

RUSSIA

(October 1998)

*"The Marlboro Man, that Madison Avenue icon of rugged American individuality, today looms across Moscow's billboard-filled skyline in much the same way Lenin's visage once commanded the view."*¹

Russia is the fourth largest cigarette market in the world, and one of the fastest-growing. Over two-thirds of Russian men and almost one-third of Russian women smoke, consuming close to 300 billion cigarettes a year. This lucrative market has attracted foreign cigarette companies, who now produce 70% of the cigarettes consumed in Russia.²

Role of Foreign Cigarette Companies

The current domination of the tobacco market by foreign multinationals can be traced back to 1990, when Philip Morris and RJ Reynolds came to the rescue of the former Soviet regime. At that time, the country was facing a cigarette shortage due to inadequate supplies of tobacco and other materials. Desperate smokers in a number of cities had begun rioting, blockading roads and burning vehicles. In return for cash and some barter goods, the US tobacco companies airlifted 34 billion cigarettes to the country, helping to stave off a major political crisis and giving them a foothold in an extremely lucrative market.³

Before the airlift, RJ Reynolds sold no cigarettes in the former Soviet Union. By 1995, it was selling over 50 billion a year⁴ and has seen its sales in Russia double each year for the past three years, reaching \$351 million in 1997.⁵ The company, which was the first to invest in Russia in 1992⁶ when it built its first factory there, has invested \$520 million⁷, and has already captured around 20% of the market.⁸ Together with Eastern Europe, the former Soviet Union is RJ Reynold's largest foreign market.⁹ Sales of the company's new Peter I brand have skyrocketed, due in part to an "aggressive expansion of the company's manufacturing capacity and sales and distribution organization" according to a company press release.¹⁰ A RJ Reynolds spokesperson notes, "it's a very important market for us...because smoking has a long-standing tradition in Russia."¹¹

Since 1992, Philip Morris, RJ Reynolds and British American Tobacco (BAT) have spent over \$1 billion building new manufacturing plants in Russia and rehabilitating old ones.¹² By setting up plants inside Russia these companies have avoided Russia's stiff taxes on imported cigarettes. More importantly, it has allowed them to take advantage of two bountiful resources in Russia -- cheap labor and cheap factories. As the *St. Petersburg Times* notes, multinational tobacco companies have "bought up big stakes in choice domestic factories in order to produce more cheaply and efficiently, buy up well-known and potentially valuable local trademarks, barrage the consumer with as many choices as possible and ultimately control who enters the market..."¹³

The apparent success of their Russian enterprises recently led the foreign tobacco giants to approve a new round of investments. In separate announcements on the same day in March 1998, Philip Morris, RJ Reynolds and BAT all announced new investments in Russia totaling \$480 million. Philip Morris will invest \$300 million to build a new plant outside of St. Petersburg with a capacity to produce 25 billion cigarettes annually. RJ Reynolds will invest \$120 million over the next two years to boost its production at its St. Petersburg plant. And BAT, which recently spent \$150 million to upgrade its Russian plants, announced additional investments worth \$60 million.¹⁴ Says a BAT spokesman, "We see these new markets opening up in Central Asia and the Commonwealth of Independent States as really being the future of BAT well into the next century".¹⁵

Advertising

The expansion of foreign tobacco companies in Russia has been accompanied and aided by their aggressive advertising and marketing techniques. Foreign cigarettes are the largest advertiser on Russian TV and radio¹⁶ and account for as much as 40% of all advertising in the country,¹⁷ spending more than \$10 million each year on advertising.¹⁸ Advertising in Russia is almost completely in the hands of foreign advertising agencies, for which tobacco companies are the biggest clients.¹⁹ Recently Russian companies have stepped up their advertising and marketing efforts in response to the onslaught by the foreign cigarette companies.²⁰

Although Russia has relatively strict laws limiting tobacco advertising, there is little enforcement. Although cigarette ads on TV have been banned, and printed advertisements must carry health warnings, the companies have devised a myriad of marketing tricks to win over Russian consumers. They bombard the populace with images linking smoking with freedom, sex appeal and adventure. Cigarette billboards have slogans like "Total Freedom" or "Rendezvous with America."²¹ They also sponsor sports teams, give away free samples at nightclubs, and even sponsor car giveaways.²²

In 1997, Philip Morris sent a traveling disco to the Siberian city of Novosibirsk with processional dancers, an elaborate light and sound system and staff dressed in Marlboro gear. The price of admission? Five empty packs of Marlboros, three if you were a student. According to John Brier, an American who filmed the disco, "You showed your packs at the gate. You couldn't say 'I don't smoke. Can I pay to get in?' You had to have the cigarettes. They advertised it consistently for a month. It was on the radio. There were flyers on light poles. Every night there were hundreds of people, sometimes a thousand on weekends."²³

Market research has shown that Russians maintain strong loyalty towards Russian-made brands, coupled with nostalgia for the past and fear of growing western influence.²⁴ Foreign cigarette companies have responded by manufacturing "local" brands and creating advertising campaigns that appeal to Russian nationalist sentiment. Peter the Great cigarettes, produced by RJ Reynolds, are designed for those who "believe in the revival of the traditions and grandeur of the Russian lands" says the inscription on the back. BAT takes it a step further. One of its advertisements for the Yava Gold brand depicts a missile-shaped pack of cigarettes soaring over Manhattan and, in large print, the words, "Strike Back".²⁵ Another shows a Russian cosmonaut, tethered to the Mir space station, painting "Yava Gold" on the American space station above the words "retaliatory strike."²⁶

With their sizable economic clout, backed up by advertising firms and lobbyists, the foreign cigarette companies make sure that their interests are taken care of in the "new" Russia. After intense lobbying, these companies won changes in the country's tax laws in 1997 which led a 20% price increase for some domestically manufactured cigarettes, while brands such as Marlboros only went up by 2%.²⁷

Health Impact

As foreign cigarette companies have become more active in Russia, adult smoking rates have increased significantly. Russian cigarette consumption has increased 40% since 1986, to close to 300 billion cigarettes per year. Approximately 67% of Russian men smoke (up from 53% in 1985) and 25-30% of Russian women smoke (up from 10% in 1985). Among health workers, almost 50% of male medical workers smoke, according to a 1993 survey.²⁸

According to the World Health Organization (WHO), smoking rates among young people are increasing as well, particularly among girls. A 1992-1993 survey by the Russian Academy of Medical Sciences found that for children aged 10-14, 19% of boys and 4% of girls had tried smoking. Between the ages of 15 and 18 those numbers rose to 35% of boys and 10% of girls.²⁹ A more recent survey of young people in Moscow showed 14% of fifth-grade boys smoke. By the tenth grade, 53% did so. Most smoke foreign cigarettes mostly because of the aggressive marketing tactics of the multinationals, which link

smoking with glamour, sophistication and freedom.³⁰ Foreign cigarette companies in Russia of course deny that they are even partly responsible for the increase in smoking. Philip Morris spokeswoman Elizabeth Cho insists that, "Russians smoked before we got there. We export cigarettes. We don't export smoking."³¹

Between 1985 and 1992, reported cases of lung cancer in Russia increased by 22%.³² By the year 2020, the WHO says, tobacco use will account for 22% of all deaths in Eastern Europe and the former Soviet Union. Currently, in the Russia alone, tobacco causes about 280,000 deaths per year, or 32% of all male deaths and 5% of all female deaths.³³

Aside from the advertising restrictions, the government has established maximum permissible tar and nicotine levels. In addition, smoking is prohibited in many public areas, such as buses and theaters, although enforcement is uneven.

Economic Impact

U.S. tobacco company representatives are unapologetic about their activities in Russia. Former RJ Reynolds chairman James Johnston went so far as to say in Moscow speech in 1995 that "we have enormous opportunities to use the tobacco industry as a powerful force for improving the economic and social well-being in this part of the world." Whose well-being he was referring to was not clear.³⁴

Although the cigarette companies generate some limited employment, they send all of their profits out of the country, and their voracious consumption of imported tobacco leaf and cigarette-making machinery represents a significant drain on Russia's foreign exchange reserves. In fact Russia is the world's largest importer of tobacco leaf. With rising demand from the multinationals and minimal domestic production (Russia grew only 1,900 tons of tobacco in 1994), tobacco imports have tripled since 1990.³⁵ In 1993, for example, imported tobacco cost the country \$348 million, while export earnings from tobacco totaled only \$6 million.³⁶ Added to this of course is the enormous cost to Russian society in terms of smoking-related mortality and morbidity, as well as lost productivity.

Resources:

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<http://www.globalink.org/gtm/SFTFC>

Washington Post Series:
<http://www.washingtonpost.com/wp-srv/inatl/daily/nov/18/series.htm>

St. Petersburg Times Article on the Tobacco Industry in Russia
<http://www.spb.ru/times/211-212/bc.html>

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EndNotes

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- ³⁶ WHO Country Case Study