

## **Tobacco Industry and Sustainability: A Case of Indonesia Cigarettes Company**

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### **Abstract**

The following report is conducted to analyse global tobacco industry and evaluate the initiatives taken by the industry to promote sustainable business development. The purpose of the overall assessment of tobacco industry and sustainability is to determine the level of commitment that the industry gives to undertake issues addressed in sustainability. The elements discussed in this report outlined several key issues including the general outlook of the current industry operation as well as in the long run, damages caused by the industry activity affecting social, health and environmental conditions and Industry's actions prior to sustainability. The discussion of tobacco industry actions in particular further examines sustainable initiatives implemented in economic, social, health and environment sectors. Close evaluation is carried out prior to each sector analyzing the commitment of the industry to justify how devoted it is to bring about sustainable business practices. The second part of the discussion draws a practical analysis by comparing the nine principles of Epstein's sustainability performance and the success of HM Sampoerna Tbk PT (One of Indonesia's largest tobacco companies) sustainability performance. This report however bears a set of limitations and drawbacks such as a lack of deeper evaluation on the industry's initiatives in all sectors but particularly the environment aspect as well as its insufficiency of data collection

### **Keywords**

tobacco, sustainable, environment, business, epstein's principles

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### **Introduction**

Global tobacco industry encompasses several categories of retail products such as cigarettes, chewing tobacco, cigarillos, cigars and loose tobacco. Globally, there are three major internationally recognised players in the tobacco industry Philip Morris International, China National

Tobacco Co and Japan Tobacco Inc with all companies holding significant market shares. There rate of growth of global tobacco industry has been particularly steady over the period of four years between 2005 and 2009 with an overall increase of 3.3% generating total revenue of \$429.3 billion. Popularly known for

its high demand cigarettes generated the most revenue of \$394.2 billion occupying 91.8% highest market value, while loose tobacco resulting \$15 billion equivalent to 35% second highest market value (Euromonitor, 2010).

In terms of competitive landscape of the industry the dominance of these three major players holding over 40% of the market share and their presence in 120 countries worldwide has strengthening their positions. Therefore, makes it extremely difficult for new entrants trying to battle their way up to the top. In the tobacco market, retailers are considered as buyers consist of supermarkets, service stations and individual retailers while retailers are the most leading distribution channel holding a sum of 18.4% share (Datamonitor, 2010). The main suppliers in the market are tobacco leaf farmers, though, they encompass much of a less influence and control in the supply chain as farms are mainly family business run. The growth of global tobacco industry is expected to experience an increase of 14.2% between 2009 and 2014 period with projected value estimate of \$490.2 billion (Datamonitor, 2010).

This paper then evaluates closely to each sector analyzing the commitment of the industry to justify how devoted it is to bring about sustainable business practices. The second part of the discussion draws a practical analysis by comparing the nine principles of Epstein's sustainability performance and the success of HM Sampoerna Tbk PT (One of Indonesia's largest tobacco companies) sustainability performance

### **Sustainability and Tobacco Industry: Pros and Cons**

Sustainability is defined as "economic development that meets the needs of the

present generation without compromising the ability of future generations to meet their own needs" (Epstein, 2008, p.20). Like any other global industries the significance of sustainability agenda is perceived as a priority in the global tobacco industry to ensure that companies are liable to promote sustainably measured operation and activities. Our discussion will further examine several key components including (1) threats of environmental, health and social disasters (2) actions taken by companies to tackle sustainable issues (3) a comparison of Epstein's nine principles of sustainability performance and HM Sampoerna Tbk PT sustainability performance.

Despite generating billions of dollars in revenues each year the impact of tobacco farming has caused some great environmental and social concerns. The growing problem of tobacco agriculture which strongly associated with deforestation has attracted the attention of environmentalists around the globe to put pressure on tobacco companies in reassuring their commitment to sustainable development. The impact of both health and environmental destruction as a result of unsustainable tobacco cultivation mainly appears in developing countries where most tobacco farms exist. In June 26th - 30th 1995 an association of 22 international organizations and individuals gathered at the Rockefeller Foundation's Bellagio Study and Conference Centre in Italy resulting in so called Bellagio Statement, an examination of overall trends and implications of global tobacco production and consumption. The conclusion is that in developing world "tobacco poses a major challenge, not just to health, but also to environmental sustainability" (WHO, 2010). Here is the list of facts drawn by the World Health Organisation on environmental

issues caused by tobacco cultivation in developing countries associated with Bellagio Statement (WHO, 2010):

Wood is massively used to cure tobacco leaves and to build curing sheds in developing countries. Approximately about 200,000 hectares of forests are being wiped out and cut down for tobacco farming. In southern Africa for example 140,000 hectares of woodland in the region has been lost annually due to curing tobacco leading to a total of 12% of deforestation. Therefore, as estimated 5% of deforestation in developing countries operating tobacco production is caused by tobacco farming. Another source of deforestation is damaged by tobacco plants filtering nutrients possessed by the soil and an immense use of pesticides/fertilizers. The frequent application of pesticides and fertilizers for tobacco plants to prevent insects has badly damaged the long-term fertility of the soil. As a result, poisoning the soil for other crops to grow, polluting ground water and caused severe ongoing health problems for farmers.

As estimated in 1995, global tobacco industry produced a massive amount of waste with approximately 2.3 billion kilograms of manufacturing waste and chemical waste up to 209 million kilograms. "954 million kilograms worth of filters were produced in 1998, with many of them eventually littering countries' streets, waterways and parklands. Compounding the extent of this problem is the waste created by cigarette packaging, lighters, matches and other polluting by-product of tobacco use" (WHO, 2010).

Furthermore, as reported by Shantimoy Chakma in the article called "Tobacco Cultivation Poses Threat to Environment in CHT" appeared in The Daily Star. Chakma revealed an illegal approach taken by most tobacco companies when dealing

with farmers in Chittagong Hill Tracts by offering cash and incentives to grow tobacco plants and has therefore reduced the interest of these farmers to grow other crops. Chakma also reiterated the damage caused by tobacco cultivation associated with other several environmentalists that "At least 60 to 70 thousand metric tones of firewood are being burnt in 2,000 tobacco processing kilns every year, causing depletion of reserve and natural forests, threatening environment and ecology in the hills" (The Daily Star, 2009). The substance possessed by tobacco plant is extremely addictive and deadly "Tobacco contains nicotine, which is recognized to be addictive and tobacco addiction is considered as a disease. Nicotine addiction can be established quickly. Many young smokers underestimate the risk of becoming addicted" (Nikolaou, p.112).

### **Tobacco Industry Actions Towards Sustainability Issues**

All problems associated with tobacco addressed above clearly do not favour global tobacco companies to operate freely without compromising sustainability agenda as integral part of business strategy. Our analysis of several actions endorsed by tobacco industry is examined at the global level where we will particularly evaluate initiatives put in place by several major leading companies in the industry to tackle these ongoing issues. We will focus on three different category of actions driven by the industry involving social and economic initiatives, health preventions and environment restoration. This analysis will also identify the motivation behind the implementation of sustainable development of each aspect.

### **Social and Economic Initiatives**

In the economic sector the industry has made several efforts required to deliver a

more sustainable operation. The industry's motivation in this sector is to create a fair and balanced business environment in the industry. Significant approach to sustainability in the industry is clearly explained by the Chairman of Tobacco Board of India Dr. J. Suresh Babu in which he termed "stability is the key to sustainability" (Tobacco Asia, 2010). In his explanation Mr. Babu conveyed that Tobacco Board of India is in close watch to make sure that production level and quality is maintained by discouraging tobacco traders and farmers not to over-produce to reduce further problems, therefore a significant drop in price can be stabilised due to a stable supply. The board ensure that industry participants can cooperate with each other on the basis of the board's objective on the market. Another successful task is the integration between the board and the bank to help farmers which the board provides all farming necessities and crop loans from the bank. While banks are preferably financing tobacco growers as there is a mutual content where banks are guaranteed repayments (TobaccoAsia, 2010).

The motivation of the industry in the social sector is to enhance societal development and prosperity through significant programs and contributions. In 2009 report of Phillip Morris International global charitable contributions the company has contributed USD 22,745,376.71 to approximately over 60 countries in various social sectors. Likewise, British American Tobacco (BAT) has established a global program for all of its international divisions in contribution to poverty and social enhancement to the locals known as the corporate social investment. There are four main programs under corporate social investment including sustainable agriculture, civic life, empowerment and

disaster relief. In regards to sustainable agriculture BAT Kenya work closely with Keriocommunity donating £250,000 for 16 hectares of French beans farming to 784 farmers, further funding is given to help other sectors such as tourism, fruit trees, mining tea and dairy farming.

Civic life programs involves BAT Chile which the company runs culture bus for communities in two cities Casablanca and San Fernando where users are allowed to borrow books for free, in addition users also receive free basic computer tuition. While BAT Netherlands pioneered one of Europe's elite arts collection called Artventure Collection storing over 1,400 artworks by artists from 40 different countries. Empowerment, on the other, consist of programs such as BAT Malaysia foundation providing financial support to gifted local students to pursue higher education in local universities (British American Tobacco, 2010). The foundation has delivered sum of £1.5 million to at least 500 students. BAT continues its disaster relief program through donations from company and its employees generating millions of money.

Despite series of continuous projects and programs being put in place by the industry to comply with sustainable business development standards both in economic and social sectors. Yet, they still do not provide full guarantee that tobacco companies will endorse sustainable business practices. Global tobacco trading has created a whole new level of breaching local laws and regulations conducted by international tobacco companies as mentioned by Brandt (2007) "the global movement of cigarettes illuminates current dilemmas about trade, commerce and equity in the new global economy. Although many industrialised nations over the last century have evolved regulatory

frameworks to address the risks associated with the diffusion of consumer products and markets, such structures are rare in the developing world and international controls are more unusual”

(p.452). Controversial relationship between the industry close ties with local developing countries governments is a fragile topic often caused by local governments having little or no knowledge of the product regulation history. The impact of tobacco trade is also hurting national economic condition in most countries as informed by WHO (2010) referring to the estimate of World Bank that “in high-income countries, smoking-related healthcare accounts for between 6 and 15 percent of all annual health-care costs. In China, where nearly one third of the world’s smokers live, a study found that direct medical costs due to smoking accounted for 6 percent of total health-care costs”.

Furthermore, child labour is an ongoing corporate social responsibility concern that still remains unsolved although the industry has promised to put an end to it, “tobacco growing often exploits of child labour at all stages of cultivation and curing thereby affecting school attendance. Other crops make use of child labour, but tobacco’s longer growing season and the curing process seem to place particular strains” (Corpwatch, 1997). Hence, the idea of stability should be accounted to the operation of global tobacco industry with all companies committed to create an accountable and stable economic environment in the industry. This will have a direct impact on reducing social problems that the industry encounters.

### **Health Preventions**

There is no doubt that health issue has long been a problematic concern faced

by global tobacco industry. The side effect of active smoking leads to several illnesses such as lung cancer, bronchitis, cardiovascular diseases and chronic obstructive pulmonary disease (COPD). According Nikolaou (2007) “Smokers, are 20 times more likely to die of lung cancer in middle age, than non-smokers and three times more likely to die in middle age of vascular diseases including heart attacks, strokes, another diseases of the arteries or veins” (p.113).

With the tension rising sky high tobacco industry is circled by dozens of pressures to respond to these continuously growing issues in humans health. In this sector the motivation of the industry is to seriously inform risks of tobacco smoking to customers health. The industry is taking a more sustainable approach by introducing smokeless tobacco to the market, possibly seen as the future of tobacco industry. The increased production of smokeless tobacco products is motivated by strict government bans on cigarettes along with pressures elevating from health institutions and other bodies over the heavy consumption of tobacco products, that is unlikely to bring improved and better health conditions to tobacco users. Smokeless tobacco is regarded to be less dangerous than normal cigarettes with the products likely to meet sustainable development standards.

There are several reasons why smokeless tobacco could possibly dominate global tobacco industry in the future prior to its replacement to cigarettes (1) snuff and chewing tobacco is another measure of tobacco control as they can be consumed at public ban places (2) its price is relatively lower than cigarettes (3) smokeless tobacco products contain lower risks than cigarettes indicated by less containment of combustion (fewer toxins)

(4) smokeless tobacco plays significant role to quitsmoking habit and has been approved by WHO Framework of Tobacco Control Objective (Euromonitor, 2010). According to Euromonitor (2010) estimate the outlook prospect of smokeless tobacco between 2008 and 2013 is expected to experience a 36% increase mainly in countries where smokeless tobacco products receive higher consumer base. It is also seen as a growing niche sector in the industry in coming years.

Unfortunately, disputes over tobacco's impact on farmers health is an extensively additional matter particularly the lack of appropriate safety working guidelines directed to farmers. The frequent use of toxic pesticides and fertilizers applied to the plants leads to drop in health conditions causing severe health distress. A CNN reporter Olivia Sterns in her report Child tobacco farmers 'exposed to toxic levels of nicotine described "Handling burley tobacco leaves without gloves, in unwashed clothes and rarely bathing, these children can absorb the same amount of nicotine in one day of harvesting that they would from smoking 50 cigarettes" (CNN, 2009). With the industry shifting rapidly fast from the west to the east to commence its operations, little less attention is given to train mostly uneducated farmers for much safer farming methods and procedures.

Smokeless tobacco may have yet proven the industry's changing mobility to become more sustainably committed. However, the existence of smokeless tobacco has arguably contained same degree of hazards to normal cigarettes. Smokeless tobacco is indicated to cause addiction, cancer, cavities, gun disease, heart disease and precancerous mouth lesions (CNN, 2009). The effect of tobacco smoke pollution for non-smokers is a another subject of critical physiological and physiological

symptoms including eyes, throat and nose irrigation, dizziness, loss of appetite, drop in intellectual performances and worse affect is being in a smoke polluted environment when sick (Shor and Williams, 1979). Therefore, if the industry really cares about health risks possessed by tobacco products to its customers then perhaps the old advertising trick for the sake of marketing only must be stopped. The industry should alternatively work with independent organisations to conduct well-designed risk perception surveys and shall not hinder strict government action on promoting health warnings on tobacco products.

The industry should use its own initiative to provide appropriate health warnings when it is not required to do so by law especially tobacco products being sold in Asian and Pacific countries. An internationally recognised safety working standards should be established for all global companies to guarantee health and safety protection for tobacco farmers. Moreover, as suggested by Epstein (2008) redesign the product is a useful approach to reduce the impact on society "product re-design often leads simultaneously to sustainability and financial benefits" (p.208). In response to that, a case study conducted by Thomson and Wilson (2002) about the tobacco industry in New Zealand revealed several inventions that can reduce the toxicity of cigarette smoke based on a research done by NGO ASH (London) and The Imperial Cancer Research Fund (ICRF) in 1999. The result of these innovations as followed:

The addition of catalysts used in motor vehicles exhaust to reduce level of carbon monoxide can also be applied in cigarettes to reduce the weight of heart disease.

A well-controlled manufacturing process that is able to reduce the level of nitrosam

in substance in cigarettes, hence reducing the occurrence of cancer.

The need of chemical filters is important in the process to remove toxic substances such as hydrogen cyanide, hydrogen sulphide and acetaldehyde. This leads to reduction of respiratory illnesses. Hence, the industry must put a stance in promoting these types of initiatives to ensure that its commitment to sustainable business development is accountable to its operation and activities.

### **Environment Restoration**

As have mentioned previously environmental risks associated with tobacco farming are deforestation soil poisoning and production waste. Tobacco companies are therefore bound to carry the responsibility to repair such concerns. Now, how far is the level of commitment of the industry to the environment? Let us set aside our attention to find out several attempts promoted by tobacco companies to reinforce the environment.

Generally speaking the target and objectives of tobacco industry set for the environment are typically related to reforestation, energy consumption, CO<sub>2</sub> emission, recycling, water and waste control. These specific areas of the environment tend to be the main focus of most tobacco companies. Pakistan Tobacco Company shows its serious commitment by pioneering its afforestation program to promote sustainable business development. Since 1981 the project has been a success planting over 52 million trees around the country. The company is also looking to expand this project further to the entire parts of the country as a result has struck a deal with the National Highway Authority to plant around 600,000 trees along one of the main local highways (Pakistan Tobacco

Company, 2010). 2008/2009 environment, health & safety Report of Japan Tobacco International shows company effort to battle energy consumption and CO<sub>2</sub> emission by investing its first global workshop on energy providing more energy saving programs for the company. Waste reduction is dealt by using recyclable packaging while water consumption is controlled to used and re-used program that has helped to reduce water intensity reduction of 13% in 2008 (JTI, 2010).

Although plenty of ongoing efforts delivered by the industry to sustainably control the impact of their operation on the environment. As a matter of fact, there has been no significant indication or evidence of any substantial investment of resources to change past practices. Given the increasing concerns of environmental crisis the same result is expected to continue in the long-term. With most tobacco companies are now expanding their empire globally more land will be converted into tobacco farming allowing no room for other crops to be grown and this will certainly further jeopardize the environment. The industry's commitment must be subjected whether they are seriously considering sustainability as the basis of environment protection or it is just simply another topic of discussion in the organisational agenda. Stable and controlled industry's economic condition would avoid the increased need of farmland expansion since there is no need to overproduce. Tobacco industry must signify the importance of this and by doing so proves as an evidence of awareness to the environment reinforcement. Additionally, tobacco companies must invest heavily on research and development to develop harmless substances used for farming that will not damage soil fertility to facilitate long-term growth.

## **The Study: Comparison of Epstein Sustainability Performance Principles and HM Sampoerna Tbk PT**

The method used in this section is an evaluation of Epstein's nine principles of sustainability performance in comparison to the success of HM Sampoerna Tbk PT (one of Indonesia's largest local tobacco companies) sustainable business development. The motive behind HM Sampoerna Tbk PT is selected for this analysis is to evaluate how serious the commitment of the industry to sustainability specially in a country with a high degree of regulation vulnerability. The results measured in this analysis are based on my personal observation and knowledge of HM Sampoerna Tbk PT and tobacco industry of Indonesia in general. Yet, this is also backed-up by my national background as an Indonesia citizen and with this in hand I am fully convinced of the data validity.

HM Sampoerna Tbk PT is a family run business established in 1913 since then has pioneered its brand as one of mega-cigarette empires in Indonesia's tobacco industry. In 2008 the company's reached net sales of 34,680 (Rp billion) and net profit of 3,895 (Rp Billion) while producing a total of 73 billion sticks in its three production head quarters (Euromonitor, 2010). However, assessing its commitment to sustainability perhaps seen as a total disaster both in short-term and long-term business operation. Lets evaluate the percentage of each principle of sustainable performance of Sampoerna addressed in above chart given the total percentage of one hundred percent.

Ethics receives a score of 10% the principle of ethics is to create an ethical standards and practices when dealings with all stakeholders. Sampoerna has all egedly

mistreated its workers and farmers due to its ignorance of rejecting voices raised by the union concerning unfair working treatments. When cases of mistreatment being brought into justice charges are unlikely be given to the company while workers end up suffer the most. Company's strict regulations and policies have also blocked the international aid to support and condemn such actions displayed by the company. Governance receives 15% the emphasis of this principle is the priority of management duty to balance organisational financial, human capital and interest of all its stakeholders. Sampoerna management performance on prioritizing organisational financial interest has been extremely successful but its attempt to balance with human capital enhancement seems to have failed having unable to lift up the standards of its workers living conditions.

Transparency is rated 5%, the importance of this principle is for a company to provide full disclosure of information to all stakeholders. The case of Sampoerna company transparency is clearly far below expectation, the company has established an internally secured and in accessible organizational information which cannot easily be touched by any outsiders. Even if information is provided partially would only benefit a small margin of top guys in the company living majority of its workers in manipulation of lies. Financial returns to investors and lenders principle is graded 22% there is no doubt what's over that financial return on investment to shareholders and investors has exceeded company's expectation. Increased annual revenue and profit shows how attractive and promising the market is in Indonesia. In fact, in 2005 after spotting its potential growth Philip Morris International purchased majority shares of HM Sampoerna Tbk PT from its owner



for an undisclosed fee of \$5.2 billion (The New York Times, 2005).

Business Relationship obtains 10% Sampoerna maintains a long-term beneficial relationship with its business associates including Handal Logistik Nusantara PT (shipping) and Sampoerna Printpack PT (printing and packaging). However, a central curiosity is the suspicious relationship between Sampoerna and the local government particularly on the issue of tobacco regulation whereby controversial tie between both parties is always put into question. Being a domestic product and rich financial power often makes it difficult for local government to enforce legal restrictions in tobacco industry. Below is an example of the difference between a packet of Sampoerna and Marlboro packaging sold in New Zealand.

Community involvement and economic development principle picks up a score of 17% this is seen as one of the strongest sustainability strategies the company delivers. Through Putera Sampoerna Foundation which actively involves and focuses on education sector has been successful to run several programs including women empowerment (in association with local women NGO's), Sampoerna academy and Sampoerna university (international standards) and Muslim community development (philanthropic activity and donation) (Sampoerna Foundation, 2010). While the principle of value of products and services is graded 8% due to the resistance of the company to

emphasise on major health risks of tobacco usage to its customers. It is a one-sided story when witnessing Sampoerna and other major players in the tobacco industry of Indonesia having such a strong dominance monopolising the market

by totally ignoring criticism that their products have on customers health.

Furthermore, employment practices principle is awarded 8% the priority of this principle suggests company's total respect and commitment to deliver satisfaction to its employees at all aspects of well being. Although the company has been a revelation at the national level providing jobs for over 2 million tobacco farmers. In actual fact, the overall living condition of farmers has not yet met the international standards due to low wages and benefits, unsafe working condition and limited involvement or participation (union vulnerability). The final principle protection of the environment is given 5% as reported by Jakarta Post (2010) recently this year the company teamed up with a local

NGO and government to preserve one of the mangrove forests in Surabaya for local community to maintain sustainable activities. This however does not totally represent or indicate any protection given to the environment caused by company's tobacco farming. Sadly, there have been no significant record or reports of any action conducted by Sampoerna to sustainably preserve the environment causing by its operation.

The bottom line drawn by this scrutiny shows exactly the failure of HM Sampoerna Tbk PT to fully understand and interpret the concept of sustainability correctly. Thus, this is the key factor of why its efforts on bring about sustainable business development has not been appropriately and fairly implemented. With the industry having to manipulate the local authority with its money power a high expectation of tough regulation can hardly be accomplished. Moreover, there seems to be an unparalleled level of sustainability performance and business performance, to

the extent of more investment and efforts are being allocated to satisfy the needs of financial award rather than sustainability promises. In other words, its commitment is simply a total fake. It is hard for things to change dramatically in a day looking at the current condition of tobacco operation in Indonesia and as a whole but really there can never be an effortless campaign to alter things for the better. The industry must initiatively be faithful and professional to fully commit itself to bring about change for the betterment of global society.

### Conclusion

In conclusion, the overall outlook of global tobacco industry in the long run indicates a significant growth particularly cigarettes demand will still be dominant in the market. As the industry progresses, controversially, the number of cases related to sustainability also elevate. In response to that, the industry has put in place a series of sustainable initiatives associated to social, economic, health and environment sectors with motivations directed to each sector are various. While stabilised business operation and philanthropic activities are several efforts implemented in both social and economic areas. Smokeless tobacco is commercially pushed to create a more sustainably accepted tobacco product in order to reduce pressures in the health sector. Although majority of tobacco companies have been able to set up programmes allocated to improve environmental impact there are no signs or evidence of any other substantial investment to replace previous practices. The ongoing sustainability problems at all levels seem difficult to be fairly controlled due to the partial commitment displayed by most tobacco companies.

The evaluation conducted to compare Epstein's nine principles of sustainability performance with the success rate of HM Sampoerna Tbk PT sustainability performance, has consequently resulted a shocking outcome. In reality, the percentage of each principle measured clearly indicates significant difference between one and another. Given the fact that the results are remarkably appalling hastruly determined a dreadful level of commitment that Sampoerna addressed to promote sustainability. As analysed failing to fully understand core elements of sustainability concept has greatly caused the company to have not appropriately managed its commitment to deliver sustainable business development appropriately. Sampoerna hides behind its true colour maximizing its power to eradicate any pressure at their expense in order to prospering its financial wealth and empire. As a consequent, global tobacco industry is rapidly moving faster to the east as the market remains to be very attractive allowing its operation to be perfectly conditioned with the vulnerability of local government regulations on tobacco products. Again, this is another practice of propaganda and manipulation of lies to seek fortunes rather than 'compromising the ability of future generations to meet their own needs'.

### Notes on Contributor

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