

# Tobacco Taxes in Russia

Based on: *Economics of Tobacco Taxation in Russia* By Hana Zarubova Ross, Samina Shariff, and Anna Gilmore

## Tobacco Use in Russia

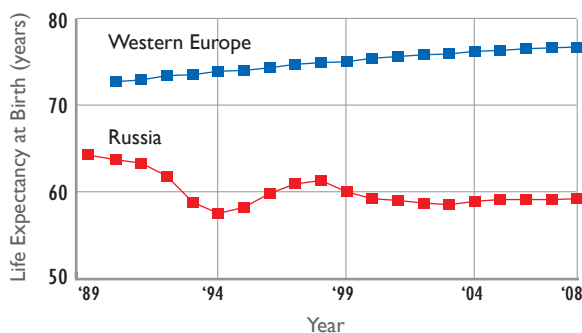
- There are 44 million smokers in Russia; one-third (31%) of Russians smoke.<sup>1</sup>
- Male smoking rates are among the highest in the world; 61% of males smoke. Female smoking rates more than doubled from 7% to 15% between 1993 and 2004.<sup>2</sup>
- 27% of boys and 24% of girls smoke.<sup>3</sup>
- Per capita consumption of cigarettes in Russia is rapidly growing, increasing 66% since 1990.<sup>4</sup>
- In 2005, Russians spent RUB 83.4 billion (\$2.9 billion USD) on cigarettes.<sup>5</sup>

## Impact of Tobacco Use in Russia

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

- 330,000 to 400,000 Russians die each year from tobacco-related diseases.<sup>6</sup>
- Tobacco ranks in the top 3 risk factors for premature death in Russia, following high blood pressure and high cholesterol. These 3 risk factors are estimated to contribute to 75% of all deaths.<sup>7</sup>
- Russian male life expectancy dropped from 64 years in 1989 to 59 years in 2008, in part due to increased tobacco consumption. By comparison, men in Western Europe live, on average, up to 77 years.<sup>8</sup> (Figure 1).

Figure 1: Life Expectancy of Males in Western Europe vs. Russia, 1989-2009



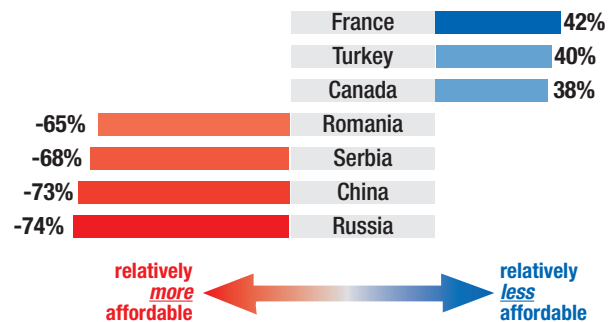
Source: U.S. Bureau of the Census. International Data Base. Washington, DC: Bureau of the Census, 2008

- Productivity losses due to smoking-related premature mortality are at least RUB 671.6 billion (\$24.7 billion USD) each year, more than 3% of Russia's GDP.

## Cigarettes in Russia are Cheap and Becoming More Affordable Over Time

- Taking into account inflation and increasing consumer purchasing power, cigarette prices are becoming more affordable over time.
  - The inflation adjusted prices of cigarettes fell by at least 40% between 2000 and 2007.
  - At the same time, inflation adjusted wages increased by 12% to 15% a year, providing Russians with more money to purchase goods, including cigarettes.<sup>9</sup>

Figure 2: Cumulative Change in Affordability of Cigarettes, 1996-2006



Based on the percent change in Relative Income Price (RIP) by country. The RIP calculates the percentage of per capita GDP required to purchase 100 packs of cigarettes. A positive percent change indicates cigarettes have become less affordable over time; a negative percent change indicates cigarettes have become more affordable.

## Higher Taxes Reduce Tobacco Use

The most effective way to reduce tobacco use is to raise the price of tobacco through tax increases that are large enough to affect retail prices. Higher tobacco prices discourage youth from initiating tobacco use and encourage current users to quit.

## Tobacco Tax Rates in Russia are Low

Currently Russia has a very low tobacco tax rate, which leads to the loss of government budget income compared to its neighbors (Table 1).

- Total tax (including VAT) represents about 33% and 43% of the retail price for filtered and non-filtered cigarettes, respectively. The World Bank has noted that taxes on cigarettes between two-thirds and four-fifths of the retail price are commonly present in countries with effective tobacco control policies.

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Table 1: Total Tax as a Percent of Retail Price and Tax Revenue, 2004

Country	Tax* as a % of retail price	Excise tax collected**
France	80	10.46
Poland	79	2.52
Germany	76	15.69
Bulgaria	76	0.75
Italy	75	10.74
Slovenia	75	0.29
Russia	33	0.81

\*Includes Specific, Ad Valorem, and VAT \*\*In billion USD

- With such a low tax rate, health care costs and loss of productivity caused by smoking outweigh the cigarette tax revenue, generating net loss for the government and the entire economy.

## Raising Taxes Saves Lives and Increases Government Revenue

If Russia raised their tax rate from its current rate of 33% to 70% of retail price, the number of smokers will decrease and health would improve. Tobacco tax revenue would increase by over 300%, adding RUB 125 billion in tax revenue each year.

Table 2: Impact of Cigarette Tax Increase to 70% of Retail Price (-0.2 elasticity)

Reduction in number of smokers	5.4 million
Lives saved	2.7 million
Increase in tobacco tax revenue (annual)	RUB 125 billion (5 billion USD)
Productivity savings	RUB 77 billion (3 billion USD)

If only 2% of this additional tax revenue were allocated to tobacco control measures, Russia would have RUB 2.5 billion (\$100 million USD) per year to spend on promoting healthier lifestyles, including support for tax collection administration and other tobacco control measures.

## Recommendations

- Increase the total tax to at least 70% of retail price. Increasing the specific component of the excise tax is preferable, because it will reduce the relative price differences between various cigarette brands, thus reducing the incentive for brand substitution and saving more lives at the same level of revenue generation.
- A tax increase above the level of inflation will reduce the affordability of all cigarette brands. Smokers currently consuming the low-priced cigarettes will have very few choices for substitution but will have more incentives for smoking cessation.
- Strengthen tax administration and tax law enforcement to reduce possible tax avoidance.
- Earmark a portion of tobacco taxes for public health activities and for improving health care.

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