

ITIC extracts from Legacy tobacco documents at UCSF <http://tinyurl.com/phluwjie>

Download the complete documents at Dropbox here:

<https://www.dropbox.com/s/n2vnze610mg9knb/ITIC-Legacy-UCSF.pdf?dl=0>

## 1995 RESULTS AND WORK-IN-PROGRESS

During 1995, the International Tax and Investment Center (ITIC) was successful in advancing pro-investment policies, laws and regulations in Russia and Kazakstan. Since its creation in September 1993, ITIC has developed trusted, advisory relationships with key, senior-level policy makers in both countries. These relationships, combined with ITIC's programs, provide channels for private sector expertise to reach the Government before, during, and after the official policy-making process. This combination, which is truly unique to ITIC, is the institution's principal asset; it provides ITIC and its sponsors a "seat at the policy-making table."

Key results achieved in 1995, work-in-progress, and objectives for 1996 are summarized below:

### RUSSIA RESULTS

- Invited by the Russian Ministry of Finance to be the only private sector representative to the new Tax Code drafting team. ITIC's comments, provided by company representatives, have resulted in significant changes being made in the draft Tax Code.
- ITIC, at the request of the Russian Deputy Minister of Finance, formed a three-person team which assisted the Ministry in rewriting the draft Tax Code to conform with the Russian Civil Code.
- Along with other international advisors, successfully worked with the Ministry of Finance and State Tax Service to repeal the excess wage tax and reduce the VAT rate.

ITIC was invited by the U.S. Department of Commerce to assist in the development of the U.S.-Russian Commercial Tax Dialogue, which is a part of the Gore-Chernomyrdin Commission.

Trained over 75 Russian Tax Inspectors in the United States on Western business practices and taxation; these programs were entirely financed by the Russian Government.

ITIC's monthly forums in Moscow and St. Petersburg continue to identify specific problems, and with follow-up by ITIC's in-country staff, help resolve problems, both general and company-specific matters.

### INSTITUTIONAL RESULTS

- Opened an ITIC European Office in London to increase participation and input from European companies, governments, and academics.
- ITIC continued to "leverage" the initial financial support which it receives from companies by raising additional program funds from foundations and government sources. In 1996, for every \$1 received from companies, over \$2.25 in programs was provided.

Country: ARGENTINA  
Issue: FISCAL POLICY

PM hired the International Tax and Investment Center (ITIC) to conduct an economic impact study and to sponsor a project supporting the conversion from an ad-valorem tax system to a specific tax system for cigarettes and other products. ITIC will use data from other countries to create a financial model for Argentina and will work to develop a proposal by mid-year in conjunction with the UK-based Oxford economic forecasting group and FIEL, an Argentine think-tank.

E N D O F N O T E

An influential Position Paper funded by Philip Morris and prepared by the Russian Scientific and Research Institute of Market Research (VNIKI by its Russian acronym) was submitted to the Taxation Committee of the Duma. According to PMI in Moscow, this document weighed heavily in favor of the specific taxation system, along with the International Tax and Investment Center's (ITIC) earlier submissions.

A further quiet lobbying opportunity will be provided in late January 1997, when Duke University and ITIC host an RJRI-sponsored taxation conference on Russia, which will take place at Duke University in Durham (NC). Key Russian decision-makers in the legislative and executive branches, including Deputy Finance Minister Sergei Shatalov, are expected to take part. One day of the conference program will take place in Winston-Salem and will be devoted to excise taxation. We hope to include a tour of Tobaccoland and provide entertainment opportunities to Russian visitors.

At the end of the meeting Prof Cnossen summarized the different approaches used in tobacco taxation. He mentioned the issue of covering the external costs related to smoking and of increasing revenues. When talking about the affordability of cigarettes he disagreed with cigarettes being called "luxury products" but instead "tobacco is a necessity just as bread is". In trying to approximate cigarette prices at EU level he considers a new "tax and excise organisation" to be established at EU level, which could have this objective.

Mr Daniel Witt, president of ITIC in his closing remarks admitted that ITIC has been thinking about "bringing together new MSs for about two years". He called ITIC a "neutral table" which gives the floor to attempts to share views. He was happy that his organisation succeeded in this but remained concerned about how to continue this dialogue. He said ITIC will send out a questionnaire to study participants' views of the best ways of further collaboration. ITIC needs more feedback on which are the most important issues for new MSs finance ministries, he said.

<cnossen@few.eur.nl> 3/7/2006

Dear Mr. Merriman, [Dr Merriman is my colleague from Chicago and he asked me if he should attend this seminar. I advised him not to go.]

I'm organizing a one-day seminar in Budapest on tobacco taxation, June 2 next. The seminar takes place under the auspices of the International Tax and Investment Center in Washington DC and Corvinus University in Budapest. I'm inviting papers on EU tobacco taxation issues (probably, will do this one myself), cigarette smuggling and counterfeit (someone from UK Customs and Excise), and on the balance between tax and health policies. I should be grateful if you would write a paper, partially drawing on earlier work if you like, on the latter subject. I can offer you a fee of €10,000, including travel (I would expect you to make your own arrangements). The hotel will be paid for. I would look forward to working with you. Kindly, let me know what you think.

Not surprisingly, the Center's financial sponsors include Altria/Philip Morris and Japan Tobacco, as well as some more surprising sponsors (including the Foreign Affairs Ministries of Australia, the Netherlands and Norway, as well as Glaxo Smith Kline) [http://www.iticnet.org/about\\_sponsors.htm](http://www.iticnet.org/about_sponsors.htm)

Since 2001, Prof. Cnossen has also been a senior advisor to the *International Tax and Investment Center (ITIC)* in Washington D.C. Luk Joossens sees the ITIC as nothing more than a lobbying organization for companies which wish to promote the free market principle. The tobacco industry is particularly well represented, he points out. The ITIC's main sponsors include the major oil companies, big pharma, the alcohol industry and the tobacco industry. Prof. Cnossen has organized a number of seminars on tobacco duties in the European Union on behalf of the ITIC, held in The Hague, Pretoria and, in 2006, at the Grand Hotel Royal in Budapest.

A prominent item on the agenda of the Budapest conference was 'the balance between taxation and health policy in the EU'. The target audience comprised government officials from the Eastern European countries. Prof. Cnossen seems not to have suffered any budgetary constraints. He was able to invite David Merriman, Professor of Economics at Loyola University Chicago, as the keynote speaker. Prof. Merriman was promised a fee of 10,000 dollars, with all expenses paid by the ITIC. Prof. Cnossen has declined to discuss the role of the tobacco industry within the ITIC.

The new Russian excise tax structure that came into effect this year differentiates between different types of tobacco products based on Russian State Standards (GOST) specifications. Anything that was not a traditionally-made Russian cigarette was taxed at a higher rate (including imports and American blend products made in Russia, like *North Star* and *Peter 1<sup>st</sup>*). Russia is now moving to fully reform the cigarette classification and standardization system, and thus get rid of the GOST cigarette class system. BAT has gone to the highest level at the Duma (the Speaker), a Communist, and has appealed to his nationalistic leanings to save the local industry from the foreign hordes. Under the aegis of the International Tax and Investment Center (ITIC) in Moscow, we are meeting with PMI this week to map out a response strategy, which may include a new campaign to protect the gains of the current system, while at the same time capitalizing on the opportunity of GOST reforms to further simplify the existing system.

I suggested to Tony that he urge ITIC/IMF to address the contraband problem -- perhaps to form a study group, or ask for a report to be prepared for IMF consideration. Objective: the IMF is doing a grave injustice to emerging Democracies and third-world countries when it advises them to raise cigarette taxes -- as this will only encourage organized criminal groups to get into trafficking contraband. These countries need to build a tax base -- not encourage an underground economy.

Mark

From: Smith, Jan Fulton  
To: Smith, Mark D.  
Subject: RE: IMF--Taxes  
Date: Tuesday, March 18, 1997 1:26PM

Mark,

Thanks for the update.

Angela Prather of ITIC attended the "tax conference" we had here for Russian visitors. If she's someone you would like to talk with, let me know and I'll give you her phone number.

Jan

In late January 1997, Duke University and the International Tax and Investment Center (ITIC) will host an RJRI-sponsored taxation conference on Russia, which will take place at Duke University in Durham (NC). Key Russian decision-makers in the legislative and executive branches, including Deputy Finance Minister Sergei Shatalov, are expected to take part. One day of the conference program will take place in Winston-Salem.

## **GEORGIA**

### FISCAL POLICY

Area, together with 8 Georgian Parliament and Government officials, participated last week in a U.S. Study Tour devoted to tax and customs enforcement, organised by the International tax and Investment Centre

(ITIC). During the visit, meetings and seminars were organised to exchange experience and practices on combating contraband with the Bureau of Alcohol, Tobacco and Firearms, the Federal Bureau of Investigation, the Internal Revenue Service, the U.S. Customs Service, the IMF, Barents Group, and National Security Council officials and experts.

### Duke University

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### International Tax and Investment Center (ITIC)

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Interpreters in Winston-Salem (Hired by RJR)



**PARTICIPANTS IN DUKE TAX CONFERENCE AND VISIT TO WINSTON-SALEM**

**RUSSIAN GUESTS**

<b>Tamara Alexeyevna Sofrina</b>	<b>OK</b>
Deputy Head Department of Indirect Taxation Ministry of Finance MOSCOW	
<b>Sergei Shatalov</b>	<b>OK</b>
Deputy Minister of Finance for Tax Policy Ministry of Finance of the Russian Federation MOSCOW	
<b>Alexander Pochinok</b>	<b>OK</b>
Chairman of Subcommittee on Budget and Taxation, The State Duma of the Russian Federation MOSCOW	
<b>Vladimir (Anatolievich) Vanokevich</b>	<b>OK</b>
Head, Tax Section Committee Staff State Duma Committee on Budget, Taxes, Banks (??) and Finances Federation Council - Parliament of the Russian federation State Duma MOSCOW	

**AZERBAIJAN GUEST**

<b>Mr. Djavanchir Veliev</b>	<b>Correct Spelling: CEVANSHIR VELIYEV</b>
Chief Adviser and Administrator, Head Government Tax Inspectorate, Government of Azerbaijan, BAKU	

**UKRAINIAN GUESTS**

<b>Mr. Mykola J. Azarov</b>	<b>WAITING FOR ANSWER FROM A. KRIVOSHEYEV</b>
Head of state Tax Administration of Ukraine KIEV	
<b>Mr. (Dr.???) Ivan V. Vaslunyk, Ph.D.</b>	<b>OK</b>
<b>A. KRIVOSHEYEV TO ADVISE WHETHER DR. OR MR.</b> Head of Economic Reform Advisory Board to the Vice Prime Minister of Ukraine KIEV	

13:00 SU Flight 315 from Moscow arrives at JFK airport in New York.

Flight has (9 or 10?) passengers:

1. Galina Ismailova	(RJR)	OK
2. Alexander Krivoshejev	(RJR)	OK
3. Tamara Sofrina	(Russian guest)	OK
4. Alexander Pochinok	(Russian guest)	OK
5. Sergei Shatalov	(Russian guest)	OK
6. Vladimir A. Vanokovich	(Russian guest)	OK
7. Cevanshir Veliyev	(Azeri guest)	OK
8. Ivan V. Vasiunyk	(Ukrainian guest)	OK
9. Mr. Mykola J. Azarov	(Ukrainian guest)	???
10. One guest from Georgia????	(Georgian guest)	???

*(RJR Flight Operations is arranging ground transportation from JFK terminal to General Aviation terminal.)*

14:00 RJR private plane departs JFK for Winston-Salem.

15:20 RJR private plane arrives at Smith Reynolds airport in Winston-Salem.

- This was a month of intense activity on our part (RJR-Russia), in conjunction with RJRI Geneva, PMI, the Moscow office of the International Tax and Investment Center (ITIC), and Deloitte & Touche Moscow, to push for a universal specific excise tax rate for cigarettes. BAT remains adamantly opposed to a specific rate and prefers either the status quo or a universal ad valorem rate with low specific minimums. The local tobacco factories without foreign investment have sided with BAT.

The Duma members and Ministry of Finance, although convinced on a philosophical level of the advantages of a specific system, expressed two overriding concerns: potential lower revenues to the State, and the risk of unacceptably large increases in retail prices for cheaper cigarettes. The required numbers were produced by Deloitte & Touche, and early soundings reveal that the material has been persuasive and Duma members are now convinced that "specific is better." Ministry of Finance continues to review the material; chances the specific system will prevail are seen to be 50/50.

**EXCISE**

This month in official bodies, including the State Duma, BAT was lobbying jointly with Tabakprom on ad valorem excise system. The lobbying was against the specific excise system, proposed by Philip Morris and other international manufacturers and promoted through International Tax and Investment Center (ITIC).

Several publications explaining our position were released on this issue in the most important Russian newspapers. There also was some coverage on national TV and radio.

FYI...

Just participated in a conference call with Wilfried Dembach, Tony Maggiore (TI-Tax) and Mary Carol Holbert (TI-Tax)... discussion on Tony attending the International Tax and Investment Center -- International Monetary Fund meeting on March 25 in Washington. (Rick Connor of Seagrams will be attending as well.) Wilfried is providing Tony with technical info on taxes. I've provided Tony with information from Rod Stamler on worldwide tobacco contraband (root cause being high taxes and unfair market restrictions).

I suggested to Tony that he urge ITIC/IMF to address the contraband problem -- perhaps to form a study group, or ask for a report to be prepared for IMF consideration. Objective: the IMF is doing a grave injustice to emerging Democracies and third-world countries when it advises them to raise cigarette taxes -- as this will only encourage organized criminal groups to get into trafficking contraband. These countries need to build a tax base -- not encourage an underground economy.

## TAXATION

- The debate between specific excise versus ad valorem excise tax calculation in Russia has left parliamentary committee and will now be taken to the State Duma floor, as discussions over the 1997 budget continue. Since our last report, the Ministry of Finance has come around to the arguments in favor of a specific taxation system, a position defended by RJRI, PMI and Rothmans.

In late January 1997, Duke University and the International Tax and Investment Center (ITIC) will host an RJRI-sponsored taxation conference on Russia, which will take place at Duke University in Durham (NC). Key Russian decision-makers in the legislative and executive branches, including Deputy Finance Minister Sergei Shatalov, are expected to take part. One day of the conference program will take place in Winston-Salem.



## THIRTY PIECES OF SILVER

AN EXPLORATION OF CORRUPTION,  
BRIBERY, TRANSPARENCY & JUSTICE