

Title:
Tobacco taxation policies in the Former USSR countries

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Abstract:

The general objective was to inform policy-makers how their tobacco taxation policy can better serve public health goals. Simple model to forecast impact of tobacco excise rates increase on tobacco prices, revenue, and consumption was developed. It was tested for Ukraine and used for policy papers in Belarus, Georgia, and Uzbekistan. The model can be used by non-economists in any country provided that background economic data are available. Detailed databases on

tobacco tax rates, prices, sales, production, revenues, household expenditures, CPI, smoking prevalence rates and other indicators were established for Ukraine, Belarus, Russia, Moldova, Georgia, Uzbekistan, Latvia, Estonia, and Lithuania. Tobacco industry routinely used smuggling arguments against tobacco tax increase. The project showed that industry forecasts are misleading, but good monitoring is needed to reveal this. Tobacco smuggling out of the country is a major phenomenon in fSU countries which governments and industry prefer to ignore. The project revealed that this kind of tobacco smuggling should be monitored for proper understanding and forecasting trends in tobacco consumption and revenue. The project also demonstrated that decrease of tobacco products affordability (measured as real price adjusted for inflation and income trends) within a country is a key strategy for decreasing tobacco consumption.

Keywords: Taxation, tobacco, excise, affordability, Ukraine, former USSR.

The Research Problem

While there are plenty of examples when tobacco taxation policies resulted in governmental revenues increases and tobacco consumption reduction, some governments and tobacco control advocates are reluctant to involve themselves in tobacco taxation issues. Fears around that are effectively inspired by the tobacco industry who usually predicts that tobacco tax increase will result in increased smuggling into the country, shift of smokers to non-tax-paid cigarettes and eventual revenue loss.

Such revenue threats are perceived more vividly than they deserve because all the above mentioned benefits like consumption and prevalence decline and health improvement are difficult to measure in short term, while the revenue data are readily available at least for Ministries of Finance and the industry. Revenue issues are usually tangible and readily voiced by the opponents. So tobacco control advocates should better understand those processes which can have impact on revenues and need to have adequate responses for possible revenue fluctuations.

Tobacco control advocates in most countries usually do not have professional economists in their teams and they need simple instrument (which can be used by non-economists) to forecast impact of proposed tobacco tax increase on tobacco consumption and revenue.

Tobacco industry routinely used smuggling arguments against the tobacco tax increase. Experience of Ukraine showed that industry forecasts are misleading, but good monitoring is needed to reveal this. Tobacco smuggling out of the country is the phenomenon which

governments and industry readily ignore. This kind of smuggling should be better studied for proper understanding and predicting trends in tobacco consumption and revenues.

Objectives

The general objective was to inform policy-makers how their tobacco taxation policy can better serve public health goals and diminish the burden of tobacco-related diseases and deaths for the current and future generations. It was initially planned to concentrate efforts on Ukraine, Russia, and Belarus. However, parallel projects on tobacco taxation in these very three countries were also launched in 2012 by both the WHO and the Campaign for Tobacco Free Kids. So it was decided to support research teams of these projects by the available data and comments and to extend activities to the neighboring countries, which expressed interest to use Ukrainian experience of tobacco taxation policies.

The more specific objectives were the following:

- To test Ukrainian model of tobacco excise increase impact on tobacco consumption and revenue in other countries.
- To develop concept of tobacco affordability decrease as a key strategy for decreasing tobacco consumption in different countries context.
- To estimate volumes of into and out-of-country smuggling in each country of the region.

Methodology

Smoking prevalence trends by gender and SES were studied in the context of tobacco affordability changes in Ukraine and other countries.

Economic data on tobacco taxes, prices, revenues and other economic indicators were collected and analyzed.

Cigarette smuggling volumes (both into and out of the country) were also estimated based on survey data and cigarette consumption trends within a country.

More detailed description of methodology is presented in each research paper.

Project Activities

A. Activities in Ukraine.

1. In May-June 2012, background papers for draft law on tobacco excise increase in Ukraine were prepared. It includes forecasts of tobacco revenue, prices and consumption, based on the model developed during the project.
2. Detailed analysis of cigarette smuggling both into and out of Ukraine was conducted and used for policy papers.
3. National representative survey on tobacco taxation issues was conducted in February 2013 after the excise rates increase since January 2013. The survey results analysis will be published in the National Tobacco Control Report which is planned to be issued by the Ministry of Health in September 2013.
4. Detailed database of tobacco taxation economic indicators was monthly updated.
5. Several press-releases on tobacco taxation issues were prepared and distributed by the Coalition for Tobacco Free Ukraine in 2012-2013.
6. Special presentation “Tobacco excise taxation in Ukraine” was prepared for tobacco control workshop, which was held in January 2013 in Kiev (PowerPoint file in Ukrainian is available on request).
7. Media monitoring of tobacco taxation issues in Ukraine and other countries was permanently conducted. Database of media reports was established and updated. It is available for use on request.
8. Monitoring of tobacco industry research activities on taxation issues was conducted for Ukraine and other countries. Database of tobacco industry reports was established and updated. It is available for use on request.

B. Activities in other countries.

Belarus. Detailed database on tobacco tax rates, prices, sales, production, revenues, household expenditures, CPI and other indicators was established and updated (Excel file in Russian is available on request). Unfortunately, due to the political situation in the country the partners in Belarus were not able either to arrange site visit to Minsk, or to come to Kiev. Eventually research report on tobacco taxation in Belarus (in Russian) was sent to Belarus on March 2, 2013.

Russia. Detailed database on tobacco tax rates, prices, sales, production, revenues, household expenditures, CPI, and other indicators was established and updated (Excel file in Russian is available on request). Two meetings with Russian partners from the CEFIR institution were held in Moscow in April 2012 and in October 2012. Detailed comments for their draft report on tobacco taxation in Russia, Belarus, Kazakhstan, and Ukraine was sent to the CEFIR in

November 2013. Response to tobacco industry think-tank International Tax & Investment Center report “An Analysis of Tobacco Taxation and Affordability Issues in Russia”, issued in May 2012, was prepared and sent to tobacco control advocates (see **Annex 1**).

Moldova. In September 2012 Dr. Krasovsky and Dr. Andreeva visited Moldova and had meetings at the Ministry of Finance and at the Ministry of Health. Detailed information on tobacco taxation in Ukraine and other countries was presented to the officers of excise department of the Ministry of Finance. The information was used to defend the governmental proposal on tobacco excise rate increase in Moldova by 50% since January 2013, which experienced strong opposition in the Parliament.

Baltic countries. Tobacco industry tries to stop or delay tobacco excise increase in Russia, Belarus and other former USSR countries and one of its main arguments was the apparent failure of recent tobacco taxation policy in Lithuania, Latvia, and Estonia. To explore whether these statements are based on evidence, economic data were collected for each of three countries and research paper “Tobacco taxation policy in three Baltic countries after the EU accession” was published in November 2012.

Georgia. Tobacco control advocates from Georgia asked for support on tobacco taxation policy as cigarette excise rates were not increased for six years. They helped to collect economic data and arranged meetings at the Ministry of Finance and at the Ministry of Health in February 2013. Special report in Russian was prepared and sent to Georgian authorities.

Uzbekistan. Tobacco control advocates from Uzbekistan asked for support in analysis of recent tobacco taxation policy in the country. Data collection and analysis were conducted in October 2012 – March 2013 and eventually research paper in English was published. Research results were presented at the workshop in Tashkent in June 2013 during the WHO mission to Uzbekistan.

Special research. Tobacco tax yardstick, which recommends that tax component to be between two-thirds and four-fifths of the total retail cost, is routinely used in tobacco control guidelines. However, what would be the impact of taxation policy on tobacco consumption in a country that already keeps tax share in retail price above the recommended level? Does tax level exceeding 75% of retail price reduce tobacco consumption without tax increase or with just adjustment of specific tax rates for inflation? Since 1990s, Denmark, Finland, France, Ireland, Portugal and the UK had levied cigarette taxes higher than 75% of retail price. The research (see **Annex 6**) explores effectiveness of tobacco taxation policy in terms of tobacco consumption reduction in these countries in 1990-2010. The research demonstrates that this yardstick does not work, as keeping tobacco tax component of the retail price high, but stable, does not contribute to

reducing tobacco consumption. Decrease of tobacco affordability over time caused by tax hikes and other factors is a key determinant of tobacco consumption decline even in high income countries that already have very high tobacco taxes. Effective tobacco taxation public health policy should reduce tobacco products affordability as low as possible.

Project Outputs

1. Detailed databases on tobacco tax rates, prices, sales, production, revenues, household expenditures, CPI, smoking prevalence rates and other indicators were established for Ukraine, Belarus, Russia, Moldova, Georgia, Uzbekistan, Latvia, Estonia, and Lithuania. The databases are constantly updated and data are shared with tobacco control advocated and public health economists.
2. Detailed databases of media reports (including tobacco industry reports) on tobacco taxation issues in Ukraine and other countries was established and updated monthly.
3. Policy paper on tobacco smuggling both INTO and OUT OF Ukraine was published in the influential policy weekly newspaper “Mirror of the Week” in August 2012 both in Ukrainian (http://gazeta.dt.ua/ECONOMICS/kontrabanda_sigaret_kudi_i_zvidki_ta_yak_iz_neyu_boryutsya_v_ukrayini.html) and in Russian (http://gazeta.zn.ua/ECONOMICS/kontrabanda_sigaret_kuda_i_otkuda_i_kak_s_ney_boryutsya_v_ukraine.html). File with more detailed information with links to the data sources is available on request.
4. Draft law proposing substantial increase of tobacco excise rates in Ukraine was developed in cooperation with the Ukrainian partners and it was submitted by 9 MPs on 5 July 2012 (http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=43958 link in Ukrainian). However, the government submitted another proposal with more moderate tax increase which was eventually adopted in December 2012.
5. Report titled “Tobacco excise taxation policy in Ukraine” was presented in TobTaxy workshop <http://www.smokefreepartnership.eu/tobtaxy> in Prague in May 2012 (The PowerPoint file of presentation is attached in **Annex 2**).
6. Report titled “Daily smoking prevalence in Ukraine decreased by 30% in five years” was presented at the Society for Research on Nicotine and Tobacco Annual Meeting in Boston, USA, March 13-16, 2013. The abstract was published in the Abstract book (page 23) http://srnt.org/conferences/2012/pdf/2012_Abstracts_H.pdf . The PowerPoint file of presentation is attached in **Annex 3**.

7. Research paper “Dynamics of smoking prevalence and tobacco products market in Belarus” <http://andreevin.narod.ru/journal/2012/01/3.htm>
8. Research paper “Tobacco taxation policy in three Baltic countries after the EU accession” http://andreevin.narod.ru/journal/2012/02/TCPHEE_02_02_81.pdf Tobacco affordability index was developed and used as good indicator of tobacco consumption changes.
9. Research paper “Impact of cigarette taxation policy on excise revenues and cigarette consumption in Uzbekistan”
http://andreevin.narod.ru/journal/2013/01/TCPHEE_03_01_05.pdf
10. Research paper “Impact of sharp changes of tobacco products affordability on smoking prevalence in various social and income groups in Ukraine in 2008-2012” was submitted to the “Tobacco Induced Diseases” journal in July 2013 (Word file attached in **Annex 4**).
11. Research paper “Do consumers shift to cheaper cigarette brands when tobacco taxes go up?” was submitted to the “ISRN Public Health” journal in March 2013 (Word file attached in **Annex 5**).
12. Research paper titled “Tobacco Tax Yardstick: Does it work?” was submitted to the Tobacco Control journal (pdf file attached in **Annex 6**). Abstract with the same title was accepted for the International Conference on Public Health Priorities in the 21st Century: The Endgame for Tobacco, New Delhi, India, 10-12 September, 2013.
13. Research report “Analysis to tobacco taxation policy in Belarus in 2006-2013 and proposals for its change” (file in Russian attached in **Annex 7**).
14. Research report “Impact of excise rates changes on cigarette market and revenues in Georgia” (file in Russian attached in **Annex 8**).

Project Outcomes

1. Simple model to forecast impact of tobacco excise rates increase on tobacco prices, revenue and consumption was developed. It was tested for Ukraine and used for policy papers in Belarus, Georgia, and Uzbekistan. The model can be used by non-economists in any country provided that background economic statistics is available. Elements of a more comprehensive model were also developed.
2. Since January 2013, tobacco excise rates were increased in Ukraine, Belarus, Moldova, and Russia. While we proposed more sharp increases, in real policies compromise decisions are usually adopted. We hope that project activities helped to secure higher rates than it was initially planned.

3. Policy-makers in Ukraine, Belarus, Georgia, Uzbekistan and Moldova were informed on relevant policy issues based on conducted tobacco taxation research.
4. Ministry of Finance of Georgia proposed to increase tax rates by 25% effective from September 2013 (the rate has not been changed since 2006).
5. Policy makers are currently aware that public health position on tobacco taxation is evidence-based and it can counter-balance tobacco industry influence on tobacco taxation policy.
6. Tobacco control advocates in the former USSR countries have got extended policy capacities. They can use databases and simple model to forecast tobacco taxation policy impact and this way to support future tobacco taxation initiatives.
7. The problem of out-of-country cigarette smuggling became more visible as it has much wider scope in all project countries than the into-country cigarette smuggling has.
8. Tobacco industry tobacco taxation research and claims were challenged with sound evidence. Industry economic forecasts are often misleading, but good monitoring is needed to reveal this.

Lessons learnt

1/ Tobacco taxation is the most effective tobacco control policy. Tobacco tax hikes has higher and more long-term impact on smoking prevalence reduction among young and poor people.

2/ Time of the economic recession may become a window of opportunities for tobacco tax increases. The combined effect of excise tax hikes and the economic recession in 2008-2010 in Ukraine and Baltic counties resulted in reduction of tobacco product affordability and tobacco consumption. On the other hand, moderate tax increase in times of economic boom does not cause tobacco consumption decline.

3/ Decrease of tobacco products affordability (measured as real price adjusted for inflation and income trends) within a country is a key strategy for decreasing tobacco consumption in a short term. Effective tobacco taxation public health policy should reduce tobacco products affordability as low as possible. However, comparing tobacco affordability between countries by purchasing power or similar indices is counter-productive: a) it often reveals that cigarettes are less affordable in low income countries and industry uses this argument against tax increase in such countries; b) cigarettes could be smuggled to a country

where they are more affordable as smugglers do not care about difference in purchasing power, but only in price difference; c) smokers make attempts to quit not because they compare cigarette affordability in various countries, but because they see that cigarettes became less affordable for them personally here and now. Not a cross-country comparison but a longitudinal perspective matters.

4/ Tobacco industry routinely used smuggling arguments against tobacco tax increase. Experience of Ukraine and other countries showed that industry forecasts are misleading, but good monitoring is needed to reveal this. For example, surveys asking smokers to show a pack from the pocket showed that actual consumption of illicit cigarettes is much lower than the industry claims. Tobacco control surveys are a good tool to find country-specific arguments for policy changes.

5/ Tobacco smuggling out of the country is a phenomenon which governments and industry prefer to ignore. Experience of Ukraine, Belarus, Georgia, Uzbekistan, Moldova, and Baltic countries revealed that public health experts should monitor this kind of tobacco smuggling for proper understanding and forecasting trends in tobacco consumption and tobacco revenue.

Overall Assessment and Recommendations

1. The project demonstrated that tax hikes has higher and more long-term impact on smoking prevalence reduction among young and poor people and so tobacco taxation policy can contribute to country development.
2. The project established database on tobacco taxation issues for the most Former USSR countries. This database is to be used for future research and policy initiatives.
3. The project objectives were extended to some more countries of the region during the project implementation. It was possible through partnerships with researchers in the international organizations and tobacco control advocates in countries. Such extension helped to avoid duplication of research and more countries have got expert support in timely manner.
4. The research papers were reviewed and commented by best international experts on tobacco taxation, for example Hana Ross, Frank Choulupka, and Evan Blecher. Their comments helped to improve papers.
5. It was helpful that the opportunities existed to modify objectives during the project implementation, which was very useful as tobacco taxation policy has to use those windows of opportunities which emerge in countries.

List of Annexes (presentations and unpublished research papers and reports).

Annex 1. Response to the International Tax & Investment Center Report “An Analysis of Tobacco Taxation and Affordability Issues in Russia” (May 2012) (Word file *RESPONSE-ITIC-Russia.docx*).

Annex 2. Tobacco excise taxation policy in Ukraine (PowerPoint presentation *tobind-tax-eng4.pptx*).

Annex 3. Daily smoking prevalence in Ukraine decreased by 30% in five years (PowerPoint presentation *Krasovsky_SRNT1.ppt*).

Annex 4. Research paper “Impact of sharp changes of tobacco products affordability on smoking prevalence in various social and income groups in Ukraine in 2008-2012” (Word file *smoke-prev-tax_20130704.docx*).

Annex 5. Research paper “Do consumers shift to cheaper cigarette brands when tobacco taxes go up?” (Word file *brand-switching_20130325.doc*).

Annex 6. Research paper titled “Tobacco Tax Yardstick: Does it work?” (file *yardstick-tc.pdf*).

Annex 7. Research report “Analysis to tobacco taxation policy in Belarus in 2006-2013 and proposals for its change” (Word file in Russian *excise-policy-balarus6.doc*).

Annex 8. Research report “Impact of excise rates changes on cigarette market and revenues in Georgia” (file in Russian *geor.excise3.doc*).