

UKRAINE (June 1999)

Following the break-up of the Soviet Union in the early 1990s, Ukraine became a prime target for Western cigarette companies. Having first entered the country with exports from facilities in Western Europe, Philip Morris, R.J. Reynolds, British American Tobacco (BAT) and the German tobacco company Reemtsma quickly began buying up cigarette factories previously run by the Soviet government. Six of Ukraine's 11 cigarette factories, accounting for over 90% of manufacturing capacity, are now run by Western companies.¹ According to a study by the U.S. consulting firm Deloitte & Touche, "The Ukrainian tobacco industry has a higher share of privatized entities and foreign investment than any other sector of the [Ukrainian] economy." By the end of 1999, foreign firms will have invested more than \$520 million,² representing over a quarter of all foreign direct investment in Ukraine since 1991.³ Ukrainians buy an estimated 80 billion cigarettes a year, reason enough for Western cigarette companies to have an active presence in the country.⁴ But Ukraine has also emerged as an important production platform from which the companies have begun exporting cigarettes to other countries in the region.⁵

Tobacco Multinationals to the Rescue

The current domination of the tobacco market by foreign multinationals can be traced back to the summer of 1990, when Philip Morris and R.J. Reynolds came to the rescue of the former Soviet regime. At the time, the country was facing a cigarette shortage due to inadequate supplies of tobacco and other raw materials. Frantic smokers in a number of cities, including the Ukrainian capital Kiev, had begun rioting, blockading roads and burning vehicles. A desperate President Mikhail Gorbachev fired the minister in charge of the tobacco industry and arranged for Philip Morris and R.J. Reynolds to export 34 billion cigarettes to the region – the largest single export order in the history of these tobacco giants – in exchange for some cash and barter goods. Gorbachev thus succeeded in postponing his eventual ouster, and the cigarette companies gained a foothold in a lucrative and, until then, tightly controlled market. As the *Washington Post* puts it, "as their 1990 Soviet rescue mission illustrates, [the companies] went to the ruined economies of the former Soviet empire as self-styled liberators and capitalist pioneers, bringing hundreds of millions of investment dollars, advanced technology and a dynamic, take-charge enthusiasm to societies that are as starved for optimism as they are for cash."⁶

The Players

Currently, the German manufacturer Reemtsma is the leading foreign cigarette manufacturer in Ukraine, controlling some 34% of the market in 1995. Its most popular brands include Prima and Stolychnye.⁷ The company has been particularly successful in Ukraine and other countries in the former Soviet Union by reviving local brands instead of immediately introducing new, western brands. Reemtsma Vice President Dieter Müller says, "Of course, we are developing our international cigarettes, but we have invested significant funds and efforts in rejuvenating local, traditional brands, as well." For example, Reemtsma "modernized" the traditional local brand, Prima, with new packaging and materials, and as a result sales have skyrocketed. According to the trade publication, *Tobacco Reporter*, economic hardship has led many smokers in Eastern Europe to carry two brands of cigarettes, a prestigious international one for social situations and an inexpensive local brand to smoke on a day-to-day basis.⁸

R.J. Reynolds was the first American cigarette company to invest in the Ukraine in 1992 when it acquired a controlling interest in two formerly state-owned cigarette factories.⁹ Company officials negotiated directly with aides to the Ukrainian president to acquire the factories, and, according to Russian businessmen quoted in the press, offered a set of luxury cars to "top government officials" to secure the bid. Reynolds denies that any such deal was made.¹⁰ Up until 1998 its factory in Lviv made

some 9 billion cigarettes annually, or 12% of national production.¹¹ The company closed the factory in 1998 due to reduced demand in Russia but still operates the Kremenchuk factory in eastern Ukraine.¹²

In 1994, Philip Morris purchased a 51% stake in the Kharkov factory where it produces over 6 billion cigarettes annually.¹³ Shortly after the purchase, the company closed the factory to Ukrainian bureaucrats and journalists and withdrew from the Ukrainian tobacco association, Ukrtabak.¹⁴ In 1998, the company said it planned to invest another \$150 to \$200 million to build another tobacco factory in Ukraine.¹⁵ BAT, meanwhile, has invested \$65 million for a controlling stake in a Priluki factory that produces more than 10 billion cigarettes per year.¹⁶ The company produces original brands designed especially for the Ukraine and former Soviet markets, including Otaman, Kozak, and Gold Dollar.¹⁷

Smuggling

Cigarette smuggling has emerged as a major problem in Ukraine in recent years, depriving the government of much-needed tax revenue. The smuggled cigarettes come from Belgium, Cyprus, Holland, Turkey and other countries, and account for a whopping 97% of all cigarettes imported into the country.¹⁸ According to a secret report by Duncan-Kiev, a major distributor for Philip Morris, "Smuggling to Ukraine is undertaken with the support of the five transnational tobacco corporations (Philip Morris, Reynolds, Reemstma, BAT, Rothmans). They could stop smuggling immediately if they wished, because they know which of their clients are involved."¹⁹

Agriculture

In 1998, farmers produce only 3,000 tons of tobacco in southern and western Ukraine. The country is known primarily for its oriental tobacco, but test crops of Virginia and burley tobacco have been planted in recent years. All of this tobacco is used for domestic production, while an average of 43,000 additional tons is imported each year.²⁰ The American leaf company Standard Commercial is involved in the purchase and processing of tobacco grown in Ukraine.²¹

Prevalence/Health Impact

In 1994, 56% of men and 22% of women in Ukraine smoked. Although overall cigarette consumption has fallen in recent years due to declining incomes, among young people and women, smoking rates are on the rise.²² In 1990, an estimated 10% of 12-13 year olds and 40% of 16-17 year olds smoked. Prevalence rates peak at 61% among the 20-29 age group.²³ Urban/rural differences are significant. Approximately 61% of rural men smoke, with rates of over 70% among rural men in the 20-29 age group. Prevalence rates among urban males are slightly lower.²⁴ Among women, smoking has been rising at alarming rates. Between 1987 and 1994, the overall female prevalence rate rose from 8.3% to 20.5%, with an increase – among women aged 20-29, it rose from 12.8% to 31.9%.²⁵

In 1995, about 123,000 Ukrainians died from tobacco-related illnesses, representing 16% of all deaths in the country. This figure includes 108,000 men (27% of male deaths) and 15,000 women (4% of female deaths). Smoking is estimated to be the cause of 37% of male deaths between the ages of 35 and 69 and more than half of all male deaths from cancer.²⁶ Ukraine ranks fourth among European countries in smoking-attributable deaths in men. The average life expectancy among Ukrainian males is only 57 years.²⁷

Tobacco Control Initiatives

Smoking is prohibited on domestic flights, in all workplaces, on public transportation and in theaters.²⁸ Cigarette packages must carry a health warning such as "Smoking is dangerous to your health" or "Smoking makes life shorter." Smoking is banned on public transportation and in cinemas, hospitals and theaters.²⁹ Although Ukraine has a number of other tobacco control laws on the books,

numerous loopholes exist and enforcement is weak. For example, while giving out free samples is prohibited, consumers can “exchange” nearly empty packs of cigarettes for full ones. The government requires retailers to purchase a license to sell tobacco. Although it is illegal to sell cigarettes to minors under the age of 18, the practice is widespread and vendors are rarely punished. The Government Coordinating Body for Tobacco Control has proposed imposing fines and withdrawing the licenses of offenders, but the vast majority of vendors – those on the streets – sell without a license.

According to Ukrainian law, cigarette advertisers must spend 5% of their profits on “social advertising” to warn consumers of the danger of smoking, but anti-smoking ads have not yet appeared. The only such advertising so far has been a 1998 campaign to discourage youth smoking funded with \$100,000 from Philip Morris. The campaign was centered around a series of posters plastered on the street and in schools and youth centers, with young people playing sports or on the computer that said “Smoke? Is that interesting? I haven’t got time!”. Many of the posters were placed side-by-side with Marlboro ads showing rugged cowboys on horseback.³⁰

Advertising: “Taste the Freedom”

Prior to independence, when the Ukraine was still part of the Soviet Union, tobacco advertising was banned. Today, cigarette ads can be found all over the country, from billboards and magazines as well as on t-shirts, plastic bags, cafe umbrellas and trolley cars. Alcohol and Western-brand cigarette advertising now make up 60% of all outdoor billboard advertising. Philip Morris and BAT top the list of advertisers, spending a combined \$7 million on billboard campaigns in 1997. While it was still a part of the Soviet Union, smokers in Ukraine generally smoked local brands or cheap Bulgarian imports.³¹ Smoking was common but rarely associated with glamour. Now billboards call on consumers to “fire the night,” “taste the freedom” and “test the West.”³²

In the mid-1990s the government increased its efforts to curb the advertising campaigns of Western cigarette companies, proposing a strict ban on tobacco advertising in 1996. The companies’ response was to sign a voluntary code of conduct that prohibited cigarette commercials on television before 10 p.m. and removed cigarette billboards within 100 yards of schools. Defeated in their attempt to replace the proposed ban with the voluntary code, the companies regrouped. Philip Morris hired the Leo Burnett advertising agency to pull together a coalition of cigarette companies and advertisers to fight the new proposals. These firms donated billboard space, as well as radio and TV time and encouraged newspaper editorialists to criticize the proposed restrictions. The coalition lobbied parliament, using slick information packets produced clandestinely by Philip Morris. On the cover of the packets was an image of crushed tobacco leaves forming the figure of \$400 million – “That’s the amount that Ukraine’s economy will lose in the next five years as the result of a ban on tobacco advertising,” it said. A flyer in the packet said that it had been prepared for members of parliament by the “Association of Independent Advisors on the Question of Reviving the Ukrainian Tobacco Sector.” There was, in fact, no such association. Michael Parsons, a spokesman for Philip Morris International in Lausanne, Switzerland, later acknowledged the company’s authorship of the materials.

The \$400 million estimate “played a great role in forming the advertising law,” said Volodymyr Rudyi, staff director of the Ukrainian parliament’s health committee. “The legislators could see a concrete figure of what it would cost” to ban tobacco advertising, he said, while proponents lacked the funds to do their own counter-study, which might have demonstrated the health costs associated with tobacco use. In the end, parliament rescinded most of the meaningful advertising restrictions, making way for the Marlboro man to roam the streets of Kiev once more.

American tobacco companies openly claim to be selling much more than a product. They are selling a slice of the West – because that is what is popular in Eastern Europe today. “People assume that whatever comes from the West is better,” said Miroslav Matseikiv, a psychology professor in Kiev. Consumer goods produced domestically, he added, “are associated with the failure of the Soviet system.” The ads introduced in Ukraine in the early 1990s are “artistically beautiful, professionally

photographed, like movies,” according to Vitaliy Movchanyuk, director of the Ukrainian Health Ministry’s public education institute. “The Soviet Union never had such advertising. People are used to it in the West. They have learned to sift through it for truth and lies.... But our consumers are more psychologically vulnerable to being manipulated by slick advertising.”³³

Advertising by mail is still permitted, and companies have targeted teenagers with mail promotions associating smoking with toughness and success. The companies admit that children get their hands on promotional items and cigarettes. As BAT’s Bukhalov notes, “If a ten-year-old has a great T-shirt with the Lucky Strike mark, and then he sees the cigarettes Lucky Strike, maybe he’ll want to try them.... And that’s bad.”³⁴

In Kiev, girls with short skirts offer pedestrians free cigarettes. No proof of legal age is required.³⁵ Philip Morris sponsors “Marlboro Adventure Team” sporting contests in the Ukraine. It also has sponsored a “Win a Trip to America” contest where participants are asked to send in three empty packs of Philip Morris brand cigarettes. The top prize was a free trip to the United States for two. There were also 9,000 additional prizes including watches, t-shirts and travel bags emblazoned with the Marlboro logo or the L&M logo in the form of an American flag.³⁶ According to Anastasiya Zanuda, a Ukrainian journalist, “My 14-year-old sister was invited to fill out a Marlboro competition entry form on the street, even though she was in her school uniform. She didn’t win the trip to the States, but Philip Morris sent her a Marlboro travel bag.”³⁷ Philip Morris also organizes a “Person of the Year” competition, co-sponsored by leading television stations and newspapers, that is heavily advertised.³⁸

R.J. Reynolds, meanwhile, has sponsored and videotaped lavish parties showing “affluent, fashion-conscious young sophisticates dancing, drinking champagne and smoking in a nightclub adorned with Camel posters, featuring a skimpily clad Camel girls’ dance group,” says a report in the *Washington Post*. Desperate for free programming, the state-owned television company later ran the tape numerous times on prime-time television.³⁹ The company also sponsors the “Camel Rock” television program and publishes the “Kiev Camel Fun Guide” which lists entertainment events targeted at young people.⁴⁰

Resources:

Addicted to Profit: Big Tobacco’s Expanding Global Reach (Essential Action/San Francisco Tobacco Free Project, 1998): <http://www.essential.org/action/addicted/addicted.html>

Alcohol and Drug Information Centre: <http://www.adic.org.ua/>

San Francisco Tobacco Free Project: <http://www.globalink.org/gtm/SFTFC/>

Tobacco BBS (newspaper and wire stories on domestic and international tobacco issues, as well as comprehensive resource guides): <http://www.tobacco.org>

Washington Post (excellent 1996 series on global tobacco issues): <http://www.washingtonpost.com/wp-srv/inatl/daily/nov/18/series.htm>

WHO Country Case Study on Ukraine: <http://www.cdc.gov/nccdphp/osh/who/ukraine.htm>

World Health Organization’s Tobacco Free Initiative: <http://www.who.int/toh/>

This case study was originally developed by the Tobacco Free Project of the San Francisco Department of Public Health with funding from Proposition 99, the Tobacco Tax Initiative, under contract 89-97927. The authors, Ross Hammond and Mary Purcell, would like to thank Konstantin S. Krasovsky of the Alcohol and Drug Information Centre for his assistance and comments on this paper.

EndNotes

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- ³ Vlada Tkach, "Big Tobacco Invades Eastern Europe, and Business is Smokin'," *The Financial Times*, 13 August 1998.
- ⁴ "Ukraine," in *World Tobacco File*, Market Tracking International Ltd., London, 1996.
- ⁵ "Russia/Ukraine: Tabakprom Suggests Import Duty," *Kommersant-Daily*, 3 February 1998 (via Information Access Company 12 February 1998).
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- ¹³ "Multinational Investment," *Tobacco Reporter*, Winter 1998 Bonus Issue.
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- ¹⁹ Cited in Konstantin Krasovsky, "Abusive International Marketing and Promotion Tactics by Philip Morris and RJR Nabisco in Ukraine," in *Global Aggression* (Boston: INFACT, 1998).
- ²⁰ "Ukraine," *World Tobacco File*, (London: Market Tracking International Ltd., 1996).
- ²¹ Standard Commercial, SEC form 10-Q, 11 February 1999.
- ²² "Ukraine," in *World Tobacco File*, (London: Market Tracking International Ltd., 1996).
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