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**Submission of British-American Tobacco Company (Hong Kong) Limited to
the Legislative Council Bills Committee on
the Smoking (Public Health) (Amendment) Bill 2005
relating to Graphic Health Warnings
May 22, 2006**

Introduction

The purpose of this submission is to express the views of British-American Tobacco Company (Hong Kong) Limited ("BAT (HK)") on the Smoking (Public Health) (Amendment) Bill 2005 (the "Bill") relating to Graphic Health Warnings ("GHWs").

As set out in the Bill, the Government is proposing to introduce GHWs to replace current textual warnings on cigarette packs with the primary objective of reducing smoking incidence through enhancing the public understanding of the health risks associated with tobacco use. However, as stated in our previous submission to the Bills Committee, experiences in other countries where GHWs have been introduced, in particular official Government studies carried out in Canada, show that there is no causal connection between GHWs and the reduction in the consumption of tobacco products and change in smoking behavior. Based on this, we continue to believe that GHWs are not necessary. There are other alternative solutions to communicate the health risks of smoking and BAT (HK) is willing to explore these alternative solutions with the Government.

It is also our view that the introduction of GHWs will trigger legal implications from a business operation perspective. The burden is on the Government to demonstrate that GHWs are both effective and proportionate to the objectives sought to be achieved. The Government has so far failed to discharge this burden and will have considerable difficulties in doing the same.



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Technical Arrangement in Implementing GHWs

Should the Government still choose to introduce GHWs despite the arguments stated above, it is equally important to set the size of GHWs in a way that sufficient room for brand recognition and trademark protection is ensured whilst still communicating the public health messages. BAT (HK) is of the view that the current textual warnings of 30% are prominent enough to effectively communicate the health messages to consumers. Should the Government decide to change the warnings from textual to graphic, it should continue the current size being required.

Another important factor in the introduction of GHWs is to provide the tobacco industry with sufficient execution time to ensure smooth implementation. Failing to do so will not only create unnecessary disruption to the businesses of the tobacco and retail sectors, but also jeopardize the Government's public health objectives.

We are deeply concerned that the 12-month grace period proposed by the Government would be insufficient for the tobacco industry to implement GHWs on all cigarette packs. Based on our on-going communication with the Government, they maintained that as far as the printing process is concerned, a 12-month grace period would be technically sufficient and feasible for the tobacco industry in Hong Kong to adopt and use the new GHWs on all cigarette packs. However, we would urge the Government to lengthen the grace period to 18 months as has already been experienced in countries like Australia and Singapore.

To this end, we would like to take this opportunity to clarify that the development and implementation of GHWs would involve a complicated and time-consuming process from planning, redesign of the new packs, printing, shipment delivery to stock transition. Printing of new cigarette packs is only one of the many necessary stages that the industry will need to go through.

As you might be aware, the Hong Kong cigarette market is characterized by a great variety of cigarette brands, accounting for a total of 120-plus Stock Keeping Units ("SKUs"). Even though BAT (HK) is only one of the industry players, we have alone a total of 37 SKUs. To impose GHWs on these international brands of cigarettes will



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require a complete redesign of all the packs and approval from the company headquarters. Given the large number of packs to be redesigned and the stringent process involved, we estimate that it will take at least a three-month time just for this part of the process.

Like other major international tobacco companies in Hong Kong, BAT (HK)'s cigarette products are all manufactured in various locations outside Hong Kong. As such, the implementation of GHWs would require extra timing for coordination with overseas printing houses and finished goods would need to be shipped into the city from as far as Europe.

Another important factor that will impact on the delivery of cigarette packs with GHWs in the market is stock transition. It is tobacco companies' common practice of having a one-month stock of cigarettes in the warehouse and in the market respectively so as to avoid any out-of-stock situation. The launch of cigarettes packs with the new GHWs will require a two-month process of exhausting current stock, or else, a massive product recall will result.

To enhance your understanding of the standard procedures and the stretched time goal for the redesign, printing, delivery and stock transition involved in the implementation of GHWs for all BAT (HK) SKUs, below please find the detailed timeline.

Procedures for Adopting and Using GHWs on All BAT (HK) SKUs

Procedure	Time required
Packaging redesign and obtaining approval from overseas headquarters on all of the 37 SKUs to accommodate GHWs	3 months
Printing and manufacturing	12 months
Delivery of finished goods from overseas factories to Hong Kong	1 month
Exhaustion of stock on hand with old health warnings	2 months (1 month for stock in warehouse and 1 month for stock in market)
Total	18 months



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The factors stated above, when taken together, means that it is impossible for tobacco companies to comply with the Government's requirement of completing the implementation of GHWs on all SKUs within 12 months from the day of gazettal. A preparation time of at least 18 months is required for us to adopt GHWs on all SKUs realistically. That is why other countries like Australia and Singapore, who are well-recognized for their polices driven by public health concern, allowed an approximately 18-month preparation time for the tobacco industry to introduce GHWs.

While we understand that the Government wants to adopt GHWs the soonest possible to meet its public health objective, we strongly urge the Bills Committee to take into consideration the views of the industry to establish a practical and commercially viable timetable for the implementation of GHWs. In this regard, we would like to request the Bills Committee to consider adjusting the commencement date of GHWs from the originally proposed 12 months to 18 months from the day of gazettal.

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