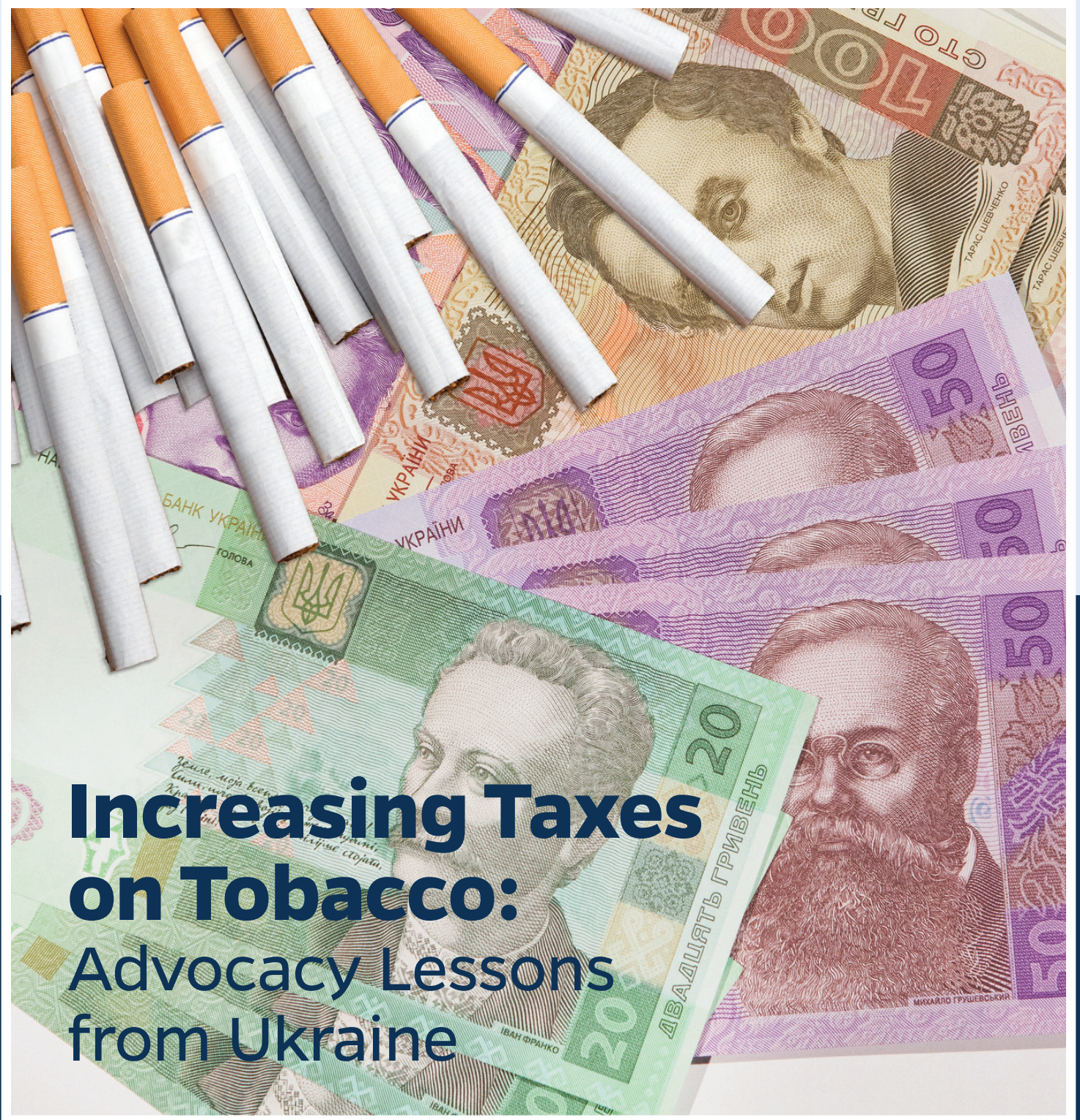




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Increasing Taxes on Tobacco: Advocacy Lessons from Ukraine

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Executive Summary

Tobacco use in Ukraine is a major public health problem that imposes a substantial health and economic burden on the country. In 2017, 130,000 Ukrainians died from tobacco-attributable disease. Further, loss of productivity from tobacco use amounts to almost 4% of the country's gross domestic product.

In order to address this epidemic, the government of Ukraine has taken several key steps to curb tobacco use, including increasing tobacco taxes. On December 17, 2017, the seven-year plan (2018-2024) was adopted, laying out annual increases in the price of cigarettes. This plan increased specific tobacco excise taxation by nearly 30% in 2018, and subsequently by an additional 20% every year between 2019 and 2024, with the option to impose additional increases to account for inflation as part of the annual budgetary review process. The seven-year plan is significant as, for the first time in the history of tobacco excise taxes in Ukraine, annual increases in the specific tax rate imposed on cigarettes are mandatory for many years into the future.

Given Ukraine's success, this case study was conducted to explore the process and determinants that led to the passage of the seven-year plan, with a specific focus on the tactics and arguments used by proponents and opponents. Results showed that this achievement was attained through an effective advocacy campaign grounded in scientific evidence and an in-depth understanding of the political economy of the country. Leveraging the country's need to meet the European Union-Ukraine Association Agreement and to generate government revenue, proponents worked in partnership, built on past achievements, capitalized on each other's strengths, and integrated tobacco taxation into the broader macroeconomic and fiscal discussion in Ukraine. Lessons from this case can be used by proponents in other countries interested in pursuing similar policy change.



Background

Tobacco use is a major public health problem in Ukraine. In 2017, 23.0% of all Ukrainian adults reported that they currently use tobacco products, with 22.8% of Ukrainians reporting cigarette use.¹ **Over 130,000 Ukrainians died from tobacco-caused diseases in that same year.**³ Prevalence of tobacco use is higher among males (40.1%) compared to females (8.9%), as is tobacco related mortality, with 30% of all male deaths and 7% of all female deaths estimated to be caused by tobacco use.³

Tobacco use creates a large health and economic burden in Ukraine:

- ▶ 21% of cancer deaths and 12% of all deaths were attributable to smoking in 2010.⁴
- ▶ Tobacco use is one of the top three leading risk factors contributing to morbidity and mortality.³
- ▶ Compared to similar countries, Ukraine has a higher than average burden of ischemic heart disease (IHD), stroke, and cardiomyopathy, all diseases that can be caused by smoking.^{3,5}
 - Ukraine has the second highest mortality rate from IHD in the European and Central Asian region and IHD is the leading cause of death in Ukraine.^{3,6}
 - Nearly half of deaths from smoking (44.9%) are caused by IHD and nearly 13% of smoking attributable deaths are caused by stroke.³
- ▶ Lost productivity due to tobacco use amounts to over 3.6% of Ukraine's Gross Domestic Product and the average Ukrainian spends 2-9% of their monthly income on cigarettes.⁷

Given the severity of this problem, Ukraine is considered a “priority country” for tobacco control by the Bloomberg Initiative to Reduce Tobacco Use.^{1,2}

▶ Importance of tobacco taxation

Tobacco taxes are one of the most effective tobacco control policy interventions, especially for youth and for low-income populations, which are particularly price sensitive.⁸⁻¹⁰ Raising the price of tobacco products reduces affordability, which prevents new users from starting, and encourages cessation or reduced consumption among current users.^{8,9} Article 6 of the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) encourages countries to increase tobacco taxes to decrease tobacco consumption.¹¹ Ukraine ratified the FCTC in 2006. Guidelines for Article 6, adopted in 2014, state that parties should increase tax rates regularly, taking into account inflation and income change to ensure tobacco products remain less affordable over time.¹² These guidelines were not fully integrated into Ukrainian tax policy before 2017, as increases in household income reduced the real cost of cigarettes and contributed to higher per capita cigarette consumption.¹³ This context made tobacco tax policy especially important for Ukraine.



The tobacco industry and tobacco excise taxes in Ukraine

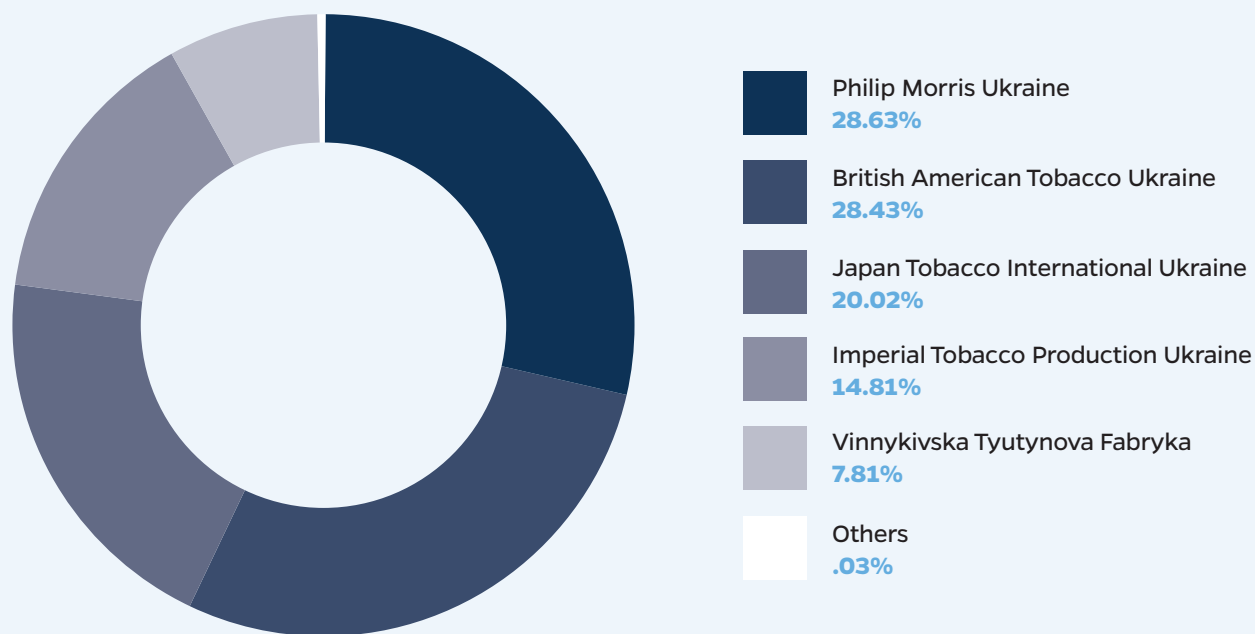
The tobacco industry has been implicated in the affordability of tobacco products in Ukraine and has an extensive history of price manipulation and interference in tobacco excise tax policy.¹⁴⁻¹⁶ Transnational Tobacco Companies (TTCs) began their initial investment and interference in post-Soviet countries, including Ukraine, after the fall of the Soviet Union in 1991.¹⁵ The emergence of TTCs changed the Ukrainian cigarette market considerably, as TTCs brought more attractive and enticing marketing and a wider variety of brand variants.¹⁴ The tobacco industry has also historically set explicit goals of mitigating changes in tobacco prices and excise taxes so that these changes do not exceed that of inflation.¹⁶ This industry has actively lobbied to reduce tobacco prices in Ukraine in order to achieve this goal.¹⁶

In the early 1990s, when the Ukrainian government first started raising tobacco taxes, the government encountered resistance from the tobacco industry, which argued that cigarettes were becoming too expensive for most Ukrainian consumers, and that tax revenue needs would not be met.¹⁶ The Ukrainian government subsequently lowered taxes to address tobacco industry concerns.¹⁶ Although lower taxes lead to a 12% increase in the sale of cigarettes, the government realized that, contrary to industry arguments, this marginal increase was not substantial enough to generate needed revenue and voted to raise taxes.¹⁶ The resulting revenue generation emboldened the Ukrainian government, an experience that would encourage continued tax increases until 1999. In 1999, however, the Ukrainian Parliament changed the tax from euros to hryvnia (UAH; the local currency), resulting in a decrease in the real price of cigarettes for the first time since 1996. A period of tobacco price stagnation ensued until 2007 and the tax structure changed from a purely specific tax, where all filtered

cigarettes were taxed at the same rate, regardless of price, to a mixed system including both a specific and an ad valorem component.¹⁶ During this time, cigarettes became increasingly affordable due to the stagnation of cigarette prices and the increase in average income.¹⁷ Starting in 2005, the Ukrainian government began formulating tobacco control policies, including an annual increase in tobacco taxes.¹⁴ The Ukrainian Parliament passed tobacco tax increases every year from 2005-2008, but these increases were minimal and did not keep pace with inflation.¹⁴ Moreover, the tobacco industry was able to absorb the excise tax increases and did not pass these increases on to consumers.¹⁴



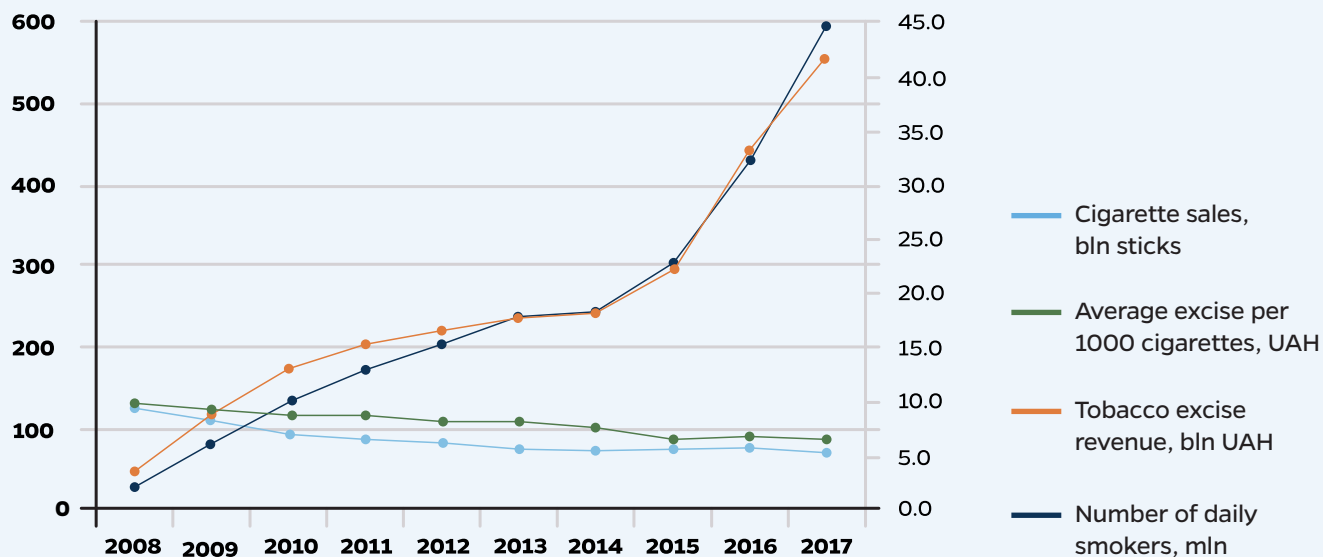
Figure 1. Percentage of Market Share by Tobacco Company in 2018¹⁸



Despite continued industry lobbying, Parliament substantially increased cigarette excise taxes in the latter half of 2008 - the first year tax increases outpaced inflation since 1998.¹⁶ A severe economic recession in Ukraine in 2009 resulted in a two-fold decrease in the real affordability of cigarettes.¹⁹ Parliament continued to pass significant tax increases during the next two years, increasing the real price of cigarettes and generating billions of hryvnas in additional revenue.^{16,19} Tax increases were smaller between 2011 and 2013, only increasing by 45% over the three year period,²⁰ but beginning in 2014, excise taxes were again increased on a regular basis. In 2014, the specific excise rate was increased three times, which increased the tax by a total of 40% during a single year. Amendments to the Tax Code passed in 2014 and set for 2015 implementation brought the excise tax rate for non-filtered cigarettes up to the rate of filtered cigarettes.¹ The excise tax was increased by 40% every year from 2015 to 2017, which included an additional 20% increase in the ad valorem excise tax in the 2016 legislation.¹

Excise tax policy in Ukraine from 2008-2017 resulted in significant gains for public health. Excise taxes increased the average excise rate for cigarettes by 20-fold and annual tobacco excise revenue by 11-fold in the 9-year period. Concurrently, cigarette sales decreased by 46% and daily smoking prevalence decreased by 35%. Work by the World Bank provided further support, showing that short-term losses, specifically losses caused by spending on more expensive cigarettes for low-income populations, are more than compensated for via long-term gains from lower medical expenses and more working years.²¹

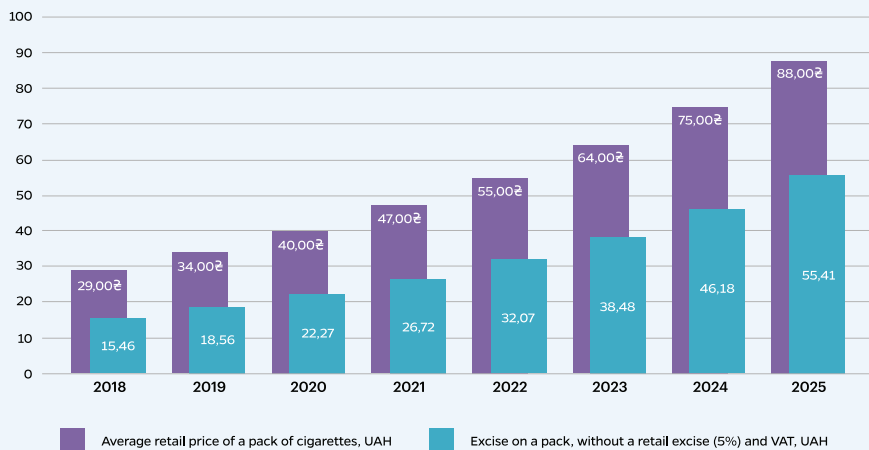
Figure 2. Changes in excise tax, revenue from excise tax, cigarette sales, and number of smokers in Ukraine from 2008-2017.²²



The seven-year plan (2018-2024)

On December 7, 2017, the seven-year plan was adopted, laying out annual increases in the tobacco specific excise rates in order to meet the European Union-Ukraine Association Agreement (EU-UAA) minimum specific excise rate of 90 Euros per 1,000 cigarette sticks. The EU-UAA was ratified on September 16, 2014 and fully entered into force on September 1, 2017. Article 353 of the Association Agreement requires Ukraine to gradually approximate the excise rates of tobacco products to that of the European Union (EU).²³

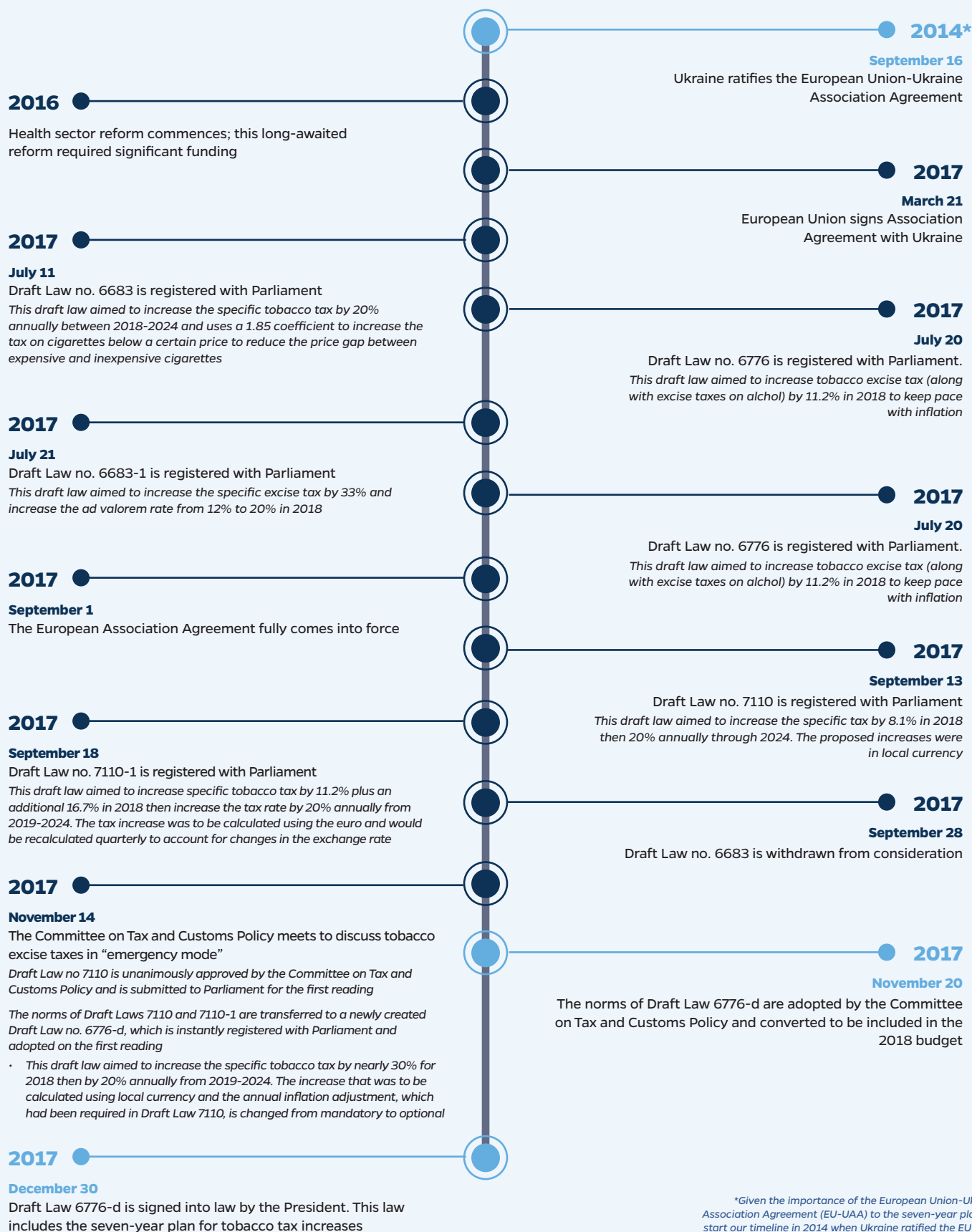
Scenario of the expected cigarette price increase, UAH per pack



The seven-year plan is significant because, for the first time in the history of tobacco excise taxes in Ukraine, it mandated annual increases in the specific tax imposed of cigarettes many years into the future to harmonize their tax policy with that of the EU. Other countries that have pursued a similar approach include Moldova.²⁴ The seven-year plan increased specific tobacco excise taxation by nearly 30% in 2018, and by 20% every year between 2019 and 2024, with the option to impose additional increases to account for inflation as part of the annual budgetary review process. This law increased the specific component of the excise tax, but did not address the ad valorem component.²⁵

This case study describes events leading up to the passage of the seven-year plan, focusing on tactics and arguments used by both proponents and opponents as well as key factors that catalyzed the passage of the plan.

Timeline 2014-2017



*Given the importance of the European Union-Ukraine Association Agreement (EU-UAA) to the seven-year plan, we start our timeline in 2014 when Ukraine ratified the EU-UAA.

Methods

We used a case study approach to identify the tactics and arguments used by proponents and opponents of the seven-year plan.

Data were gathered between February and June 2019 from two sources: key informant interviews (N=13) and document review (N=21). For the document review, relevant documents were purposively sampled based on their relevance to the study aim and included reports published by governmental, non-governmental, and international organizations, news media coverage, and social media posts.

Based on the document review and recommendations from local partners, we purposively sampled key informants from governmental agencies, non-governmental organizations, multi-lateral organizations, and universities, who played a significant role in the passage of the seven-year plan (Appendix). Opponents of this plan, including individuals from the tobacco industry, governmental agencies and non-governmental organizations, were also contacted; however, all declined or did not respond to interview requests. One interview was carried out with the use of a translator; all remaining interviews were conducted in English.

Data from key informant interviews and documents were analyzed using deductive and inductive coding. The initial draft of the document was also circulated to key informants to obtain feedback and validation.

Limitations

This case study has some limitations. First, opponents of the seven-year plan, as identified by local partners and in documents, declined participation or did not respond to interview requests. While proponents did observe the tactics as well as arguments used by opponents, the scope might be limited as a result. Second, we were only able to access one government official. As such, the government's perspective might not have been fully captured. Lastly, some documents were only available in Ukrainian and were translated via Google Translate, which may have resulted in some translation inaccuracies.

Despite these limitations, this case study is the first to examine in detail the tactics and arguments used by proponents and opponents during the passage and implementation of the seven-year plan. Findings from this case helped identify innovative and successful tactics and arguments that proponents of tobacco control in other countries can add to their repository of strategies to counter tobacco industry interference.

Proponents of the Seven-year Plan

> Key Players

- ▶ Some academics
- ▶ Some members of the Ministries of Finance and Health
- ▶ Some civil society organizations
- ▶ Some members of parliament
- ▶ Some journalists
- ▶ International and multi-lateral institutions

Tactic and Objectives

Lobbying: to build support for the seven-year plan

Select Examples

- ▶ Meeting with parliamentarians on a regular basis to build support for increasing tobacco taxes. During these meetings, proponents explained the methodology used to develop the plan as well as the implications, including revenue that could be generated under different tax rates, impact on cigarette consumption and corresponding improvements in population health
- ▶ Supporting the government and pro-tobacco tax parliamentarians with timely evidence regarding the effectiveness of tobacco taxes and likely outcomes
 - The World Bank conducted modeling to illustrate the outcomes of different policy scenarios.²⁶ The Ministry of Finance selected one of these scenarios, revised it and incorporated it as part of the preparation of the 2017 budget. The revenue generation projections from the World Bank report were validated by actual revenue generated, further increasing World Bank's credibility with the Ministry of Finance and Parliamentarians
 - Assisting in drafting laws, analyzing legislation, and providing comments
- ▶ Addressing concerns raised in parliament by explaining how increased tobacco taxes would benefit low income smokers²¹
- ▶ Inviting decision makers to attend high-level events focused on increasing tobacco taxes and combating illicit trade
 - National and international tobacco tax experts were included in these events to explain the mechanics and likely outcomes of raising tobacco taxes
- ▶ Participating in different public meetings where the topic of tobacco taxation is discussed
- ▶ Using public demonstrations to elevate the visibility of the proposed solution and call on policymakers and the public to take action
 - Rallying outside of the parliament
 - Engaging in street action



Tactic and Objectives

Media Advocacy: to draw attention to the harms of tobacco use, shed light on the effectiveness of increasing tobacco taxes, and counter industry arguments

Select Examples

- Using social and traditional media to draw attention to the issue and explain why taxation is a powerful tool
 - Medical doctors were invited to speak with media to highlight the importance of tobacco taxes for health
- Conducting press conferences where experts are invited to answer questions from journalists and explain tobacco taxation
- Transforming data into media messages and easier-to-understand infographics to counter industry arguments
- Collaborating with international partners to generate international media attention
 - The World Bank commissioned and supported the preparation of the following video to document the projected effects of different policy proposals for the seven-year plan:
<https://www.worldbank.org/en/news/video/2017/04/26/video-tobacco-tax-in-ukraine27>
- Training, sensitizing, and cultivating close relationships with journalists
 - Organizing roundtables, working groups and expert groups to capture media attention



Tactic and Objectives

Working in partnership: to pool resources and expertise, and share as well as verify data with each other

Select Examples

- ▶ Collaborating between multiple organizations, including the World Bank, Ukrainian experts, and colleagues from the European Union to conduct data simulations and projections to model the impacts of tax increases; Ukraine was also contrasted to neighboring countries and European Union members to illustrate the gap and encourage a “good neighbor policy” by increasing local prices to decrease illicit export
- ▶ Providing support for partners’ work
 - International partners provided technical assistance through training programs (e.g. advocacy and legal trainings) for members of civil society organizations; they also provided international examples and advice when needed
 - Proponents attended each other’s events

Tactic and Objectives

Collecting and Disseminating Scientific Evidence: to enhance the evidence base of the seven-year plan, show the likely benefits of increasing tobacco taxes, and counter industry arguments

Select Examples

- ▶ Collecting, monitoring, and analyzing cigarette prices, production, import, export, sale, revenue and consumption data on a regular (monthly) basis
- ▶ Collecting, monitoring, and analyzing different types of reports on tobacco taxation, including those produced by the tobacco industry and its allies
- ▶ Developing and disseminating analytical notes, factsheets, as well as other types of reports to show the impact of tobacco tax increases in Ukraine, including the number of lives saved and the tax rate Ukraine should implement if the country wants to reach the European Union goal of 90 euros per 1,000 sticks²⁶
- ▶ Producing material on how increasing tobacco taxes can improve health and save the government money
 - The World Bank conducted a Public Finance Review of Ukraine, identifying opportunities for fiscal reform that would stabilize the county’s finances, and improve public services and economic growth in the medium term. This report included estimates of decreases in morbidity and mortality and the health care costs that could be saved by increasing the tobacco excise tax²⁶
- ▶ Meeting with different stakeholders (e.g. government officials, policy makers, journalists) to explain the data they used in their modeling and the mechanics of the models, implications of the different assessments, benefits of the tobacco tax increase for revenue generation and population health, and the effects of increasing tobacco taxes in other countries with similar economic standing
- ▶ Creating the “Ukrainian Center for Tobacco Control” website, which houses key facts and data about tobacco control
 - <http://tobaccocontrol.org.ua/>²⁸
- ▶ Conducting polls to show public support for the tax; results demonstrated that taxation of tobacco products remains consistently popular



Opponents of the Seven-year Plan

> Key Players

- Tobacco industry
- American Chamber of Commerce
- European Business Association
- Industry front groups (e.g. the International Center for Policy Studies; Association of Retailers)
- Some academics
- Some journalists
- Some members of the Ministries of Finance and Health
- Some members of parliament (e.g. Committee on Taxation and Customs Policy)
- Ukrainian Association of Tobacco Producers (Ukrtyutyun)

Observed Tactic and Objectives

Lobbying: to persuade policymakers to advocate on behalf of the tobacco industry's interests

Select Examples

- Cultivating close relationships and engaging in behind the scenes lobbying with key decision makers. It is suspected that the industry paid some parliamentarians to support legislation with lower rates of tobacco tax increase and favor proposals that kept the price of cigarettes lower relative to other proposals
- Speaking about the alleged harms of the proposed policy during parliamentary meetings
- Using business associations and front groups to persuade key decision makers
- Influencing the Parliamentary Committee on Taxation and Customs Policy, which proponents have identified as being a target of industry lobbying

Observed Tactic and Objectives

Media Advocacy: to weaken proposed tobacco tax bills and to discredit tobacco control proponents

Select Examples

- Launching public discreditation campaigns on prime-time television and social media to undermine tobacco control proponents
- Writing articles on the internet about the disadvantages of rapidly increasing tobacco taxes
- Paying media to publish industry-sponsored articles, which includes the industry's position and arguments against significant tobacco tax increases
- Publishing expert opinions on the disadvantages of the tax increase, including how it will be detrimental to the poor and will lead to a huge increase in illicit trade
- Using the media to highlight instances where illicit cigarette packs without tax stamps are found and confiscated by the government
- Cultivating ties with journalists



Observed Tactic and Objectives

Formation of Front Groups: to create the perception that groups of citizens are opposed to the seven-year plan and to discredit the tobacco control movement

Select Examples

- ▶ Publishing articles as experts and non-governmental organizations using industry arguments to emphasize the harms of rapid tobacco tax increases
- ▶ Attempting to attend the World Bank's meetings where data simulations are discussed
- ▶ Participating in parliamentary committee hearings about the tobacco tax
- ▶ Forming "civil society organizations" that support the industry's positions on tobacco tax increases

Key Components of the Campaign to Pass the Seven-year Plan

Science

The use of scientific evidence provided a strong base for proponents to advocate from and was critical to the passage of the seven-year plan. Academic experts and groups with economic expertise contributed to the generation and dissemination of scientific evidence that supported the seven-year plan. The World Bank's modeling and projections, for example, were all based on country-specific data and were developed to meet the specific needs and concerns of the Ukrainian government.

“Methodologically, our modeling was strong. It was able to withstand scrutiny, but more importantly, it was country-specific.”

Proponents modeled the revenue generation, healthcare savings, and disease prevention potential of different excise tax scenarios, which provided both the government and civil society with the data needed to identify policy options that met the requirements of the EU-UAA and the goals of the country.

The three biggest concerns for the government of Ukraine were revenue generation, regressivity, and the risk of increased smuggling. The Ukrainian government was particularly apprehensive about the waning economic competitiveness of the country and was in need of additional revenue to fill the budget deficit. Proponents directly addressed these concerns by providing the Ministry of Finance with data on the projected cigarette prices, consumption changes, and revenue that could be generated by different cigarette excise tax plans. The concrete nature of these projections allowed the Ministry of Finance to better identify what could be done with the revenue generated by higher taxes. When the Ministry of Finance and Members of Parliament had questions regarding these scenarios, such as what specific effects different tax increases could have on the poor, proponents responded with additional data analysis showing that the net result of increased tobacco taxes was progressive for the poor due to the higher relative reductions in smoking and the corresponding decreases in tobacco-attributable illness in the poor compared to the wealthy. Proponents also addressed the issue that higher cigarette prices would increase smuggling by using the cigarette price data they had from other countries. Comparisons showed that most countries would still have similarly priced or more expensive cigarettes than Ukraine, meaning that Ukraine was unlikely to be a destination for illicitly traded cigarettes.

Proponents were conscientious about the design and refinement of their modeling. They collected country-specific data to develop their models and reported their methodology in full. They also circulated their modeling to others for peer-review. These additional steps were taken in an effort to be as accurate as possible and to ensure that their estimates could withstand any possible scrutiny from the tobacco industry.

Proponents also used science to emphasize the importance of improving population health. Projections showed the number of deaths and illnesses that could be prevented and the amount of money that could be saved on health care expenses by raising cigarette taxes and reducing consumption. The successes of other countries in raising cigarette excise taxes to improve life expectancy and reduce the burden of non-communicable disease was also used as examples to illustrate the effectiveness of higher cigarette taxes. This emphasis on health and how increased life expectancy and decreased health care costs could improve the economic standing of the country reinforced the need for increased taxes.

Media Advocacy

Media advocacy was also critical to the campaign as it helped shed light on the effectiveness of the proposed solution, amplifying the message that a higher tobacco tax was needed. Civil society organizations translated data generated by the World Bank, academic experts and other proponents into simple messages and disseminated them to members of Parliament in the forms of press releases, infographics and policy briefs. When presenting evidence to the media for news coverage or posting about the tobacco taxes on social media, proponents simplified messages such that they were easily understandable. For instance, when discussing the rising price of cigarettes over the course of 7 years, NGO Advocacy Center LIFE, the key tobacco control advocacy NGO in Ukraine, related the price of cigarettes to the price of coffee, concluding that the price of coffee in EU countries is the same as it is in Ukraine, so why should the price of cigarettes be any different.

“Having that data and then translating it into simple words, simple messages, and communicating it to the decision-makers, to media, or directly and showing that it works great. Just look, smoking decreases, revenue increases.”

Press conferences were also held after each new version of the cigarette tax increase was filed such that the costs and benefits of each draft law could be discussed. Advocacy Center LIFE’s expert status enabled them to invite other experts, such as academics, members of the Committee on Taxation and Customs Policy and the Department of Budget Forecasting, and the Ukrainian Institute of Strategic Research at the Ministry of Health to their press events. Proponents organized round table discussions with these types of experts, which garnered additional media attention and facilitated the sensitization of the public and government officials.

Lobbying

In addition to media advocacy, proponents also used lobbying tactics to sensitize decision makers and build support for the seven-year plan. As proponents had been intimately involved with previous tobacco tax campaigns in Ukraine, they were well aware that this strategy required an in-depth understanding of the policymakers as well as the political process in order to seize windows of opportunities.





Accordingly, proponents actively engaged with decision makers in the executive branch as well as with parliamentarians. They, for example, met regularly with these policymakers, participated in public meetings concerning tobacco taxes, invited domestic and/or international experts to speak about tobacco taxes, and disseminated summaries to better explain the evidence base.

“We met with different parliamentarians. We explained to them the methodology, the resource, the implications of the different assessments that we have [done], that we did for Ukraine. But also, we brought country experiences from other countries that have similar level of economic development.”

Decision makers were also invited to participate in the high-level events (e.g. conferences, trainings) that were organized in one of the European Union countries; these events were focused on increasing tobacco taxes and combating illicit trade. Fortunately, the level of awareness among these decision makers regarding the harms of tobacco use, the effectiveness of tobacco tax policies and industry tactics was already high as a result of previous advocacy campaigns in the country.

To support allies within government, proponents provided them with timely evidence such that these proponents could make their case in parliament. Moreover, proponents also spoke publicly in support of pro-tobacco tax policymakers, explaining the pros and cons of this policy intervention to the public.

Working in Partnership

Working in partnership with a diverse set of organizations was another key feature of this campaign. Members included proponents from academia, non-governmental organizations, international and multi-lateral organizations, as well as governmental organizations. Grounded in trust and mutual respect, these partnerships strengthened coordination, allowing proponents to capitalize on and complement each other’s strengths in order to advance the agenda.

Since Advocacy Center LIFE was regarded as an expert group, they were able to work directly with the government and members of the Parliament, providing expertise and recommendations as well as assisting with drafting of the laws for parliamentarians. LIFE also had close ties with academic experts who regularly monitored and analyzed local data, providing these civil society actors with timely evidence that they could then translate into simple messages for government officials and the public. When questions arose from government officials, these proponents were also able to reassure them with evidence and experiences from other countries. International actors also provided technical assistance and were invited to speak with government officials when additional expertise was needed.

Collaboration between the World Bank and Ukrainian government was also noteworthy. As the World Bank provides financing, policy advice, and technical assistance to governments in low- and middle-income countries, it is considered an important stakeholder by the Ukrainian government and staff working in the Ukraine office already had good working relations with government officials within the Ministry of Finance. The World Bank, for example, carried out modeling exercises for different tobacco tax policy scenarios in collaboration with experts in Ukraine and colleagues in the European Union;²⁶ the Ministry of Finance, one of the key players in adopting the policy, then selected one of the proposed scenarios to revise and incorporate as a part of the 2017 budget. Proponents also succeeded in garnering the support of the World Bank's country director, enabling them to gain access to Ukrainian government officials at the highest level, specifically officials in the Ministry of Finance.

In contrast, tobacco companies were less cohesive when it came to tobacco tax policies. As a key informant said,

“Tobacco companies come together when it comes to arguments but when it comes to different price segments they try to kill each other.”

Preparing for Opposition

Tobacco industry opposition to the seven-year plan was covert, making it more difficult to oppose. The tobacco industry extensively lobbied members of Parliament, particularly the Committee on Taxation and Customs Policy.

“Another part that we, unfortunately, cannot see very often is the kind of very close relationship that the representatives of the tobacco industry developed with key decision-makers... there is no requirement to record every meeting to have this information displayed. They are meeting them privately.”

Proponents attempted to bring media attention to this by, for example, publishing an article exposing industry lobbying at a Committee meeting. The article included photo evidence of representatives from all the major tobacco companies present at an “emergency” Committee on Taxation and Customs Policy meeting and described which terms from draft legislation were voted to be included in the seven-year plan.²⁹ This “emergency” meeting was viewed as odd since four versions of draft legislation on the tobacco tax had been on the books for months. Additionally, many of the deputies were not in attendance, including the deputies of the excise tax subcommittee, who would typically be present at a meeting called to discuss only the tobacco excise tax.

Industry influence likely contributed to the main components of the draft law No. 7110 and the draft law written and supported by Nina Yuzhanina (No. 6776-d), head of the Committee on Taxation and Customs Policy, being included in the seven-year plan. Draft law No. 6776-d administered the tax in local currency rather than in euro. Administering the tax in local currency rather than the euro would make it very difficult to actually achieve the EU requirement that the tax be raised to 90 euros per 1,000 sticks by 2025 because as inflation within Ukraine continues to increase, the value of the hryvnas relative to the euro decreases. Additionally, the requirement that the government adjust the rate of the tax for inflation during the budget process each year was changed from mandatory to optional during this same “emergency” meeting. The blatant tobacco industry influence at this meeting is likely indicative of more closed-door dealings that were not documented. As there are no laws in

Ukraine requiring that Members of Parliament disclose or record their meetings, there is no direct evidence of this. Although this particular meeting was documented, the best way proponents were able to counter tobacco industry lobbying, especially lobbying happening behind closed doors, was to rely on allies within the government who were also supportive of tobacco control to inform them about this type of closed-door lobbying.

The tobacco industry also took a more discrete approach to attacking proponents. The industry supported media efforts to discredit proponents, including insinuations that because proponents received foreign funding, they did not have Ukraine's best interest at heart. Media reports publicized the false claim that tobacco control proponents were really working against tobacco control because they were only able to receive funding for tobacco control efforts if tobacco use remained a problem in Ukraine. Civil society organization's actions had to be above repute in order to counter these allusions to corruption. Although the impact of these attacks may have been brief, they attempted to provoke distrust of proponents. In this environment that was hostile to increasing taxation too rapidly, the modeling conducted by the World Bank also had to be completely transparent and based on the most accurate numbers, reducing the industry's ability to challenge their projections.

Context

Developing a keen understanding of the country's political economy was key to the success of the advocacy campaign. In recent years, Ukraine endured a series of challenges starting with the November 2013 "Euromaidan" uprising, catalyzed by former president Viktor Yanukovich's withdrawal from the early stages of the EU-UAA. Yanukovich rejected the EU-UAA that would have helped Ukraine forge closer cooperation with the European Union. This uprising began as demonstrations against this decision but quickly turned into a mass public protest against corruption and creeping authoritarianism in response to Yanukovich's heavy-handed dispersal of the original demonstrators. The political repercussions from the government violence towards the protestors ultimately led to the ousting of Yanukovich in February 2014. In March 2014, the Russian Federation unlawfully took control of and annexed Crimea, a southern peninsula of Ukraine, then invaded and occupied parts of Ukraine's eastern Donetsk and Luhansk provinces. The conflict has resulted in over 10,000 deaths and has devastated the country's economy.^{2,30}

In June 2014, the newly elected President, Petro Poroshenko, signed the EU-UAA.^{23,31} This agreement came fully into force in 2017³² and included the Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco which required a minimum rate of 90 euros per 1,000 cigarettes. To become a part of the EU, new countries are required to harmonize their excise tax policy with the excise policy currently in place with the EU Tobacco Products Directive. Starting in 2016, the government also took on a series of ambitious reforms, including health reform.^{2,33} The goal was to generate the fiscal space to finance these major undertakings on top of debt and budget deficit.

Given this context, proponents understood that generating revenue as well as harmonizing taxes with the European Union policies were priorities for the country and key "entry points" to the EU. Accordingly, advocacy messages and tactics were designed to reflect these sentiments. For example, proponents argued that harmonizing cigarette taxes to European Union standards is a critical step towards integration. Moreover, past successes have illustrated that raising tobacco excise taxes can increase needed government revenue.

"There is this association agreement obligation and this is very important. We should definitely emphasize that without this probably it [the seven-year plan] wouldn't be possible because it's direct obligation to the government."

Addressing the issue of corruption was also a salient and nationally important problem. The desire to forge closer ties with Europe, for example, was in part due to Ukraine's desire for a more transparent and accountable

government. Proponents had previously partnered with anti-corruption organizations such as Transparency International and Anti-Corruption Headquarter to expose industry tactics and highlight the link between tobacco industry interference and corruption. The resulting conceptualization of the tobacco industry's ties with the Ukrainian government informed proponents' understanding of how changes were made to the seven-year plan as it progressed through the Parliamentary readings.

Arguments

Illicit trade

Opponents

- Ukrainians will not be able to afford the higher prices of cigarettes due to their low purchasing power and will be more likely to purchase cheaper smuggled cigarettes
- Illicit trade and smuggling increased after tax increases in 2016 and early 2017 and will continue to rise if the price of cigarettes increases again
- If the prices in Ukraine rise faster than the prices in neighboring countries, Ukraine will become an “importer” rather than just an “exporter” of smuggled cigarettes

Proponents

- Raising the excise tax will increase the price of cigarettes and decrease smuggling because it will make the price of cigarettes in Ukraine more similar to the price of cigarettes in other countries
- The prices of cigarettes in neighboring countries like Russia are higher than Ukraine, making it more profitable to smuggle cigarettes out of Ukraine to other countries rather than into Ukraine
- Moldova has also signed an agreement with the EU and is working to increase their cigarette prices. Prices will be very similar to prices in Ukraine and there will be no economic incentive to smuggle

Economic Effects

Opponents

- Cigarette factories will close because of decreased demand for cigarettes and the people employed there will lose their jobs
- The entire cigarette industry will collapse
 - When the excise tax increased by 40% in 2017, sales decreased 20%

Proponents

- Reduced tobacco consumption will lead to a healthier, more productive workforce, which will promote economic growth and will make Ukraine more globally competitive
- A healthier population will be less costly in terms of medical care

Revenue

Opponents

- The tobacco industry is one of the largest taxpayers in Ukraine and is being “squeezed” unfairly by the government
- Higher prices will reduce the number of packs purchased and the needed revenue from tobacco taxes will never be generated
- The amount of revenue generated as a percentage of GDP is very little, why bother with the political fight of raising taxes

Proponents

- Increasing tobacco taxes has successfully raised needed revenue for the government in the past
- Past tobacco tax increases have been very successful and have not ruined the tobacco industry
- Previous projections from the World Bank on revenue from tobacco taxes were validated by actual revenue generated so their projections should be trusted
- Revenue generated from higher excise taxes increases the fiscal sustainability of the country
- Revenue from tobacco taxes could help to cover the fiscal deficit from the recession

Health

Opponents

- It is up to an individual to decide to smoke or not and the government should not try to control this choice through price increases
- There are many reputable doctors that do not think smoking causes heart attack and stroke
- Many old people smoke their whole lives and die at 90 from old age

Proponents

- Ukraine has been incrementally increasing tobacco taxes for years, which has greatly reduced smoking prevalence
- Higher tobacco taxes are good for public health and will increase life expectancy – Ukrainians currently have shorter life expectancy than other countries, and men, especially, die during their most productive years
- Decreased smoking will reduce the large burden of non-communicable disease in Ukraine
- Tobacco taxes are the most effective measure to reduce premature mortality and disability associated with smoking
- Experience from other countries shows that raising taxes by just 10% reduces cigarette consumption by 4%

Youth

Opponents

Proponents

- Increasing the price of cigarettes protects youth (before they become addicted) because they are more likely to buy other products (e.g. cosmetics, clothing, etc.) if cigarettes are expensive
- Youth are one of the most price sensitive populations and will be deterred from smoking by higher prices

Inflation

Opponents

Proponents

- The tax increase should include a rule requiring the government to adjust for inflation, as the EU-UAA requirement will not be met by 2025 with only an annual 20% increase due to the regular devaluation of the hryvnia
- It will be up to the Ministry of Finance every year to submit an inflation adjustment to the Chairperson of the Tax Committee who may choose to not even bring it up for discussion
- The FCTC recommends taking inflation into account when increasing tobacco taxes

Currency

Opponents

- If the excise tax is fixed in euros, daily fluctuations in the exchange rate and the likely devaluation of the hryvnia will make the prices for tobacco grow sharply and unpredictably. This will increase the likelihood of smuggling
- The EU-UAA does not require that countries implement the tax in euros and the hryvnia is the currency of Ukraine
- The quarterly recalculation of the tax to keep it in line with the euro will not give tobacco companies time to adapt

Proponents

- Setting the price in hryvnia will require that the government continually account for inflation and the changing exchange rates that results in the devaluation of the hryvnia relative to the euro
- If the tax is kept in hryvnia and inflation is not adequately accounted for, Ukraine will not reach the EU requirement by the end of 2024

Ad valorem

Opponents

- PMI: ad valorem should remain the same
 - Increasing the ad valorem component of excise tax does not affect the minimum excise duty, which is the indicator required to reach 90 euros per 1,000 sticks by the EU-UAA
 - ad valorem just encourages consumers to switch to or buy inexpensive cigarettes
- JTI: ad valorem should remain the same
 - ad valorem contradicts the EU-UAA
- Imperial Tobacco: ad valorem tax should increase
 - Increasing ad valorem would balance and stabilize the market and remove the preference for expensive cigarettes
 - Keeping a proportional change by increasing ad valorem follows the European principles of market neutrality
 - Increasing ad valorem would generate an additional 224.4 thousand euros in revenue

Proponents

- The World Bank and tobacco control experts recommend also increasing the ad valorem component of the tobacco tax
- Only cigarettes over the prices of 25 UAH (as of 2017) pay the ad valorem tax of 12%, which by 2018 will only be 15% of the market. Because such a small proportion of products are affected by the ad valorem tax, it is nearly worthless in terms of revenue generation
- Increasing the ad valorem component would increase revenue generated by the tax
- Increasing the ad valorem tax results in a more uniform proportion of the final market price of cigarettes being attributable to tax and is representative of the concept that all cigarettes, regardless of price, are equally harmful
- The ad valorem rate has not been increased since 2013
- Many EU countries have ad valorem rates that far exceed the 12% used in Ukraine (e.g. Poland 31.4%, Slovakia 23%, Estonia 30%)

FCTC

Opponents

Proponents

- Raising tobacco taxes to the level of the EU is in line with the stipulations of the FCTC

Foreign Interests

Opponents

Proponents

- Tobacco control proponents receive foreign funding and do not have Ukraine's best interest in mind³⁴

- The tobacco industry cares only about profits of its foreign stakeholders. Tobacco control proponents care about the health of the Ukrainian people

“

Підвищення цін на тютюнові
вироби зменшує доступність
сигарет для дітей

Андрій Скіпальський,
голова правління ГО «Життя»

*Translation: Increasing tobacco prices reduces the availability
of cigarettes for children*

~Andriy Skipalskyi, Chairmain of the Board of NGO LIFE



Key Lessons Learned

Ukraine's experience in increasing tobacco taxes sheds light on four important lessons that can help guide proponents who are keen on pursuing similar policy change in other settings.

1. First, working in partnership towards a common goal is the cornerstone of an effective tax advocacy campaign. In Ukraine, a diverse set of actors joined forces to advocate for the seven-year plan, including some members from the Ministry of Finance, international and multilateral organizations (e.g. World Bank), academic experts, and civil society organizations. These actors had a long history of working together, coordinated their efforts, fostering synergy and leveraging assets and expertise. This type of collective action was of critical importance given the immense political and economic power of the tobacco industry.
2. Second, generating, disseminating, and translating scientific evidence into simple messages to support the policy measure was essential. Proponents in Ukraine were well-versed in the literature surrounding the harms of tobacco use as well as the effectiveness of increasing tobacco taxes. To garner support, address concerns, and counter industry arguments, analyses were undertaken in a timely fashion, with the use of country-specific data, which enhanced the credibility of the results.

3. Third, developing a thorough understanding of the country's political economy is vital to the success of an advocacy campaign as it can help proponents identify entry points and tailor their messages and tactics more effectively. In Ukraine, tobacco control proponents understood that generating revenue and meeting the standards set forth by the EU-UAA were priorities for the both their leaders and the public. As such, the seven-year plan was framed as a measure that can raise needed revenue for the government, improve health and help harmonize cigarette prices to the standards of the European Union, which is a critical step towards integration.
4. Fourth, persistence is key. This case study underscored the need for tobacco control proponents to be prepared for a long battle. The tireless efforts made during previous tobacco control advocacy campaigns to increase awareness of policymakers and cultivate partnership helped build the foundation for this victory.

Conclusion

While tobacco use remains a significant threat to the health of Ukrainians, the government has taken an important step towards curbing tobacco consumption through the passage and implementation of the seven-year plan. This tobacco control victory suggests that policy change can be facilitated by a well-designed advocacy campaign involving persistent proponents working in partnership, scientific evidence and rigorous understanding of the political economy. This experience can help inform proponents striving to influence policy in other settings.

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Appendix

Key Informant Category	Description	Examples
Government Agencies	Representatives from government agencies who were involved in the passage of the seven-year plan	<ul style="list-style-type: none"> ➤ Ministry of Health
Multi-lateral Organizations	Representatives from multi-lateral organizations who supported the passage of the seven-year plan	<ul style="list-style-type: none"> ➤ The World Bank ➤ World Health Organization
National and International Non-Governmental Organizations	Representatives from national and international non-governmental organizations who were involved in advocating for the passage of the seven-year plan	<ul style="list-style-type: none"> ➤ Advocacy organizations ➤ Anti-corruption organizations ➤ Public interest organizations
Universities	Academics from local universities who were involved in advocating for the passage of the seven-year plan	<ul style="list-style-type: none"> ➤ Academic expert



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