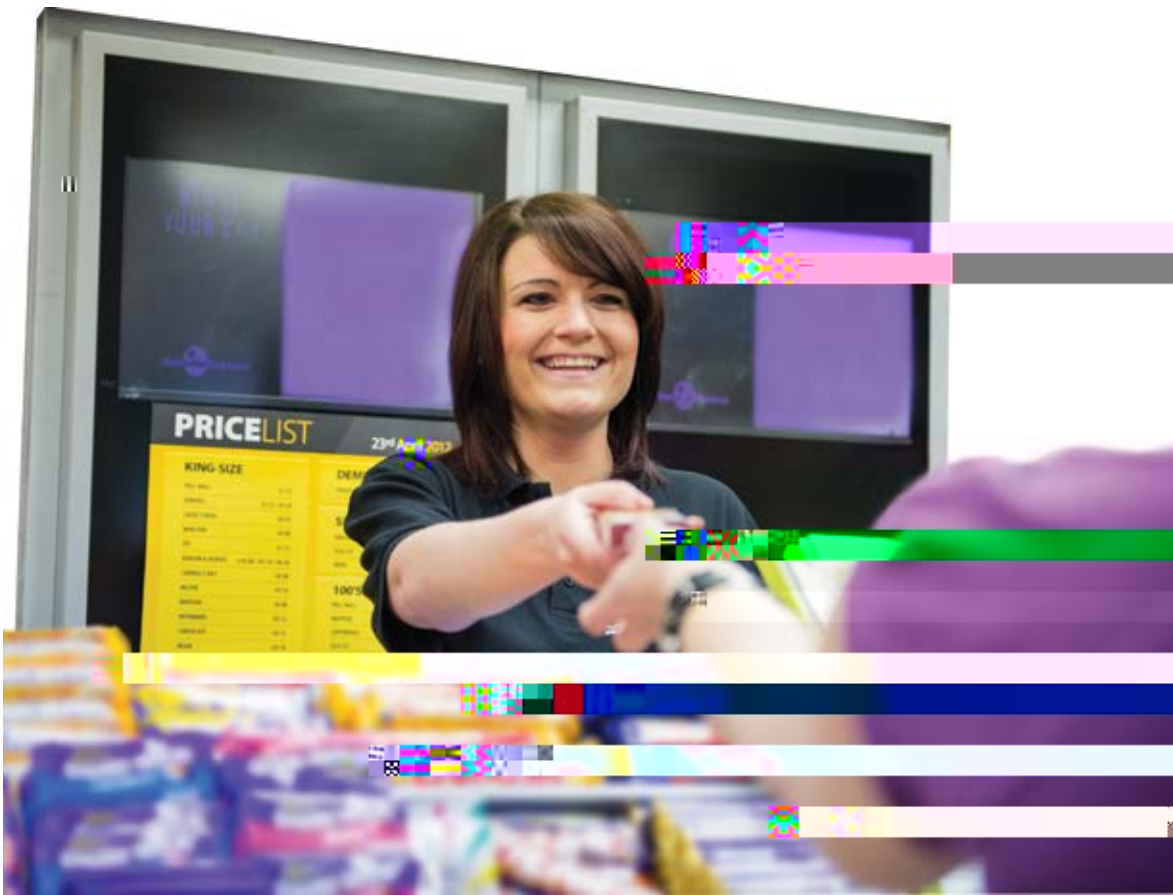
The evidence

While some smokers may choose to quit, or smoke less, evidence shows that large and sudden tax rises do not always result in reduced overall tobacco consumption. In some developed countries we have seen tax rates raised to such a high level that tax revenue begins to fall, as smokers seek out cheaper, black market alternatives.

Hikes in excise tax may also lead to greater price differences between nearby countries, encouraging tobacco smuggling across borders. In fact, in some countries, such as Singapore, Malaysia and Ireland, government officials have publicly stated that the principal cause of tobacco trafficking is the high level of tax.

It is clear that unusually high taxes on tobacco can create opportunities for criminals and ultimately undermine governments' revenue and health objectives.





Marketing our products

Like any business, we want to grow our market share. That doesn't mean we want to increase the number of smokers or how much they smoke. Our marketing is aimed at encouraging existing adult smokers to choose our products over those of our competitors.

We have voluntary International Marketing Principles, which provide a consistent and responsible approach to marketing tobacco products across the Group, often going above and beyond local laws. These core Principles are supported by a set of standards which show how they must be applied in our communications with consumers. For example, we require all advertising to carry appropriate health warnings, even when not required by law. It is also a requirement that no advertising or trade communication portrays smoking as something that makes people appear more popular, appealing or successful, and must not feature or contain an endorsement by a celebrity. Where local laws or voluntary codes are stricter than, or override, our Principles, we will at all times abide by those laws or codes.

We are committed to 100% compliance with these Principles and monitor compliance through market audits and annual self-assessments – immediate action is taken in response to any breaches identified and we report on our performance.

The Principles framework states that “in very exceptional

