

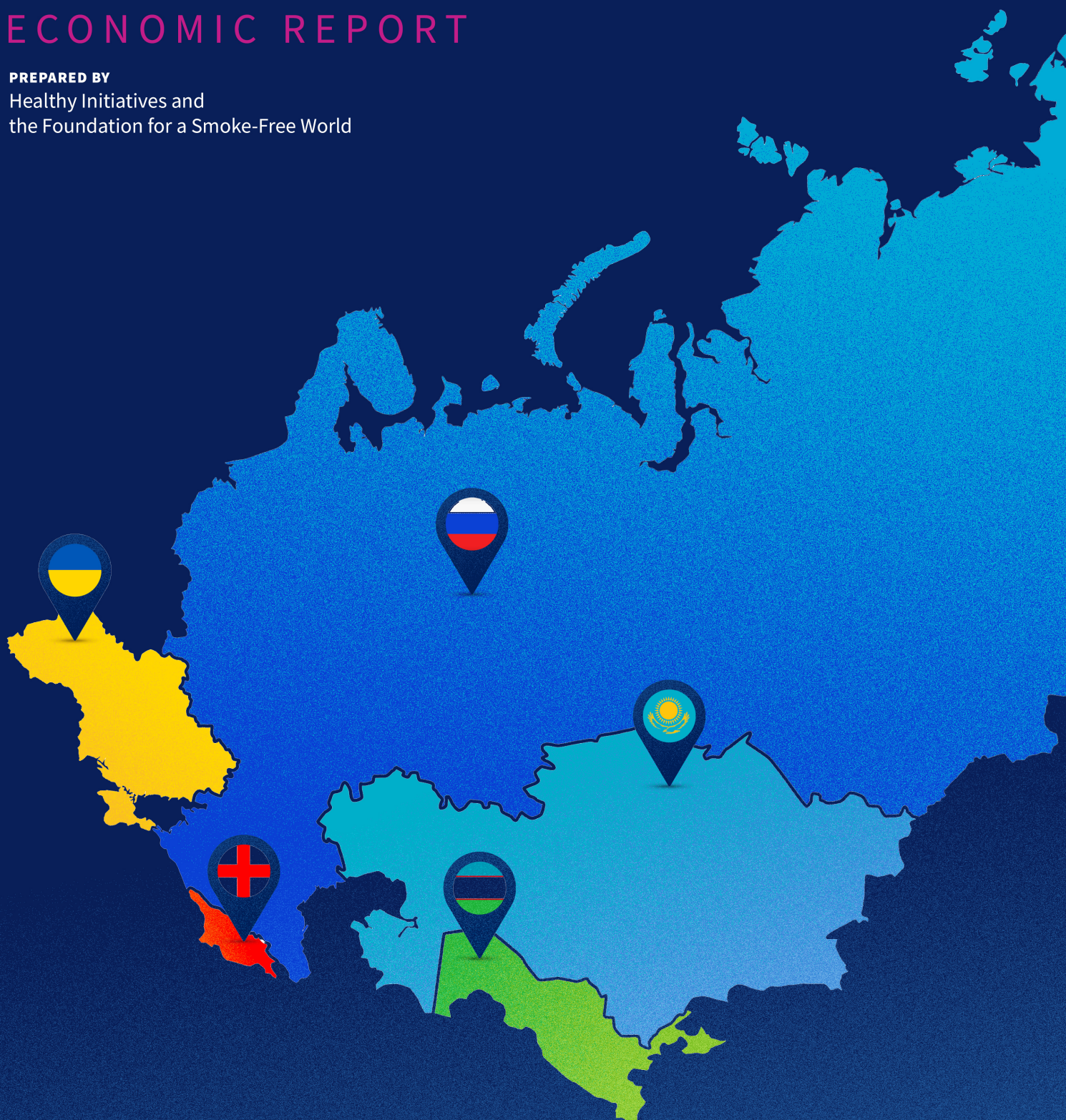
DECEMBER 2021

# Former Soviet Union

## ECONOMIC REPORT

**PREPARED BY**

Healthy Initiatives and  
the Foundation for a Smoke-Free World



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## Abbreviations

<b>FSU</b>	Former Soviet Union countries
<b>RU, RUS</b>	Russian Federation
<b>UA</b>	Ukraine
<b>KZ, KAZ</b>	Kazakhstan
<b>GE</b>	Georgia
<b>UZ</b>	Uzbekistan
<b>EU</b>	European Union
<b>HTP</b>	Heated tobacco product
<b>ENDS</b>	Electronic Nicotine Delivery Systems
<b>ESPAD</b>	European School Survey Project on Alcohol and Other Drugs
<b>GYTS</b>	Global Youth Tobacco Survey
<b>GATS</b>	Global Adult Tobacco Survey HDL high-density lipoprotein
<b>RLMS</b>	Russia Longitudinal Monitoring Survey of Higher School of Economics
<b>IHS</b>	Integrated Household Surveys
<b>WHO</b>	World Health Organization
<b>WB</b>	World Bank
<b>BI</b>	Bloomberg Initiative
<b>FCTC</b>	Framework Convention on Tobacco Control
<b>GDP</b>	Gross Domestic Product



## Introduction

This executive summary provides an overview of the findings in reports that examine the economic landscape of the tobacco sector in five countries that were formerly part of the Soviet Union: the Russian Federation (Russia), Ukraine, Georgia, Kazakhstan and Uzbekistan. These countries have a complicated and interwoven common past. Until 1991, they were all part of the Soviet Union, united by one government, one language, one healthcare system, an interdependent economic system, and universal military conscription into a common military complex.

After 1991, the countries went through social and economic transformations. They faced similar challenges and made similar economic decisions that were based, for the most part, on their previous common culture. Russia and Kazakhstan are now considered upper middle-income countries based on their annual per capita incomes. Russia's per capita annual income is \$11,585 and Kazakhstan's is \$9,731.10. Uzbekistan's annual per capita income is \$1,724.80, Ukraine's is \$3,659, and Georgia's is \$4,769. These three countries are considered lower middle-income countries.

To access the individual country reports, please click the links below.

- [Russian Federation](#)
- [Ukraine](#)
- [Georgia](#)
- [Kazakhstan](#)
- [Uzbekistan](#)

## Smoking prevalence

The smoking prevalence rate in Russia is 24.5% (RLMS2019). Ukraine's is 33.9% of the population age 18-69 (STEPS 2020), Georgia's is 26.2% (HIS/Geostat2019), Kazakhstan's is 23.8% (WHO2018), and Uzbekistan's ranges from 11.6% (WHO2017) to 12.3% (WB2018).

In all five countries, men smoke much more than women, and Georgia's male smoking prevalence rate of 57% is the highest in Europe. Uzbekistan has the highest rate of smokeless tobacco consumption in Europe.

Between 2012 and 2018, official sales of cigarettes in Russia dropped from 2,500 to 1,600 cigarettes per person annually, which is a 36% decline; however, the illicit cigarette market increased from 2% to 8.7% during the same time period according to tobacco industry data.

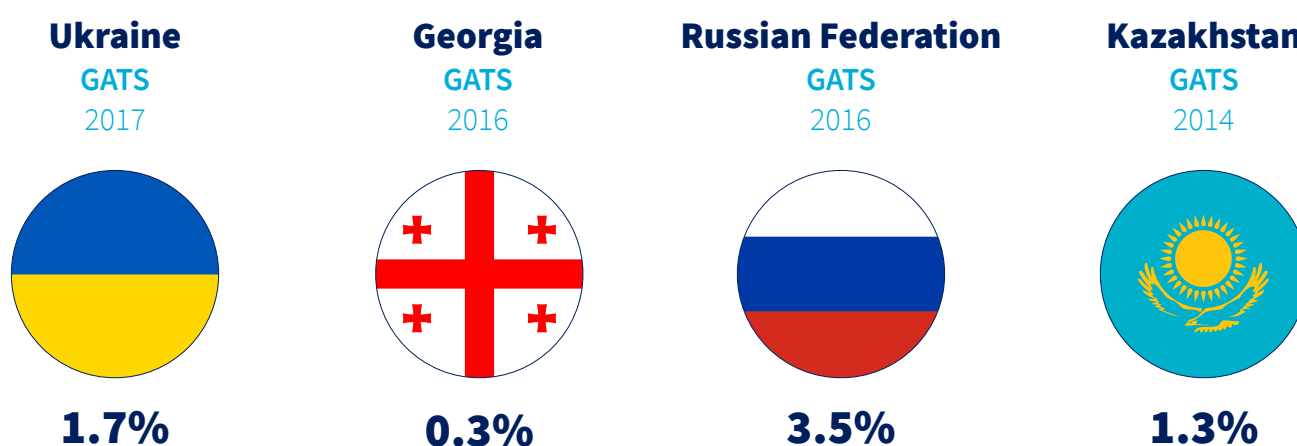
The prevalence of traditional tobacco use among adults in Ukraine is decreasing by about 3% per year and dropped 4% per year between 2013 and 2018. The use of electronic nicotine devices (ENDs) increased from 0.2% to 1.6% during this time period.

According to Euromonitor International, although the popularity of e-cigarettes and other vapor devices is low, it is steadily increasing. While the number of cigarette smokers declined by 22.7% between 2013 and 2018, the number of people using ENDs increased six-fold.

The number of adults who used ENDs in Georgia and Kazakhstan rose four times between 2013 and 2019 to 1.6% of the total adult population of Georgia and 1.7% of the total population of Kazakhstan. The major reason tobacco harm reduction products (HRPs) are not used more frequently in the five countries is that their governments' tobacco-control policies do not recognize or promote them.

Changes in smoking habits between 2008 and 2018 were not caused by the appearance on the market of new tobacco- or nicotine-containing products, but by policy changes that increased excise duties on some tobacco products at a rate higher than inflation.

### E-Cigarettes' prevalence among adults



## Tobacco and the HRP Market

The five countries in the project, as a group, are in the top five cigarette markets in the world, mostly driven by the smoking habits of Russian and Ukrainian men.

### TOP cigarette markets by number of sticks consumed in 2018

- China – **2,368.7**
- The five FSU countries (Russia, Ukraine, Kazakhstan, Uzbekistan, and Georgia) - **337.1**
- USA – **240.9**
- Japan – **132.7**
- Turkey – **118.5**

*Source: Euromonitor International, 2019*

Heated tobacco products (HTPs), have come on the market in the last three years and have changed it considerably. Tobacco burns at 600oC and releases a large number of harmful chemicals in the process. Heated tobacco products release nicotine vapor, but get no hotter than 350oC. There is no combustion, ash, or smoke, and far fewer harmful chemicals are released.

There are two principal heated tobacco systems in use at the moment. In one, the smoker puts tobacco into a rectangular box surrounded by a battery-powered heating unit. The heating unit raises the tobacco's temperature until vapor emerges, which the smoker inhales. The other is the size of a small cigar and is held like a cigar or cigarette. It is also battery-powered, but the heating unit is placed into the middle of the tobacco instead of around it. Smokers inhale the vapor that emerges in the same way they inhale smoke from a cigarette.

**Russia** is the world's fourth largest market for heated tobacco. According to Euromonitor and the Federal Tax Service's data on excise revenue, heated tobacco products represented a 5.5% share of Russia's tobacco market in January of 2020 and produced over \$1.3 billion USD. The market for heated tobacco in Russia is booming, although the market for e-cigarettes is not.

Electronic cigarettes arrived in **Ukraine** in 2013, followed by heated tobacco products in 2016. The market size of ENDS products increased 15 times between 2013 and 2018. Between 2016 and 2018, the ENDS market increased 1.57 times and Euromonitor expects it to increase the same amount between 2018 and 2023. The market for heated tobacco products grew 28.7 times between 2016 and 2018, and Euromonitor expects it to expand threefold between 2018 and 2023.

According to Euromonitor International, cigarettes accounted for 99% of all tobacco sales in **Kazakhstan** in 2018. From 2013 to 2016 there was an average growth of 14.6% per year in e-cigarettes and other electronic vapor products, but from 2017 on, their sale has declined. The changes may be related to the fact that heated tobacco was introduced in 2017 and its sales have doubled annually since then. Euromonitor expects this trend to continue.

The market size of cigarettes in Georgia grew steadily until 2019, when climbing cigarette prices began to produce negative results. In 2019, the total value of cigarettes sold in Georgia declined 14%. According to Euromonitor International, this decline was caused by consumers switching to cheaper alternatives as well as increased sales of illicit cigarettes.



The number of adult ENDS users in **Georgia** increased fourfold between 2013 and 2019. Only 0.4% of the total adult population used e-cigarettes in 2013, but this number was 1.6% in 2019. E-cigarettes and smokeless tobacco are most popular among adolescents aged 13 to 15 (GYTS 2017).

The market size of e-cigarettes is only 1.1% of the total sales of cigarettes. According to Euromonitor International, no smokeless tobacco or heated tobacco products were officially available in Georgia between 2013 and 2019.

On June 1, 2020, **Uzbekistan** introduced an “excise tax on imported heated tobacco products, smoking, chewing, snorting, sucking tobacco (snus) and hookah, nicotine-free snus, and nicotine-containing liquids.”

## Affordability and Accessibility

Heated tobacco products can be bought in four of the project’s five countries: Russia, Ukraine, Kazakhstan, and Georgia. E-cigarettes are available in all five. The sale of snus is forbidden in Russia, and Russia also banned the sale of nicotine patches in 2020.

Uzbekistan is currently struggling with the availability of a smokeless tobacco product called nasvai, which is produced without regulation and distributed through the illicit tobacco trade. Because of its lack of regulation, it is a definite health hazard; however, its price is several times lower than the price of the cheapest pack of cigarettes, making it affordable to all segments of the population. In the middle of 2020 an Agency for Regulation of Alcohol and Tobacco Market and Development of Winemaking was established in Uzbekistan (Presidential Decree ПП-4787 of 23.07.2020), which in January 2021 submitted to the Cabinet of Ministers a bill on Regulating Production and Sale of Alcohol and Tobacco Products, which provides a legal ban on the sale of nasvai.

Since 2018, there has been a partial ban on using hookahs and electronic cigarettes in public places in Uzbekistan within designated smoking areas (DSAs) (Law 478 of 02.07.2018). In July 2020, Kazakhstan adopted a new Code of the Republic of Kazakhstan On Public Health and Health Care System (No. 360-VI of July 7, 2020), which places systems for heating tobacco, e-cigarettes and liquids for them, as well as hookahs, on equal footing with tobacco products. The code also prohibits smoking new types of tobacco products in public places with designated smoking areas.

According to the National Cancer Institute/WHO monograph “The Economics of Tobacco and Tobacco Control,” produced in 2016, only a few studies have estimated whether demand for a product changes as its price rises or falls in Russia. In general, they found that men would usually not buy a product if its price went up significantly, but some women would still buy it. This may be due to the many brands of tobacco products available in Russia and the wide range of their prices. If a product’s price puts it out of reach, most Russians simply switch to a less expensive brand. Rising incomes, the high social acceptability of smoking, and limited public health efforts to curb smoking are other factors contributing to Russians deciding to switch products rather than pay a higher price for them.

The illicit trade in cigarettes in the five countries is very strong, and has varied from 4% to 15.7% in recent years say tobacco companies. The countries in the region play several roles in this trade at the same time. They produce illegal tobacco products, consume them, and transport them to both EU countries and the markets of other post-Soviet states.

The Parliament of Ukraine is now considering a bill to introduce more lenient excise rates for HRPs, which will reverse some of Ukraine’s previous legislation and give HRPs a chance to take hold in the country.

On January 1, 2021, Ukraine introduced an excise tax on “liquids used in electronic cigarettes” with licensing of activities for their production, wholesale and retail trade. It also unified the rates of excise taxes on cigarettes and tobacco products for electric heating (Law 446 of January 16, 2020). From January 1st, 2021, the specific excise tax on heat sticks had a 4-fold increase, from UAH 1,139 (€33) per kilogram to UAH 1,456 (€43) per 1,000 sticks. Moreover, starting from January 1st, 2021, electronic nicotine delivery systems (ENDs) such as e-cigarette liquids with and without nicotine are taxed at 3,000 UAH (€88) per 1 liter.

Since 2018 the Ukrainian Government has been implementing a 7-year plan on raising tobacco taxes. In line with this plan, the excise rate on cigarettes has increased by 20 percent beginning on January 1st, 2021, and will keep increasing every year in the period 2022-2025. However, in the period from October 2020 until March 2021 legislative initiatives to reduce excise taxes for HTP were introduced, which launched a lively discussion in the media providing a number of public arguments in favor of HRPs.



## Lack of Data

All the five countries consider tobacco smoking an acute problem; but only Russia conducts annual national statistical surveys on tobacco smoking. These surveys are conducted and sponsored by academia. The other four countries have such surveys only from time to time, usually after a WHO study is published.

None of the five countries have data on the use of HRPs, except for the general data produced by Euromonitor. There are no surveys on the public’s attitude on HRPs, or on the attitudes towards HRPs of other target groups, such as healthcare providers and policymakers.

Many of the statistical surveys available in the five countries do not address important questions and contradict each other. They do not create a real picture of tobacco smoking or provide useful data that can be employed in anti-smoking campaigns, especially for teenagers. Ukraine is the only country out of the five where surveys on teens are performed. These studies demonstrate that teens use e-cigarettes and other tobacco harm reduction products much less than conventional cigarettes. Only 13% of teens use an HRP every day, but 59% smoke a conventional tobacco product. The majority of teen HRP users (65%) use nicotine less

than once a week. Over 30 days, however, usage is similar, with 21.8% of teens smoking conventional products and 19.2% using HRPs.

There is no data in any of the five countries on how long people have smoked or the number of times they have tried to quit. There is also no data on whether people consume more than one type of nicotine-containing product (i.e., cigarettes and smokeless tobacco) or which social groups are more dependent on smoking. All of this data is necessary to make smoking cessation programs effective. Telephone help lines to support smokers trying to quit are non-existent in Ukraine, Uzbekistan, and Kazakhstan.

Georgia has smoking cessation programs, quit help lines, and publishes information on the number of people who call the quit lines, but none of the other countries conduct surveys on the efficacy of HRPs and their role in smoking cessation or on the number of smokers trying to quit on their own, without psychological or medical therapies.

## **HRP and Perspectives on Ending the Smoking Epidemic**

All five countries have been implementing the agenda of the WHO Framework Convention on Tobacco Control (FCTC) for 10-15 years. They have adopted most of the restriction measures, yet smoking reduction rates are no more than 3% a year. At this pace, none of the countries except Ukraine will reach the goal of a 30% drop in smoking prevalence by 2025 set by the WHO in 2010. Ending the smoking epidemic appears to be far in the future.

Russia and Ukraine have worked for many years with the Bloomberg Initiative (BI) to reduce tobacco use, and civic tobacco control groups in these two countries are strong. Russia is the largest BI funding recipient in the region, having received over \$10 million USD over the last 10 years. Ukraine is the longest BI funding recipient, having received help from the BI for the last 12 years. For more than 10 years, these two countries' state tobacco control policy has been formed exclusively by the BI's political agenda.

A change in the tobacco-control legislation in Georgia and Kazakhstan was driven and supported by the BI as well, and the BI began work on bringing tobacco control legislation in Uzbekistan in line with the WHO's FCTC in 2018.

## **Geopolitical Factors and Tobacco Control Legislation**

Comprehensive tobacco control measures and tax rate increases are the main tools of policymakers as they fight the tobacco epidemic, but geopolitical factors also have an impact on the tobacco control decisions made by the governments of all five countries.

Russia and Kazakhstan are part of the Eurasian Economic Union (the Union), in which Russia plays a leading role. There is a high probability that Uzbekistan will join the Union in the near future, but it has observer status at the current time.

The Union has a common customs area and common technical regulations. Its statutes control and harmonize both tobacco taxes and tracking-and-tracing systems, pictorial warnings on tobacco packaging, and the maximum amounts of tar, CO<sub>2</sub>, and nicotine cigarettes may contain.

Uzbekistan is dependent on Russia in terms of economy and trade. About 20% of the able-bodied population of Uzbekistan have long-term jobs in Russia as well as seasonal jobs back home, and the money they send to



Uzbekistan from their Russian employment is about 15% of Uzbekistan's GDP. Russia's influence in Uzbekistan's key economic decisions is strong, including decisions made about the tobacco market.

Ukraine and Georgia are trying to become part of the European Union (EU). Ukraine signed and ratified the EU Association Agreement in the autumn of 2014, and the relationship was formalized on September 1, 2017. Georgia signed the EU Agreement in June of 2014 and the relationship was formalized in 2016. Both countries have established a free trade zone with the EU and are now harmonizing their national laws with EU laws. Ukraine has a common border with the EU countries, which is regularly crossed by the illicit cigarettes trade; but Ukraine and Georgia are now under obligation to increase their tobacco taxes at a rate that will eliminate the economic rewards of smuggling.

It is also essential to mention that Russia still has several hotbeds of military activity in Abkhazia and Ossetia in the Republic of Georgia; in Donetsk and Luhansk, new republics that were formerly part of Ukraine along the Russia/Ukraine border; and in Transnistria along the Ukrainian/Moldavian border. All of these territories contain large tobacco factories and take an active part in the illicit trade in cigarettes.

## **Taxation**

Although the World Bank recommends that cigarette taxes constitute between two-thirds and four-fifths of the retail price to discourage cigarette consumption, and EU tax law requires that cigarette taxes constitute at least 70 percent of the retail price, the excise tax on a pack of cigarettes has not exceeded 60% in any of the five countries during the last 10 years.

Regulations on tobacco harm reduction products (HRPs) in the five countries have been recently adopted and are still unstable. Improving and sustaining these tax systems depends on how much policymakers actually get to know about the properties of HRPs. Imposing regulations on HRPs without knowing how much they can reduce tobacco harms could devastate public health.

There are two excise tax systems in the region. The Unified Excise Tax System, under which conventional cigarettes and sticks are taxed at the same level, went into effect in Georgia in 2018 and will go into effect in Ukraine in 2021. The Differential Excise Tax System, under which there is a lower excise rate for sticks (calculated per kilo) and conventional cigarettes, is used in Russia and Kazakhstan.

In 2019, tobacco companies were the second largest taxpayers, just after oil and energy companies, in all five project countries. Tobacco companies provide 2.6% of the revenue in Russia, 2.6% in Kazakhstan, 6.1% in Ukraine, and 6.3% in Georgia. During the project, no direct correlation was found between the amount of influence the tobacco companies wielded and the strictness of tobacco control legislation.

On June 1, 2020, Uzbekistan introduced an "excise tax on imported heated tobacco products, smoking tobacco, chewing, snuff, snus and tobacco for hookah, nicotine-free snus, and nicotine-containing liquids". The plan is to tax similar domestically produced products in 2021 as part of the framework on excise rate unification.

## **Cessation Programs and HRPs**

The healthcare systems in all five countries focus on treating diseases instead of trying to prevent them, which makes tobacco harm reduction products and tobacco cessation programs unimportant.

In 2018, 226,000 people died in Russia of smoking-related diseases, 201,000 of whom were men. This figure is the highest mortality rate in the five countries.

Smoking cessation programs do not exist in all the countries, and where they do exist they are ineffective because evidence-based interventions are not valued or incorporated. Many healthcare workers are not interested in working with long-term smokers who want to quit. Very few healthcare workers have any proper information about harm-reduction products or know any innovative ways to help people stop smoking. Harm-reduction products are not considered ways to help people gradually stop smoking in the five countries, and there is very little specialized knowledge about any kind about smoking cessation in the region. In Russia, narcotics abuse specialists handle smoking cessation programs and smoking cessation medication is not covered by the state medical system.

Both Russia and Georgia have free smoking cessation help lines, but there is no data on whether or not they are effective. The Russian government has the resources to explore this issue; but although smoking cessation is part of the Russian government's health strategy, it has not been done to date.

## **Illicit Trade**

Easy access to illegal smoking products in the region is a barrier to ending the tobacco epidemic. Some of the countries both import and export illicit cigarettes. According to the 2018 World Customs Organization's Illicit Trade Report, Russia is among the top 15 countries that import and export tobacco products, and Ukraine and Russia have smuggled cigarettes to the EU for years. Because of a tax increase, illicit cigarettes from the Union, especially Belarus, are being brought into Russia and comprise 15% of its cigarette volume for the first time in history.

## Key Findings

### These are the project's most important findings:

- All five countries of the project have implemented the WHO FCTC restriction measures, but smoking reduction rates are only 3% per year.
- With the exception of Russia, most of the research and policy data that is being used to craft tobacco-control legislation in the region is contradictory, which makes decisions about tobacco control regulation suspect and unproductive.
- Combating smoking is equated with combating nicotine addiction, which makes introducing both tobacco control measures and harm-reduction products challenging.
- There is no coordination between the Ministries of Finance and the Ministries of Health in any of the countries, which makes taxing either conventional cigarettes or harm-reduction products arbitrary and often unfair.
- In Ukraine and Georgia, harm-reduction products and combustible cigarettes are taxed at the same rate and the differences in their effects on health are not considered. Tobacco taxes are seen as ways of producing revenue. Any effect they have on tobacco control is considered an unexpected bonus. This sort of policy is typical of new and weak state institutions in the post-Soviet era.
- Russia can be considered a role model for other FSU countries because it is trying to switch from combustible cigarettes to harm reduction products. The Russian market is one of the largest in the world for HRPs. The excise policy in Russia currently taxes harm-reduction products at the same rate it taxes combustible cigarettes (4% per year), and the tax does not increase as cigarette prices increase.
- Russian surveys on smoking do not include questions on harm-reduction products.
- If the excise tax on conventional cigarettes is higher than the excise tax on harm-reduction products, then harm-reduction products become more affordable and people will start using them. Both Ukraine and Georgia are starting to introduce harm-reduction products and need to get good, evidence-based information on how much they reduce smoking-related health problems.
- Tax increases can become a key long-term tool of governments that are trying to end the smoking epidemic.
- The current tax policy in all countries of the project (except Russia) does not popularize harm-reduction products, it popularizes cheap tobacco products such as non-filtered and smuggled cigarettes.
- The illicit tobacco trade is booming. In 2019, 15% of the cigarettes in Russia were illicit. Cheap, easy-to-acquire, and unhealthy tobacco products are standing in the way of stopping the smoking epidemic in the region.



## Gaps

- Lack of data and surveys on HRP. None of the countries in the region have regularly renewed data on tobacco products that could be used in surveys and research. Though Euromonitor provides data on harm-reduction products (HRPs), it is general and does not indicate which social groups use harm-reduction products the most, which use two kinds of conventional tobacco, or which use both HRPs and combustible tobacco products. There is also no data on the attitudes of healthcare workers, policymakers, or the general public on HRPs. This makes effective HRP regulation very hard.
- Lack of tax policy that would popularize HRPs and encourage people to switch from combustible cigarettes to HRPs. HRP policy in the region is just being formed and is still unstable and largely subjective. There is no data on what impact different tax systems have on smokers and the tobacco epidemic in general.
- Lack of objective, high-quality analytical arguments on HRPs and their impact on smoking harms that policymakers, the media, and health influencers can use. Surveys on this issue are usually done in English and will need to be translated before this Russian-speaking region can launch scientific and academic discussions on best practices around HRPs.
- Lack of analysis of the economics of regulatory policies around HRPs.
- Lack of data on the economic and public health costs of the illicit tobacco trade in the region.