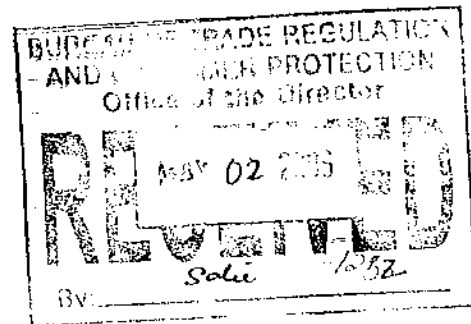




Philippine Tobacco Institute, Inc.

May 02, 2006

Hon. Peter Favila
Secretary
Department of Trade & Industry
Makati City



Attention : Director Victorio Mario A. Dimagiba
Bureau of Trade Regulation and Consumer Protection
IAC - Tobacco Secretariat

Dear Sec Favila:

The Philippine Tobacco Institute (PTI) is an association of cigarette manufacturers and importers which counts as one of its members, British American Tobacco (BAT). Other member-companies are Associated Anglo-American Tobacco Corporation, Japan Tobacco, Inc., Fortune Tobacco Corporation, Mighty Corporation, Philip Morris Philippines Manufacturing Inc., La Suerte Cigar & Cigarette Factory and Altasia.

In a letter dated November 24, 2005 (a copy of which is attached) addressed to former Corporate and Regulatory Affairs Director Majidi John Bola of BAT, your office decided that "stocks bearing the old health warning format are not allowed to be sold or distributed in the market beginning July 1, 2006."

This was in response to a clarificatory question posed by BAT in an earlier letter addressed to your office on whether "cigarette packs/reams bearing the old health warning format which are already in the trade or stored in distribution warehouses after July 1, 2006 will still be allowed to be sold or distributed in the market until such inventory is depleted."

Because your decision will also have tremendous impact on the other members of the PTI, BAT endorsed the matter to PTI, and we are now seeking a reconsideration of your decision for the following reasons:

1. Sec. 1 Rule 1 of the Title IV of the IAC-Tobacco Memorandum Circular No. 1 (IAC-TMC No. 1) provides:

"Sec. 1. *Health Warnings* - Effective January 1, 2004, all packages in which tobacco products are provided to consumers, withdrawn from the manufacturing facility of all manufacturers or imported into the Philippines intended for sale to the market, shall be printed, in either English or Filipino, on a rotating basis or

UNIT 508 HERITAGE BUILDING
1851 DR. ANTONIO VASQUEZ ST., MALATE, MANILA
TEL. NO. 524-92-85
FAX NO. 524-95-14

separately and simultaneously, the following health warnings: xxx" (underscoring ours).

When it mandated a change in health warnings in 1 January 2004, the above-cited Sec. 1, Rule 1 of Title IV used as reckoning point for compliance, withdrawal from factory for domestic cigarettes, and clearance from Customs for imported cigarettes. It is only logical that for subsequent rounds of health warning change, the same reckoning point for compliance should be used.

2. This issue was discussed during the public hearings that led to the issuance of IAC-TMC no. 1, and it was clear in the discussions that the intent was to use **withdrawal** from the factory for domestic cigarettes and **clearance from Customs** for imported cigarettes. The reason is simple: administrative feasibility. The retail outlets throughout the country number around 800,000 to 1 million, and it would be very difficult for the IAC, if not physically impossible, to visit all outlets to check whether their cigarette inventories carry the appropriate warning. On the other hand, it is easy to monitor withdrawals from the few manufacturers/importers that are operating in the country.
3. Cigarettes that are already in the trade are no longer owned, nor are they still under the control of manufacturers and importers. Hence it would be a logistical nightmare, not to mention a very costly exercise (as it would entail buying back the inventories) to ask the manufacturers/importers to withdraw from the trade after the deadline, cigarettes that carry the old health warning.
4. Cigarette manufacturers pay excise tax on the cigarettes upon their withdrawal from the factory. Importers, on the other hand, pay the excise tax either upon clearance by Customs or upon advance request from the Bureau of Internal Revenue (BIR) of the tax stamps required to be affixed on imported cigarettes. Excise tax constitutes one-third to one-half of the retail selling price of the cigarettes.

Tax rules and regulations DO NOT allow refund of excise tax on cigarettes that are already withdrawn from the factory or cleared by Customs, whether the cigarettes are sold or not. In fact, under current tax rules, if manufacturers repackaged the cigarettes carrying the old health warning, they will AGAIN pay the excise tax once the repackaged cigarettes are withdrawn from the factory.

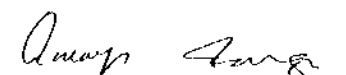
Hence manufacturers and importers will incur tremendous losses from the cost of the cigarettes, logistical costs, and the additional excise tax burden if cigarettes in the trade carrying the old warnings are required by your office to be withdrawn from sale or consumption.

5. The 70% cap on input VAT under Republic Act No. 9337 became effective last November 1, 2005. Under this scheme, a taxpayer will pay at least 30% of its output VAT liability or 3% of its gross sales if its input VAT exceeds its output VAT.

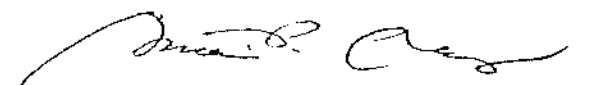
In the light of these new developments, we shall be requesting the Inter-Agency Committee ("IAC") for Tobacco of the Department of Trade and Industry for an extension in our compliance of the new health warnings to 01 September 2006. We also wish to request the same from your Office so that we can minimize major expenses that will be incurred in incorporating the changes required under RA 9211 and RR 3-2006.

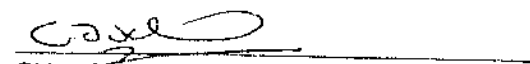
Thank you very much for your kind consideration to our above request.

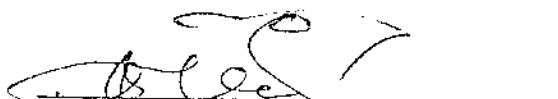
Very truly yours,



RODOLFO F. SALANGA
President
Philippine Tobacco Institute

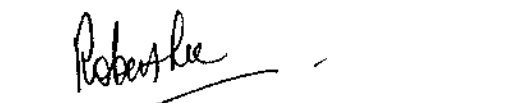
MEMBERS:

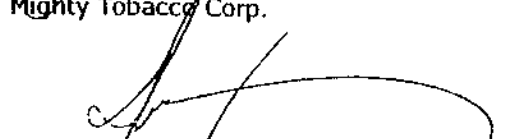

GEN. ANTONIO F. ABAYA
President
Fortune Tobacco Corp.

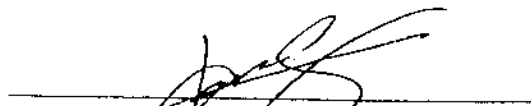

CHRIS NELSON
Managing Director
Philip Morris Phils., Inc.



ANTONIO B. YAO
Vice-President
La Suerte Cigar & Cigarette



GREG LIM
General Manager
Mighty Tobacco Corp.


ROBERT LEE
Country Manager
Japan Tobacco Inc.


DENNIS BELGIRA
General Manager
British American Tobacco


FLORANTE DY, JR.
Production Manager
Associated Anglo American Tobacco Corp.


ALAN HARROW
Sales & Marketing Manager
Altasia


PAUL BAUTISTA
President
Branded Warehouse