

Tobacco Taxes in Ukraine

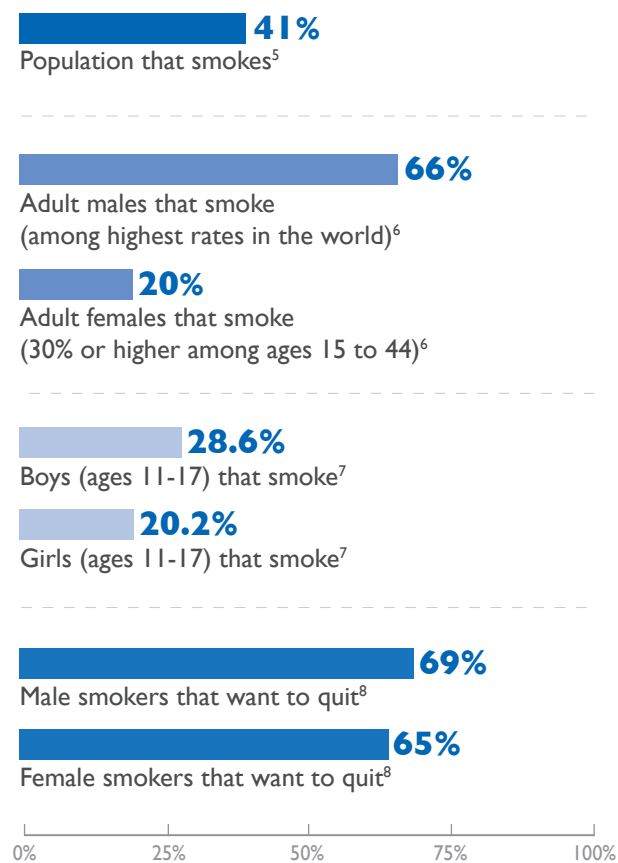
Based on: *Economics of Tobacco Taxation in Ukraine*. Hana Zarubova Ross, Samina Shariff, Anna Gilmore. 2008.

The low cost of tobacco products in Ukraine contributes to very high levels of cigarette smoking, especially among males. In addition, increases in disposable incomes have made cigarettes affordable for more people, and the entry of transnational tobacco companies into the market has resulted in large increases in advertising and promotion of cigarettes. The most effective way to reduce tobacco use in Ukraine is to raise the price of tobacco through excise tax increases.

Tobacco Use in Ukraine

- 16.5 million people smoke in Ukraine.¹
- On average, Ukrainian smokers spend 2-9% of their monthly income on cigarettes.^{2,3}
- Ukrainians spent 12.9 billion UAH (\$2.5 billion USD) on cigarettes in 2007, equal to 2% of Ukraine's GDP.⁴

Figure 1: Tobacco use in Ukraine (2005)

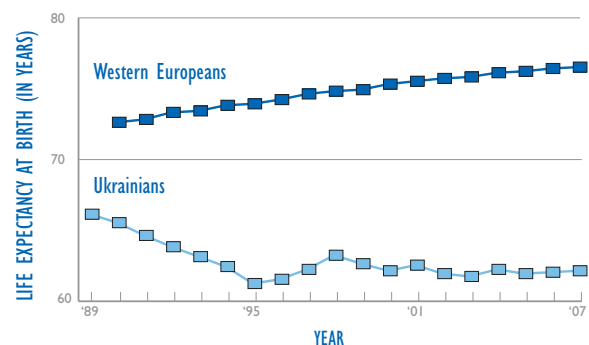


Impact of Tobacco Use in Ukraine

High smoking rates contribute to a significant number of early deaths, resulting in declining male life expectancy, high healthcare costs and lost productivity.

- Approximately 115,000 Ukrainians die each year from tobacco-related diseases.⁹
- From 1995-2005, the Ukraine population declined by 4.6 million people. Much of this decline is due to premature mortality among men.
- Costs due to tobacco-caused productivity losses amount to 3.6% of Ukraine's GDP — an underestimate because it does not include tobacco-related healthcare costs and costs associated with secondhand smoke exposure.¹⁰
- While Ukraine is an exporter of tobacco products, it must import large quantities of tobacco leaf for its cigarette production. On balance, the country loses money in the trade.

Figure 2: Life Expectancy of Males in Western Europe Increases, while Decreasing in Ukraine



Source: U.S. Census Bureau. International Data Base. 2007 [cited April 12, 2009]; Available from: <http://www.census.gov/ipc/www/idb/tables.html>.

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Higher Taxes Reduce Smoking

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases. Higher prices discourage youth from initiating cigarette smoking and encourage current smokers to quit.

Tobacco Taxes in Ukraine are Low

Raising tobacco taxes has the added benefit of increasing government revenue. Currently Ukraine has a very low tax rate and brings in little profit to the government compared to its neighbors. With such a low tax rate, the health care and productivity costs imposed by smoking in Ukraine outweigh the cigarette tax revenue.

Figure 3: Tax Collected in 2004

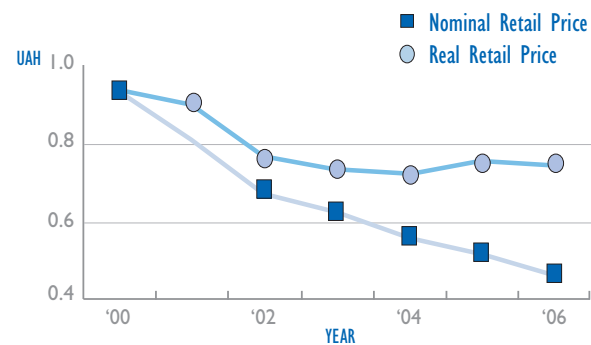
Country	Excise tax collected in billion USD	Excise tax collected per smoker in USD	Tax as a % of retail price (VAT + ad valorem + specific)
Italy	10.74	1,019	75
Germany	15.69	829	76
France	10.46	817	80
Slovenia	0.29	709	75
Poland	2.52	256	79
Bulgaria	0.75	255	76
Russia	0.81	18	33
Ukraine	0.28	17	35

Source: European Commission. Consultation Paper on the Structure and Rates of Excise Duty Applied on Cigarettes and Other Manufactured Tobacco. 2007.

Ukraine Tobacco Prices Declined from 2000 to 2006

Between 2000 and 2006, cigarettes became cheaper and more affordable in Ukraine. The price of cigarettes in Ukraine fell faster than the price of basic goods such as bread. Real prices of cigarettes fell 26.2% from 2000 to 2006 and have not kept up with inflation. At the same time, the increase in real disposable income, about 89% between 2000 and 2005, makes cigarettes even more affordable.

Figure 4: Decline of Nominal and Real Retail Price of Local Non-filtered Cigarettes in UAH



Source: Based on price data obtained from Ukraine State Statistical Office as reported in http://www.adic.org.ua/adic/reports/toh-2006/expenditures.htm#Table_5

Tobacco Taxes Save Lives and Increase Government Revenue

The World Bank recommends, and European tax law requires, that cigarette tax constitute at least 70% (with value added tax) of the retail price.^{11,12} In 2007, Ukraine's tobacco taxes were only 35% (filtered cigarettes) and 36% (unfiltered cigarettes) of the retail product prices, well below recommendations by the World Bank and European Union.

If Ukraine raised its tax rate from 35% to 70% of retail price, the number of smokers would decrease by one to two million and 500 thousand to 1 million tobacco-related premature deaths among current smokers would be averted. Tobacco tax revenue would increase by 245%, adding 5.8 to 7 billion UAH (\$1.2 to 1.4 billion USD) in tax revenue each year.

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Figure 5: Impact of Tobacco Tax increase to 70% of retail price (elasticity -0.1 to -0.2)

Reduction in number of smokers	1 to 2 million
Lives saved	0.5 to 1 million
Additional excise revenue (annual)	5.8 to 7 billion UAH (\$1.2 to 1.4 billion USD)
Productivity savings	1.5 to 2.9 billion UAH (\$302 to \$605 million USD)

Recommendations

- Increase the tobacco tax rate to at least 70% of the retail price by increasing the specific excise tax to meet World Bank and European Union recommended levels of taxes.
- Automatically adjust the tobacco tax rates to account for inflation.
- Equalize the excise tax rates for filtered and non-filtered cigarettes.
- Equalize the excise tax rates on cigarettes and other tobacco products.
- Let the specific components of the excise tax drive the tax increase to achieve the maximum public health benefit. If the ad valorem part of the excise tax is kept, then the rate should be based on the retail price of the tobacco products.
- Invest a significant portion of the tobacco tax revenue in tobacco prevention and cessation, public health, law enforcement, and health care.
- Make the executive branch of the government responsible for the excise tax legislation.
- Adopt the tobacco control measures called for by the Framework Convention on Tobacco Control.

The enactment of progressive tobacco tax policy will:

- Save lives
- Slow the population decline
- Reduce the number of people using tobacco
- Increase labor productivity
- Boost economic growth

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