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# The secret money trail behind vaping

*E-cigarettes are supposed to stop people smoking - but the money trail shows big tobacco is all over the push to legalise vaping.*



Senator Hollie Hughes insists vaping is the key to weaning smokers from tobacco putting her in opposition to almost all senior health officials in Australia. **Alex Ellinghausen**

Feb 20, 2021 - 12.00am

**B**y the evening of October 5, Liberal senator Hollie Hughes knew she had the numbers for her biggest political coup – the establishment of a Senate inquiry that she would chair into the e-cigarette industry.

After months of wrangling, she was ready to celebrate – over drinks with two British American Tobacco lobbyists.

“Oh we do love you @senator\_hollie,”

[<https://www.instagram.com/p/CF9ajKsHI9t/>] Michael Kauter, the former deputy federal director of the Nationals, posted on social media that night last year alongside a photo of Hughes in a Canberra restaurant with her arm around him. Kauter’s husband, Professor David Gracey, was on Hughes’ other side. Gracey, who is a renal specialist at Royal Prince Alfred Hospital, is an adviser to Kauter’s lobbying firm.



Hollie Hughes with Michael Kauter and David Gracey, lobbyists for British American Tobacco, on October 5 2020, the evening before Hughes set up a Senate inquiry into e-cigarettes. **Instagram**

At 4pm the following day, while the nation was transfixed with the imminent budget release by Treasurer Josh Frydenberg, Hughes and Nationals senator Matt Canavan moved to set up an inquiry into tobacco harm reduction – which is newspeak for e-cigarettes – in a move that had tobacco influencers all over it.

Just how deeply big tobacco is entwined in the push to legalise vaping has come to light because one of the country's largest industry groups decided it had had enough. The Australian Retailers Association confirmed to *AFR Weekend* [<https://www.afr.com/companies/retail/australian-retailers-association-cancels-secret-tobacco-contract-20210219-p5740g>] that it cancelled a contract last August with global PR firm Burson Cohn & Wolfe worth hundreds of thousands of dollars to promote and lobby to get e-cigarettes legalised.

*AFR Weekend* has confirmed that the money from BCW actually came from Philip Morris International, in a contract signed last February by ARA's former chief executive Russell Zimmerman. More on that later.

The ARA board's decision to drop the BCW contract, under Russell's successor Paul Zahra, underlines how corporate Australia is distancing itself from big tobacco at a time when the latter's ties to politicians are closer than ever.

The BCW revelation torpedoed the argument by vaping promoters that legalising e-cigarettes will hurt tobacco companies. Not only are they putting submissions supporting legalisation, they have a secret money trail to make it happen.

The Senate tobacco harm reduction inquiry that Hughes chaired produced a majority report in December recommending that e-cigarettes should be available through prescription to help smokers quit, but that they should not be sold over the counter. Hughes and Canavan wrote a trenchant minority report calling for widespread use of e-cigarettes to achieve a smoking-free Australia by 2027 (the government's goal is 2029).

There's no doubting the sincerity or passion of Hughes' belief that vaping is the key to weaning smokers off tobacco, which is backed by some promising overseas research. But that belief puts her in opposition to almost all senior health officials in Australia, who cite emerging research on its harms. Hughes dismisses this opposition as insincere and "based on ideological reasons and outdated health information".

Hughes and Canavan dismissed claims by Australian health officials that tobacco companies want e-cigarettes to be legalised because they lead to greater nicotine dependence and more smoking. They preferred testimony by a Canadian law professor, David Sweanor, that e-cigarettes were “an existential threat to the longstanding business model of big tobacco”, and by the managing director of e-cigarette seller Vapoureyes, Savvas Dimitriou, who said his “entire business was about stealing big tobacco’s customers”.

Dimitriou was probably familiar to Canavan because when one of his staffers, Jeremy Greenwood, became a lobbyist in mid-2019, Vapoureyes was one of his first clients. But Canavan makes it clear he took an independent position. Nor was he influenced by Philip Morris’s donations to the Nationals.

## Swirling passions

In the swirling passions that tobacco regulation inspires, the untold story is how pervasive the reach of lobbyists and influencers has become in targeting politicians – and the build-up to Hughes’ vaping inquiry, triggered in part by the campaign funded by Philip Morris through BCW, reveals just how fevered the push to legalise e-cigarettes has become.

Hughes saw no problem with sharing a drink in a Canberra restaurant with Kauter and Gracey on October 5. She says her relationship with the two men is “purely personal” – she and Gracey went to the same school in Perth (he’s three years older).

Kauter at least appears to have been at the restaurant that night for business. Later that evening he posted another picture of himself and Gracey there, this time flanking One Nation senator Pauline Hanson, with the caption: “Dinner with our favourite cross bencher ahead of tomorrow’s federal budget.”

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British American Tobacco's head of corporate and government affairs, Josh Fett, at right, with lobbyist Michael Kauter, Pauline Hanson and David Gracey on October 5 2020. **Instagram**

Another photo shows Hanson's table included Kauter's client, BAT's head of government affairs, Josh Fett.

"I have not met with [Kauter's] tobacco clients – retail or otherwise, nor did I have dinner with Mr Fett or Pauline Hanson," Hughes told *AFR Weekend*.

This is controversial territory. Australia was an early signatory of a World Health Organisation treaty, the Framework Convention on Tobacco Control, which in section 5.3 requires governments and politicians to protect healthcare policies "from commercial and other vested interests of the tobacco industry".

Guidelines on section 5.3 issued by the Department of Health say that public officials including politicians should not attend social functions with tobacco company representatives, and that meetings should be reported, with at least two officials present.

It's not clear how to treat personal friendships under the guidelines, says barrister Geoffrey Watson, SC, of the Centre for Public Integrity.

“But there’s no way in the world she should be on the committee, let alone chair of the inquiry,” Watson says.

Hughes did not respond directly to questions about section 5.3 but said, “I have been transparent about all my relationships.” She sees legalising vaping as a mortal blow against tobacco companies as smokers switch from cigarettes, which means section 5.3 strictures don’t apply.

“Of all the attacks we receive, the most vile is that we are in bed with the tobacco companies,” Hughes’ media adviser Jennifer Havilah says. “Quite the opposite.”

Philip Morris International is the only tobacco company still making direct donations to the Nationals (\$200,000 since 2014) and the Liberal Democrats (\$115,000), with donations peaking during the two Senate vaping inquiries.

BAT has skipped the donations and focused on the politicians. In 2019 Kauter posted a picture of Gracey with Hanson on Cape York, noting: “Relationships are everything. You can’t expect people to listen to you or work with you if you don’t hold genuine relationships with the people you want to do business with. It’s exactly the same in politics.”

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Michael Gracey with One Nation senator Pauline Hanson at Cape York in 2019. Gracey's partner Michael Kauter wrote, "Relationships are everything." [Instagram](#)

Kauter has also put a lot into his relationship with Hughes. After posting on her personal Facebook account that she faced a lonely festive season, Hughes spent part of Christmas Day with Kauter and Gracey, with Facebook pictures showing the three arm in arm ("Beautiful boys!!!" she posted), and another rhapsodising over the cake that Gracey had made. Kauter did not immediately respond to questions from *AFR Weekend*.

On January 23, Hughes was in another restaurant with her two friends, with Kauter's hand on her shoulder: "Amazing lunch with super fun company!"

All of this would be unremarkable except that through this period, Hughes has become increasingly critical of anti-vaping campaigners.

In a January 31 interview on a US internet site, [Son of Liberty Radio](#) [[https://www.facebook.com/watch/live/?v=729017347979437&ref=watch\\_permalink](https://www.facebook.com/watch/live/?v=729017347979437&ref=watch_permalink)], she called the national manager of the Therapeutic Goods Authority,



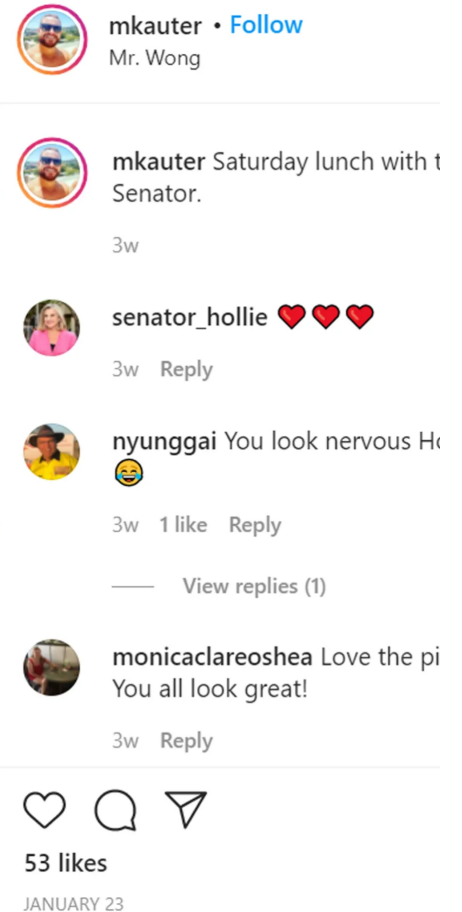
Professor John Skerritt, a “smart arse”, said a preliminary report [<https://www.anu.edu.au/news/all-news/e-cigarettes-gateway-to-smoking-for-non-smokers>] by Professor Emily Banks’ Australian National University team reviewing more than 10,000 vaping studies was “embarrassing”, and fulminated against unnamed colleagues who failed to support her (apparently a reference to Liberal senator Sarah Henderson, who was part of the inquiry’s majority report).

Hughes has publicised claims by vapers that it was actually anti-vaping advocates who were in the pocket of the tobacco companies, and dismissed the Labor Party’s role in the inquiry, tweeting [<https://twitter.com/hollieahughes/status/1344804779692679168>]: “They appointed people to oppose. That tells you all you need to know.”

In the November hearings she was brutal in her treatment of Banks, a world-renowned epidemiologist who received an AM in Australia Day honours for her research. Hughes repeatedly interrupted to give her own personal account of stopping smoking after she began vaping in September.

The preliminary findings by Banks’ team indicated vapers were three times as likely to take up smoking, and that while there were encouraging signs, there was no clear evidence that vaping helped people to quit smoking.

Hughes accused Banks of being disingenuous: “I’ve got to say, Professor Banks, you don’t sound like you’re a big fan of e-cigarettes and you don’t think they have much value, which is a little bit of a worry, since the report isn’t finalised and you seem to have a pretty predetermined view.”



“Saturday lunch with the Senator”: Michael Kauter posted this picture of himself with Hollie Hughes and David Gracey. **Facebook**

In 2019, only 1.9 per cent of Australia’s ex-smokers reported having used e-cigarettes – most people just go cold turkey to quit. An estimated 420,000 Australians currently use e-cigarettes at least once a month but it’s illegal to sell nicotine solution here, and they can only obtain supplies from offshore.

Of those 420,000 regular vapers, Banks’ research estimates around 66,000 people have never smoked, while 225,000 or 54 per cent of vapers are also smoking, using e-cigarettes to supplement their habit, which may make them less likely to quit.

For some like Hughes, e-cigarettes are a wonder cure that help them quit smoking. But there’s a high failure rate.

“For every smoker that e-cigarettes help, there’s more people it doesn’t help, and many more people who may take up e-cigarettes and then smoking as a result,” Banks says.

The criticism of Banks appears to reflect a misunderstanding of the nature of the scientific process. Hughes relied on Canavan for the technical analysis. “And you know – I’m not – Matt was fantastic with all the statistical information around those,” she told Son of Liberty Radio.

Canavan’s cavalier treatment of witnesses at the inquiry seemed to typify the frustrations of politicians in the Trump pandemic era when they didn’t like what scientists were telling them. And after the hearings he went on Twitter to berate Banks and others.



Nationals senator Matt Canavan was cavalier in his treatment of witnesses at the inquiry. **Alex Ellinghausen**

Canavan accused Caroline Edwards, who was awarded a meritorious citation in the Australia Day honours for her leading role in Australia’s COVID-19 response as acting secretary of the Health Department, of using “weasel words”.

“From reading your submission overnight, it seems you’ve got a lot of ‘book smarts’ – there’s a lot of studies and a lot of science – but there’s not a lot of ‘street smarts’, Cavanan told Edwards. “It would be good to have some real-world evidence.”

Hughes and Canavan both quote TGA head Skerritt as telling the inquiry that vaping is less harmful than smoking, and consequently should be legalised as a means to help smokers quit. In fact what Skerritt said was, “I believe that smoking is more harmful than vaping but that does not make vaping harmless – in the same way that being hit by a car on the freeway is less harmful than being hit by a truck, but it is not desirable.”

Hughes says that as chair of the inquiry, “I have done my very best to remain impartial and focused on the issue.”

No one contests how addictive nicotine is. Fifteen seconds after a smoker takes their first pull, nicotine has crossed the blood-brain barrier to trigger dopamine release.

Nicotine patches are much slower to act. Vaping has been around for years in low-strength form, but a decade ago two Americans found a way to use nicotine salts in e-cigarettes, which vastly increased the level of nicotine in the vaping solution to 5 to 6 per cent.

They launched JUUL in 2015, and its brightly coloured disposable e-cigarettes targeted at the youth sector

[<https://www.afr.com/companies/retail/vaping-giant-juul-swoops-down-under-20190619-p51zd9>] quickly gave it 72 per cent of the US market. The higher nicotine levels gave vapers a similar or even stronger hit than a conventional cigarette, and were every bit as addictive.

Skerritt says in two years the proportion of US high school students who vaped jumped from 11.7 per cent in 2017 to 27.5 per cent in 2019. In Canada it went from 6 per cent to 15 per cent, while in Australia, where it is illegal to import nicotine without a prescription, vaping by children and young adults has almost doubled, from 2.3 per cent in 2016 to 4.5 per cent now.

Tobacco companies' campaign to portray e-cigarettes and heated tobacco products as "harm reduction" alternatives to smoking is never-ending. In 2017, Philip Morris International set up Foundation for a Smoke-Free World (FSFW) with \$US1 billion funding over a decade, to research ways to help people quit smoking.

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## **The case that tobacco companies are trying to help smokers quit has been made by a revolving door of former government advisers.**

Last month, a former FSFW marketing director, Lourdes Liz, filed a lawsuit in New York claiming she was fired after she complained the foundation's activities were directed by Philip Morris and were "designed to increase the profits of and do the bidding of the tobacco industry".

In Australia, the case that tobacco companies are trying to help smokers quit has been made by a revolving door of former government advisers. But some help is more indirect.

In November 2019, days after Philip Morris asked the TGA to approve its heated tobacco product, IQOS, Australian Retailers Association CEO Zimmerman announced the formation of a new lobbying arm, the Australian Retail Vaping Industry Association (ARVIA), "to represent Australian vape retailers and ordinary retailers who want nicotine vaping products to be legalised as consumer goods".



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Zimmerman hired Brett Chant, former media adviser to Nationals senator Nigel Scullion as advocacy manager to run the ARVIA campaign.

How did the ARA fund this? Zimmerman signed a confidential six-month contract worth \$250,000 with PR firm Burson Cohn & Wolfe on February 1

last year.

The ARA told *AFR Weekend* the contract required the ARA to provide advocacy and lobbying to promote the legalisation of e-cigarettes and heated tobacco products, with an option to renew for a further six months in August, which would take the total to \$500,000 over 12 months.

BCW says it was working with ARA since August 2019, which indicates there was also an earlier contract, though under different financial arrangements.

“BCW worked with the ARA from August 2019 until July 2020 to provide support to one of their committees called ARVIA,” a BCW spokesperson told *AFR Weekend* in a statement. “PMI is no longer our client and we ended our work with them last year.”



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It's believed the ARA had earlier contracts directly with PMI, but the payment was switched to go via BCW after the ARA board grew increasingly unhappy with the prospect of taking funds from big tobacco.

The payments were recorded in ARA's accounts as fees for special projects, which have ballooned since 2018.

A Philip Morris spokesman says, “Like many other companies, Philip Morris Australia either has been, or currently is, a member of various

representative industry groups, including the ARA and NRA. Philip Morris used to work with BCW, however BCW no longer has a contract with us.”

## Extensive lobbying

When ARVIA made a submission to the TGA supporting Philip Morris’s IQOS application on February 10 last year, there was no sign that Philip Morris was secretly funding the operation.

Two days later, Philip Morris donated \$55,000 to the Nationals.

The TGA knocked back the IQOS application in June, but the extensive lobbying to legalise vaping continued.

On June 22, Health Minister Greg Hunt made a misstep. He announced that import of nicotine vaping liquid would be banned for 12 months from July 1, after all states had banned its sale.

Within three days, 28 government backbenchers signed a letter calling on Hunt to reverse his decision, spurred by Canavan and LNP MP George Christensen’s account of a remarkable protest petition.

While four other pro-vaping petitions presented to Parliament last year had a total 244 signatures, Canavan and Christensen reported they had secured a miraculous 75,000 signatures in three days for their [petition](https://www.vapepetition.com.au/) [\[https://www.vapepetition.com.au/\]](https://www.vapepetition.com.au/) in support of vaping.

Legalise Vaping Australia would raise another petition in September with 35,000 names, but that was after extensive canvassing over weeks.

Canavan says there was no need to table his petition because Hunt quickly put the import ban on hold for six months while the TGA deliberated on whether vaping should be regulated.

Hughes, a leading figure in the backbenchers’ letter, saw her initial position in ideological terms. “Really the issue for me was about personal choice – freedom and liberty,” she told Son of Liberty Radio. “But to be

honest I didn't really know that much about [vaping]. But the guys that run the Legalise Vaping campaign in Australia are good mates, and I know them, and so spoke to them.”

That was Brian Marlow, the executive director of activist group Australian Taxpayers Alliance [<https://www.smh.com.au/politics/federal/australian-taxpayers-alliance-under-scrutiny-over-election-role-20191025-p534bl.html>] and its offshoot, Legalise Vaping Australia (LVA). Hughes describes him as “a personal friend of mine for many years”.

In a June 2 Twitter post which LVA has since taken down, Hughes is pictured with Marlow's arm wrapped around her: “Celebrating with Senator Hollie Hughes who was an INTEGRAL FIGURE in helping us delay the vaping ban.”



Legalise Vaping Australia executive director Brian Marlow with his arm around Hollie Hughes, with other members of the LVA team. **Twitter**

While Hughes was working on calling a Senate inquiry, across at the ARA former David Jones CEO Paul Zahra had been shocked to discover the



BCW contract after he joined the group as Zimmerman's successor in mid-2020.

After Zimmerman left the ARA in July, Zahra raised his concerns with the board, which on August 20 voted unanimously not to extend the BCW contract.

"I don't think it's in our members' interest to be lobbying hard for what we would see as a fringe issue," Zahra says. While he recognised the rights of people to use nicotine products, his professional view was that advocating for their use "was not aligned with the organisation's values moving forward".

The ARA's decision, backed by its major corporate members, to walk away from tobacco money offers a rare bright spot in tobacco regulation.

The vaping lobby didn't miss a beat. From mid-September the CEO of the small National Retail Association, Dominique Lamb, who had not previously addressed the subject, began railing at the "unconscionable, illogical and indefensible" restrictions on vaping.



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The NRA found the funds to hire an expensive new lobbying firm, TG Endeavour, and in December to appoint former Australasian Association of Convenience Stores CEO Jeff Rogut, a long-time champion of tobacco, as an adviser to head its newly formed emerging business committee, [<https://www.c-store.com.au/new-committee-hopes-to-have-vaping-regulations->

overturned/] which will lobby to overturn the prescription model for e-cigarettes.

The NRA told the Senate inquiry all its commercial partnerships were confidential: “We simply do not confirm or deny any arrangements that – should they exist – would be considered commercial-in-confidence.”

“The NRA is not our client,” says BCW.

“It’s a matter for other industry associations to justify their advocacy efforts on these matters,” says Zahra.

“It is critical that all Australian parliamentarians adhere to the WHO Framework Convention on Tobacco Control, understand the commercial interests at play and steer well clear of tobacco industry influence,” says Tanya Buchanan, CEO of Cancer Council Australia.

Health Minister Greg Hunt did not address questions about politicians socialising with tobacco company representatives. A spokesman said, “The Minister fully supports the TGA decision to restrict imports of vaping products and make them subject to prescription. This decision will save lives and protect lives, help limit on-ramp usage whilst allowing legitimate users and off-ramp for tobacco.”

Hughes remains unhappy with the Health Department, claiming that “there would appear to be some efforts to use data, regardless of its veracity, to support an anti-vaping agenda”.

She sees it as just common sense: “I admit I am still at a loss why this relative fringe issue invokes so much anger and vitriol by those opposed to Australians utilising vaping as a smoking cessation tool.”

*Now read: [Australian Retailers Association cancels secret tobacco contract](https://www.afr.com/companies/retail/australian-retailers-association-cancels-secret-tobacco-contract-20210219-p5740g)*

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