

RESEARCH PAPER

Tobacco and transition: an overview of industry investments, impact and influence in the former Soviet Union

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Objectives: To quantify the contribution the tobacco industry has made to foreign direct investment (FDI) in the former Soviet Union (FSU) as an indicator of its political and economic leverage; to explore the impact this has had on production capacity and tobacco control in the region.

Design: Data on industry investment and its impact on cigarette production capacity were collated from industry journals, reports, and websites. Data on total FDI were obtained from the European Bank of Reconstruction and Development.

Results: By the end of 2000, transnational tobacco companies (TTCs) had invested over US\$2.7 billion in 10 countries of the FSU. Tobacco money as a proportion of FDI varies from 1% to over 30% in Uzbekistan. Cigarette production capacity in the factories receiving investments tripled from 146 to 416 billion cigarettes per annum and the TTCs' market share has increased from nothing to between 50–100% in the markets in which they invested. Findings suggest that the effectiveness of national tobacco control measures corresponds broadly to the nature of the political and economic transition in each country and the size of industry investment, which is determined in part by the political context. Thus more effective measures tend to be seen in democratic states with smaller or no industry investments while the least effective measures are seen in highly centralised, one party states with high levels of industry investment or those with limited governmental capacity.

Conclusions: The entry of the TTCs at a time of major political and economic change left the FSU particularly vulnerable to industry influence. This influence was enhanced by the industry's significant contribution to FDI, their ability to take over existing state monopolies in all but the largest countries, and the lack of democratic opposition.

When the Soviet Union collapsed, each of the newly independent states inherited its own government owned tobacco industry. But the centrally funded subsidies for growers and producers had ended and the centralised tobacco import and distribution system broken down, leaving individual factories to fend for themselves. The chaotic state of the industry and the pronounced cigarette shortages seen at the time,¹ combined with the rejection of Marxist-Leninist ideology and the lurch towards market reform, provided an obvious opportunity for the transnational tobacco companies (TTCs)—one which they were quick to exploit.

Experience elsewhere shows that entry of the TTCs leads to increased competition with or replacement of the local, unsophisticated industry with a powerful corporation with widespread implications for tobacco control.^{2–3} Western style marketing techniques and new lighter brands that are easier to smoke, including specific brands for women, are introduced. It has also been suggested that state run industries are less likely than TTCs to deny evidence of tobacco's health impacts, challenge public health initiatives, and obstruct national tobacco control laws by exerting political and commercial pressures.² In countries with little experience in dealing with such powerful actors, particularly where large sums of money are involved, the impact may be substantial. This is supported by econometric analyses which show that opening tobacco markets to the TTCs through trade liberalisation leads to significant increases in cigarette consumption.^{4–6}

Despite its scale, little has yet been written about the impact of transition and market liberalisation on the tobacco industry in the former Soviet Union (FSU), which along with Central and Eastern Europe has been the main focus for

tobacco industry investments over the last decade. This paper updates a 1995 overview of TTC investments in the region.⁷ It examines the contribution the tobacco industry has made to total foreign direct investment (FDI) as an indicator of the industry's economic leverage, and explores the impact TTCs have had on production capacity, brand development, advertising, and tobacco control in each of the former Soviet states. The findings provide an important basis for understanding and interpreting the influence of TTCs on tobacco control in the region.

METHODS

Details of tobacco industry investments in countries of the FSU from 1990 to the end of 2000 were obtained from tobacco industry websites, company annual reports, tobacco industry journals (*Tobacco Journal International* and *Tobacco Reporter*), European Bank of Reconstruction and Development (EBRD) investment reports, and a review of published literature. The same data sources were used to estimate changes in cigarette production capacity by comparing reported capacity before and after investment. For the latter, the most recent data are reported. Where no post-investment capacity data were available, data on actual production were sought and, if missing, it was assumed that the factory continued to produce at pre-investment levels.

Data on total net FDI inflows to the countries receiving significant tobacco investments were obtained directly from the EBRD for the period 1992 (when the first TTC

Abbreviations: BAT, British American Tobacco; EBRD, European Bank of Reconstruction and Development; FDI, foreign direct investment; FSU, former Soviet Union; IMF, International Monetary Fund; TTCs, transnational tobacco companies

investments occurred) to 2000. Identical data have since been made available on the United Nations Conference on Trade and Development website (http://www.unctad.org/en/subsites/dite/fdistats_files/fdistats.htm). The proportion of FDI contributed by tobacco industry investments was calculated for each country. Definitions of FDI used were taken from the 2001 World Investment Report where net FDI is defined as credits less debits.⁸

Information on tobacco control was taken from a number of published sources including the Tobacco Control Database of the World Health Organization Regional Office for Europe.⁹

The development of a quantitative model to explain the relation between FDI and tobacco control was considered. However, given the limited data (FDI data are available for only eight countries) and the fact that many of the variables that we wished to include, such as degree of democratisation, do not lend themselves to precise quantification, we felt any attempts to do so would introduce a degree of precision that, while superficially convincing, could not be justified.

RESULTS

Tobacco industry investments

Russia and Ukraine, the two most populous states, received the greatest investment with all the major TTCs staking a claim (tables 1 and 2) (to view tables 1–5, 7, 8 go to <http://www.tobaccocontrol.com/supplemental>). Reports suggest that foreign owned factories now account for between 60%¹⁰ and 90% of the tobacco market.^{11–13}

The three small Baltic states have each received investments from single companies (table 3). The Danish company, House of Prince (in which British American Tobacco (BAT) has a significant stake) invested in Latvia¹⁴ and Swedish Match (then Svenska Tobaks) in Estonia,¹⁵ each purchasing the country's only tobacco factory. Philip Morris bought one of Lithuania's two main factories, and then constructed a second plant, forcing the government owned plant in Kaunas to close. This has left Philip Morris, Lithuania's third largest single investor,¹⁶ as the sole manufacturer¹⁷ with a market share of some 85%.¹⁸

TTCs have also invested in three of the five central Asian republics (table 4) securing monopoly positions in two, Kyrgyzstan and Uzbekistan. By 1999, BAT had achieved a market share of over 70% in Uzbekistan,^{10 19} and as the country's largest foreign investor,^{20 21} has been able to secure favourable treatment from the government, including a five year extension of its preferential tax-exempt status.²² While Philip Morris does not have a manufacturing monopoly in Kazakhstan, it has a market share of over 70%¹⁰ and is the country's largest taxpayer.²³

Conflict and political instability initially delayed investment in the Caucasus, a major leaf producing region in Soviet times. However, between 1997 and 2000, two joint ventures were established in Armenia^{24–26} (table 5), the first with Grand Tobacco of Canada, now reputed to be the country's second largest taxpayer²⁷ controlling between 50%²⁴ and 70%²⁸ of the market. Azerbaijan saw failed investments by RJ Reynold's (now part of Japan Tobacco International) and others,^{29 30} but in 1999 Athens based European Tobacco Inc, with support from Altadis, acquired the Baku factory^{10 31} for an estimated \$50 million.³²

By the end of 2000 the five remaining countries in the region had yet to see any direct foreign investment in tobacco. The Georgian tobacco industry was privatised in 1998 and although the TTCs did not invest directly, in 2001 BAT spent a reported US\$15 million establishing a licensed production operation in Georgia (G Bakhhturidze, personal communication 2002). In Belarus the arch conservative President Lukashenko has resisted privatising the economy, thwarting BAT's and RJ Reynold's concerted attempts to

establish a joint venture.³³ Turkmenistan has no cigarette manufacturing facility and the highly autocratic President Niyazov, since being advised to give up smoking after major heart surgery, has decreed smoking a vice and banned it in public.³⁴ While Moldova, at least until the recent election of the Communist Party, had taken a more liberal attitude to market reform, privatisation of its tobacco industry has proved contentious. Despite pressure from the International Monetary Fund (IMF) and purchasing attempts by Reemtsma and BAT, the tobacco industry remains in state hands.^{35–38} In Tajikistan, the five year civil war following independence, three changes in government, and widespread violence have discouraged investment.³⁹

Contribution to FDI

By the end of 2000 the TTCs had invested at least US\$2.7 billion in 10 countries of the FSU (table 6), US\$1.7 billion of this in Russia. The TTCs' contribution to FDI has been most significant in Uzbekistan where BAT's investment accounts for one third of total FDI. Although the price Reemtsma paid in Kyrgyzstan is unknown, it is identified as one of the country's major investors and its contribution to FDI is therefore likely to be significant.⁴⁰ In Russia, Ukraine and Kazakhstan tobacco money accounts for over 4% of FDI, while in the Baltics and Caucasus it has played a less important role. Data for Latvia and Lithuania show that despite Philip Morris being the third largest investor in Lithuania, due to the considerable investments made in other sectors including telecoms and electronics, tobacco investments account for only 1–3% of FDI. Although data are not available for Estonia, the EBRD has not recognised tobacco as a major sector for investment.⁴¹

Tobacco FDI per capita shows a broadly similar pattern with lower rates in the Caucasus and Baltics and higher rates elsewhere, although Lithuania and Ukraine are exceptions to this pattern.

Consequences of TTC investments

Production capacity and market share

Production capacity has increased 10-fold in Kyrgyzstan, sixfold in Uzbekistan, over fourfold in Russia, tripled in Lithuania, and doubled in Kazakhstan (tables 1–4). In Ukraine, Estonia, and Latvia increases in capacity have been more modest although actual production has increased by at least 50%.

Based on legally traded cigarettes, TTC market share has increased from zero pre-1990 to reach levels of 50–100% in markets in which they have invested (table 7). However, levels of smuggling remain substantial, particularly in countries where the TTCs have yet to invest directly,¹⁰ and the TTCs' market share is therefore likely to be larger in these markets than official data suggest.

Introduction of branding and advertising

In the Soviet era, the western concept of branding was virtually unknown. Almost all cigarette brands were state owned and each factory produced a variety of brands (the exception was the Yava brand, produced exclusively by the Yava factory later acquired by BAT). Most were traditional filterless cigarettes (papirossi or oval cigarettes) with a few low priced filter brands.⁴² Since the mid 1990s the TTCs have gained ownership of existing brands, developed new brands specifically for these markets and introduced their own international brands. JTI, for example, introduced eight new brands in 1999 alone.⁴³ The TTCs have also focused production on filter brands, the consumption of which increased through the 1990s, although this trend reversed temporarily after the 1998 financial crisis.^{13 44}

Table 6 Total net foreign direct investment (FDI) and tobacco investments as a proportion of total FDI. All FDI figures in US\$ millions

	Russia	Ukraine	Kazakhstan	Kyrgyzstan	Uzbekistan	Armenia	Azerbaijan	Estonia	Latvia	Lithuania	Total all 10 countries*
GNP per capita (US\$)	1690.00	690	1260.00	280	620	520	600	3580.00	2920.00	2930.00	
Population size (1995)	147773664	51276560	16539600	4481611	22912100	3759950	7444318	1483942	2515602	3714795	261902142
Total FDI 1992	700	200	100		40	2		82	27	10	1161
Total FDI 1993	1211	200	1271	10	45	1	0	162	45	30	2976
Total FDI 1994	640	159	660	38	50	8	22	215	214	31	2036
Total FDI 1995	2016	267	964	96	120	25	282	202	180	73	4224
Total FDI 1996	2479	521	1137	47	55	18	661	151	382	152	5602
Total FDI 1997	6638	624	1321	83	285	52	1093	267	521	355	11238
Total FDI 1998	2761	743	1152	109	140	232	1024	581	357	926	8024
Total FDI 1999	3309	496	1587	35	121	130	510	305	348	486	7328
Total FDI 2000	2704	595	1249	19	100	133	500	379	407	379	6484
Total FDI 1992–2000	22458	3804	9441	438	956	601	4092	2361	2480	2442	49073
Country making greatest contribution to total FDI (% of total)	USA (34.0%)	USA (16.45%)	USA (28.4%) (1993–1999)	USA (18.6%) (1997–1999)	NA	NA	NA	Sweden (39.2%)	USA (11.8%)	Denmark (16.1%)	
over the period 1993–2000 (unless otherwise stated)											
Tobacco recognised by EBRD report as a major sector for investment?	No	Yes: Rma, Philip Morris, BAT	No	Yes: Rma	Yes: BAT	Yes: Grand Tobacco & Masis-Tabak	No	No	No	Yes: PM listed as 3rd largest investor	
Total reported FDI in tobacco sector to end 2000	>1719	>152.9	>440	NA	>300	>8	50	NA	12.5	62	>2744.4
Tobacco investments as a % of total FDI	<8%	>4%	>5%	NA	>31%	<1%	1%	NA	1%	3%	>6%
Tobacco FDI per capita	>11.63	>2.98	>26.60	NA	>13.09	>2.13	6.72	NA	4.97	16.69	>10.48

BAT, British American Tobacco; PM, Philip Morris; Rma, Reemtsma
 Data sources: WHO Health for All database (population data, GNP), European Bank of Reconstruction and Development Investment Profile reports, 2001 (FDI data) and other data as given in tables above.
 *If Kyrgyzstan and Armenia, for which tobacco FDI data are unavailable, are excluded, the results are almost identical—tobacco investments still contribute >6% of total FDI and tobacco FDI per capita is >10.72.
 NA, not available.

The Soviet Union had a wide range of anti-smoking policies. Although advertising was unnecessary and non-existent, tobacco advertising was banned, smoking was forbidden in many public places including subways, buses and restaurants, cigarette packages carried health warnings, and anti-smoking campaigns were televised.^{45–46} Post-transition the TTCs exploited confusion over the legality of this Soviet legislation by advertising heavily to establish their brands,⁴⁷ leading to a major surge in advertising and promotion.⁴⁸ By the mid 1990s it was estimated that up to 50% of all billboards in Moscow and 75% of plastic bags in Russia carried tobacco advertising.⁴⁹ In at least four of the former Soviet states the tobacco transnationals soon ranked among the top 3 advertisers,^{50–51} and in some states where data are available, still do so, particularly in advertising categories that remain unrestricted.^{52–53}

Tobacco control

Tobacco control policies have been enacted to varying degrees in each country (table 8). Initial attempts to implement effective tobacco control policies were fraught with difficulties. In Russia, the absence of enforcement mechanisms rendered the 1993 tobacco advertising ban ineffective.⁵⁴ In 1995 a further law was passed, but based on the industry's voluntary code of conduct⁵⁵ only included minor restrictions on content, placement of outdoor adverts, and timing of broadcast adverts.⁵⁶ In July 2001 a new federal bill on Limitation of Tobacco Consumption was signed to be introduced in stages from 2002. The original bill included highly effective measures but, as the *St Petersburg Times* notes, the changes made to the draft between the first and second readings were "a textbook demonstration of the lobbyist's art".⁵⁷ The initial tobacco advertising ban was excluded when the industry successfully argued that it should be subject to a separate law. Similarly the original ban on showing smoking in movies has been weakened to allow smoking if it is "an integral element of the artistic design".⁵⁷ Some restrictions on smoking in public are set but no clear system of enforcement is specified. While a few of the remaining components of the bill remain useful, in particular a ban on sales from vending machines, of packs of under 20 and single cigarettes, it is clear that industry interests triumphed.⁵⁸

Similar problems have been encountered elsewhere. In Ukraine a 1994 decree failed to define "advertising" and was therefore easily contravened. In 1996 the Rada gave preliminary approval to a law that was essentially a translation of the voluntary code submitted by the industry but, following protests from the tobacco control lobby, ultimately enacted a stronger ban.⁵⁹ The industry lobby responded with a report from the so-called "Association of Independent Advisors", for which Philip Morris later admitted responsibility, arguing that Ukraine would lose US\$400 million as a result of an advertising ban.⁵⁹ This led to a presidential veto of the ban and finally, in July, the Rada introduced a much weakened ban that covered only television, radio, and cinema advertising. As in Russia, there are many loopholes and enforcement is weak. Ukraine, however, has a more active tobacco control lobby than many other FSU countries, and a recently established coalition of anti-smoking organisations has made some progress in promoting more effective tobacco control policies.

The central Asian states Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan have few measures to reduce tobacco use; in contrast in Turkmenistan progress has been made because of the strong position taken by the president.⁶⁰ The picture in the Caucasus varies widely with excellent tobacco control policies in place in Azerbaijan, but weak policies in Armenia and Georgia where implementation of an

advertising ban approved in 1998 was delayed by industry lobbying.

Progress in Moldova and the three Baltic states has been better. Lithuania has a strong public health lobby, partly as a result of individuals participating in international research projects even during the Soviet era.⁶¹ It was one of the first east European countries to develop comprehensive tobacco control legislation⁶² and has been described by industry journals as "the most virulently anti-smoking in the Baltic States".⁶³ Nevertheless, its advertising ban, which covered both direct and indirect advertising, and was due to come into force in July 1996, was not implemented until May 2000 because of a series of challenges. Estonia enacted its first advertising ban in 1993 but the industry exploited loopholes in the law, requiring a further act which covers direct advertising (other than cable TV and international print media) but which does little to restrict indirect advertising. The second act came into effect in 1998 and a subsequent Tobacco Act, banning smoking in public places and smokeless tobacco, was adopted in June 2000. Latvian attempts to pass an advertising ban in 1996 failed because of intense opposition. A subsequent ban has outlawed television, radio, and outdoor advertising but does not restrict point of sale, cinema, or indirect advertising and only partially restricts adverts in the printed media.

Industry journals do not hide the fact that the tobacco companies were angered by the tobacco control measures taken in these three countries, in particular the substantial excise tax increases (the three Baltic states have considerably higher excise rates than most other FSU countries)⁶⁴ and the governments' refusal to maintain import duties to protect investing companies.^{18–65} The latter seems somewhat ironic given the industry's frequent lobbying for reductions in trade barriers where such changes suit their interests. The industry claims that the Baltic governments have contravened promises they made of favourable taxation rates and, as frequently argued elsewhere, that price increases have led to an influx of cheap smuggled cigarettes that make it impossible for them to compete.^{65–66}

Prevalence

These changes appear to have had an impact on smoking habits. The transfer to filter brands, and light brands which are easier to smoke particularly for new smokers, is thought to increase the number of cigarettes smoked per day and, in line with the increase in targeted advertising, to influence the decision of women to smoke.^{2–3} This appears to have happened in the FSU where trends in smoking prevalence can most accurately be assessed for Russia, Ukraine, and the three Baltic states and even then only over the last 10–15 years.⁶⁷ Most data suggest rates in men have been reasonably steady through the 1990s, although longer term trends in Russia suggest that current rates are higher than those recorded in the 1980s.⁶⁷ Rates in women, however, appear to have increased and are now particularly high among women in cities.^{67–70} Repeat youth surveys (1993–94 and 1997–98)^{71–72} in the Baltics and Russia (St Petersburg) and comparison of surveys in Moscow between 1985⁷³ and 1995⁷⁴ suggest youth smoking has also been increasing, particularly in girls.

DISCUSSION

While the data provided in this paper are as comprehensive as possible, a number of potential weaknesses must be considered. Firstly, data on FDI are notoriously difficult to collect. In some instances we were unable to obtain data on tobacco industry investments and in other instances only minimum investment figures were available. Tobacco industry investment will therefore be underestimated. However,

because of the high levels of total FDI compared to levels of tobacco industry investment, relatively large increases in industry investments would have only a small impact on the calculated percentage contribution to FDI. Thus, for example, anecdotal reports suggest that Philip Morris invested \$60 million and the TTCs together a total of approximately \$200 million in Ukraine.⁷⁵⁻⁷⁶ This would, however, only increase the tobacco industry's contribution to FDI from our estimate of over 4% to 5.3%. Despite these weaknesses, the data provide the most comprehensive assessment yet of industry investments in the FSU.

We estimate that production capacity in the countries receiving investments has almost tripled. Actual output may have increased by a greater amount as many factories operated well below capacity in the pre-transition period and post-investment capacity is unknown in some instances. For example, we were unable to identify new capacity levels in Latvia, but US Department of Agriculture data suggest production increased from approximately 2.6 to 6.4 billion cigarettes between 1993⁷⁷ and 2000.⁷⁸

Transition clearly heralded changes to the region's tobacco industry that will have major implications for future health. The TTCs established new cigarette brands, exerted ownership over existing brands, expanded marketing, and used their powerful lobby to undermine the development of effective tobacco control. The argument that foreign investment simply led to a substitution of traditional tobacco products with new ones can therefore be comprehensively rejected. Moreover, despite difficult trading conditions and the 1998 economic crash, the TTCs already report good returns on their investments.⁷⁹⁻⁸⁴

The findings have led us to conclude that, in the 15 countries of the FSU, five distinct patterns can be ascertained, corresponding to the size of the country, the nature of the political and economic transition, and the emerging political situation in each. The latter varies along a spectrum from parliamentary democracy at one end, best exemplified by the Baltic States, to personal dictatorships at the other with Belarus and Turkmenistan the best examples.⁸⁵ These factors were important both in influencing initial TTC interest and investments and determining their degree of influence once investment had occurred.

First, Russia and Ukraine attracted substantial inward investment in many sectors, reflecting the extensive privatisation of the existing broadly based industrial infrastructure. The TTCs competed for market share in what were the FSU's largest potential markets, with none achieving dominance. The strength of the industry, coupled with the lack of non-governmental organisations and low awareness of the health consequences in weak legislatures, meant that effective action was undermined or delayed. However, a strengthening civil society and fledgling tobacco control lobby is now emerging with some progress seen in tobacco control.

The second model, seen in the Baltic States, is characterised by some inward investment but only moderate political influence by the industry which, to some extent, has been countered by the tobacco control community. The small population sizes make these markets less important to the industry and tobacco is a much smaller part of the overall economy. Thus the scope and incentive for industry influence is smaller. But perhaps more important is the development of open, pluralistic political systems, with lower levels of corruption and better developed civil society. Their planned accession to the European Union has also been a factor, although this has been used by both industry and tobacco control advocates, with Estonia enacting legislation based on EU policies but tobacco lobbyists in Lithuania citing the annulment of the EU advertising ban as a reason to weaken and delay advertising legislation.

The third model is seen in Uzbekistan, Kyrgyzstan, and Kazakhstan, countries with autocratic governments that have seen large industry investments and the establishment of monopoly (Uzbekistan and Kyrgyzstan) or near monopoly positions (Kazakhstan) despite Uzbekistan and Kazakhstan being, respectively, the third and fourth most populous post-Soviet states. The TTCs' major contribution to FDI gives them considerable political and economic power, power that appears to be easily wielded in these highly centralised, one party states. Moreover, given that dissent and free speech are poorly tolerated, tobacco control groups are virtually unknown and tobacco control policies are among the weakest in the region.⁸⁶

A fourth group of countries has avoided tobacco investments, at least until recently, and tobacco control has made measured progress most notably in Moldova, the most democratic of the four, and Azerbaijan. The lack of investment reflects resistance to economic reform in general (Belarus and Turkmenistan), more specifically to privatisation of key sectors deemed to be of national importance (Moldova), or to chaotic post-transition conditions that discouraged and undermined attempted investment (Azerbaijan). The Turkmen president occupies a position of almost unparalleled power in his country⁸⁷ and tobacco control progress there can be attributed his personal animosity towards tobacco. Belarus is still considered an important market by the TTCs, who hope that integration with Russia will occur.⁸⁸ As a result, BAT and Philip Morris are among the largest advertisers in Belarus⁵² despite their small official market share¹⁰ and progress on tobacco control has therefore been limited. Some sectors of the Azerbaijani economy have opened up to enable exploitation of its substantial oil reserves and although Azerbaijan recently received inward tobacco industry investment, it had previously enacted tough anti-smoking policies, at least on paper.

Finally, there is a group of countries affected either by war or almost complete economic collapse, in which there are few functioning institutions and very limited governmental capacity (the Caucasus and Tajikistan). Despite obvious difficulties, smaller international tobacco companies have recently invested in Armenia. The industry seems to regard Tajikistan as too difficult to invest in and perhaps better served by exports from elsewhere. A similar situation exists in Albania. These countries have weak tobacco control policies, which seems to reflect the lack of governmental capacity rather than TTC influence.

While there are many similarities with TTC entry into Asia, some underlying features are different. Firstly, liberalisation of inward investment has ultimately been more important than trade liberalisation. Secondly, market entry coincided with huge political and economic upheavals, with legislative activity focused on basic state building, and the need to develop a constitution and implement economic reform. There were no effective tobacco control policies in place to act as a buffer against the industry and the development of new legislation was understandably given a low priority amid other pressing demands. The entry of the TTCs, with their millions of investment dollars, was a further disincentive to effective tobacco control. Moreover, civil society was not well developed and proponents of tobacco control had little voice. As the industry journal *World Tobacco for Russia and Eastern Europe* stated with delight: "anti-tobacco activists are almost unknown in Russia so the Russian people and government have not been bombarded with anti-tobacco propaganda."⁴⁹ As a result, TTCs met little if any resistance, unlike their experience in some Asian countries. Indeed investments were often encouraged, not only by governments but also by international financial organisations such as the IMF.³⁷⁻⁸⁹

What this paper adds

Previous studies suggest that entry of the tobacco transnational companies (TTCs) to countries with state run tobacco industries can have a major impact on tobacco control. Most evidence comes from the TTCs' entry to Asia, but little is yet known about their entry to the former Soviet Union (FSU) or its impact.

This study shows that TTC entry to the FSU differed to that in Asia in a number of respects. Liberalisation of inward investment was more important than trade liberalisation. Competition increased only in the most populous states; elsewhere state monopolies were replaced with transnational monopolies. Certain features of market entry made many FSU countries particularly vulnerable to industry influence: its concurrence with major political and economic change, pressure from international financial organisations for industry privatisation, the TTC's major contribution to foreign direct investment, their ability to take over existing monopolies, and the centralised, corruptible political systems that existed in some countries.

Thirdly, the ability to take over existing monopolies in all but the largest countries contrasts with the competitive positioning seen in Asian markets. Together with their major contribution to FDI, this has given the tobacco companies a unique degree of political influence. In well functioning democracies, such influence may be effectively counteracted, as illustrated by the Baltic states. But elsewhere in the FSU, particularly the central Asian republics, industry and government collusion has left the industry in an extremely powerful position.

This initial analysis suggests that further work is needed to examine in more detail the influence of the tobacco industry over specific policies and the impact these investments have had on patterns of tobacco consumption.

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To view tables 1–5, 7, 8 visit the *Tobacco Control* website—<http://www.tobaccocontrol.com/> supplemental

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Table 1 Details of tobacco industry investments in Russia

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)	Investment (\$)
RJ Reynolds					
(RJR)/Japan Tobacco International (JTI)					
1992	RJ Reynolds buy Petro tobacco Factory in St Petersburg and form the RJR-Petro Tobacco Factory, Russia's largest production facility	15bn	50bn	52 (70)	Total investment by 1998 \$330 M (Petro factory reported as being acquired for only \$25M)
1994	RJR buy Yelets tobacco processing plant in central Russia	3000 tonnes	NA	49	Reconstituted tobacco
1995	RJR controlling interest in Armavirtabak, in Krasnodar region	4bn	NA	NA	
1998	RJR invests in RJR-Petro Tobacco Co. to increase production	See above	See above	--	>\$120M
Philip Morris					
International (PM)					

Date	Acquisition	Initial capacity		Post investment capacity		Initial share,
		(cigarettes)	(cigarettes)*	(cigarettes)*	(cigarettes)*	% (final share, %)
1993	PM buy plant in Krasnodor southern Russia	2bn	31bn	49	(80)	\$60M
1993	PM acquire Samara plant in Moscow	4bn	NA	NA		NA
1993	PM build Vyborg plant in St Petersburg.	--	10bn			\$100
1998	PM reconstruct Krasnodor factory to increase production	See	See above			\$40
	Reconstruction completed in 2000	abo				
		ve				
2000	PM open new cigarette factory (Izhora plant) on outskirts of St Petersburg –the largest of PMs 3 Russian facilities.	--	25bn			\$330M
BAT & Rothmans						
International (which was acquired by BAT in 1999)						
1993	Rothmans acquire Nevo plant in St Petersburg	8.8	10bn	75		\$85 M
		bn				
1994	BAT buy Saratov plant in Saratov	5bn	10bn (in 1996)	75		\$40M

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)	Investment (\$)
1994	BAT buy Java plant in Moscow second biggest cigarette factory in Russia	11.7bn	30bn	85	\$70M
1997	Rothmans announce opening of new cigarette manufacturing plant in Konnaya Lakhta industrial zone north-west of St Petersburg	--	10bn		\$80M
1997	BAT modernises its cigarette plants in Java & Saratov Russia	See above	See above	See above	>\$150
1998	Further investment approved for Java and Saratov	See above	See above	See above	\$65M
Gallaher/Liggett-Ducat (which was bought by Gallaher in 2000)					
1993	Liggett Brooke acquire Ducat plant in Moscow and establish	10.	20.3bn (in 1998)	70	NA (\$4m later invested)

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity		Initial share,	Investment (\$)
			(cigarettes)*		% (final share, %)	
	Liggett- Ducat		5bn			
1999	Liggett-Ducat inaugurates new cigarette manufacturing plant in Moscow	--	>40bn			\$85M
2000	Gallaher reported to have further invested in this plant	--	--			\$60M
Others						
1998	Reemtsma purchase majority share in cigarette factory in Volgograd	NA	Planned 20bn by 2002		NA	\$100M
Totals			61	260.3		>\$1719M

Sources: [7, 11, 42, 43, 90–103]

*where figures for post investment production are not available, it is assumed that pre-investment levels apply

NA, Not available

†Market share data: Corrao *et al*

Table 2 Details of tobacco industry investments in Ukraine

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)**	Investment (\$)
RJ Reynolds					
(RJR)/Japan Tobacco International (JTI)					
1992	RJR buy Livovskaya plant in Lviv	11bn	0 (closed)	70	\$9.6m initial investment
1992	RJR buy Tabaknaya plant in Kremenchuk	8bn	12.5bn	70 (92)	\$7.3M initial investment
BAT					
1993	BAT establish Joint venture, the BAT Prilucky Tobacco Company	12bn	16bn	65 (75)	\$65M

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)**	Investment (\$)
Reemtsma					
1993	Reemtsma buy factory in Cherkassy #	10bn	12.6bn	65 (92)	total \$55M (120M DM) since 1993
1995	Reemtsma buy factory in Kiev	5bn	See below	65 (87)	
1998	Reemtsma open new factory in Kiev and relocate production from old site	--	15.5		
Philip Morris					
International (PM)					
1994	PM buy Kharkov Tobacco Factory	2.5bn	9.4bn	51 (99.9)	Undisclosed amount. Additional

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)**	Investment (\$)
					investment of \$16M later announced
Totals		48.5bn**	65.4bn		>\$152.9M

Sources: [7, 13, 104–111]

*Where figures for post investment production are not available, it is assumed that pre-investment levels apply

**Although capacity is estimated at 48.5 billion, actual production was well below this at an estimated 34.3billion

***Additional data on final market share provided by Konstantin Krasovsky

#In 2001, the Gallagher group bought the Cherkassy factory from Reemtsma and it will now be operated by Gallagher's subsidiary Liggett-Ducat[112]

NA, Not available

Table 3 Details of tobacco industry investments in the Baltic States

Date	Acquisition	Capacity (cigarettes)	Post investment capacity (cigarettes)	Initial share, % (final share)	Investment (\$)
ESTONIA					
1993	Swedish Match (then Svenska Tobaks) invest in Leek tobacco factory and create Eesti Tubakas#	5.3bn (production 2bn)	5.3bn (production 3bn) in 1996. Factory then closed.	51 (65)	NA
LATVIA					
1992	House of Prince established a joint venture House of Prince Riga	5bn (production 2.6bn)	5bn (production 6.4 bn)	45	\$12.5M (and investment of \$ 15M planned)
LITHUANIA					

Date	Acquisition	Capacity (cigarettes)	Post investment capacity (cigarettes)	Initial share, % (final share)	Investment (\$)
1993	PM buy controlling interest factory in Klaipeda Tobacco Company	3bn	3bn	65.2	\$62M
1995	PM begin work on new manufacturing plant in Klaipeda (production begins 1997)	--	6bn		

Sources: [14, 16, 113, 114]

#In 1999 Swedish Match sold its tobacco business to Austria Tabak which was in 2001 taken over by the Gallagher's Group.

NA, Not available

Table 4 Details of tobacco industry investments in Central Asia

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)	Investment (\$)
KAZAKHSTAN					
1993	PM buy controlling interest in Almaty Tobacco Company	12bn	See below	49 (99)	\$340M total PM investment
2000	PM modernise existing factory & open new cigarette manufacturing plant in Almaty.	--	25bn		
1993	RJR buy former chocolate factory in Shimkent and turn it into a modern tobacco facility producing Winston and Camel	--	NA	97%	\$100M
1997	Reemstma and Gallaher jointly establish a tobacco factory 25km from Almaty	NA	NA	NA	NA
Totals		12bn	>25bn		>\$440M

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)	Investment (\$)
KYRGYZSTAN					
1998	Reemtsma acquire Kyrgyzstan's only cigarette production plant and establish JV with government	0.85bn	NA	NA	NA
2000	Reemtsma open new production site in Bishkek	--	8bn	NA	NA
Totals		0.85 bn	8.85bn		NA
UZBEKISTAN					
1994	BAT buy UZ plant in Tashkent and create UzBAT	5bn (output 2bn)	12bn by mid-1996. Production then transferred to new factory	51 (97)	>\$300M

Date	Acquisition	Initial capacity (cigarettes)	Post investment capacity (cigarettes)*	Initial share, % (final share, %)	Investment (\$)
1996	Construct factory in Samarkand	--	30bn		
Totals		5bn	30bn		\$>300M

Sources: [7, 10, 21, 108, 115, 116–118, 119]

*Where figures for post investment production are not available, it is assumed that pre-investment levels apply
NA, Not available

Table 5 Details of tobacco industry investments in the Caucasus

Date	Acquisition	Capacity (cigarettes)	Post investment capacity (cigarettes)	Initial share, % (final share)	Investment (\$)
ARMENIA					
1997	Grand Tobacco of Canada forms joint venture with two local companies (RRR and Samsun)	5bn	6bn	NA	\$8M
2000	Greek company forms joint venture with tobacco processing plant (Masis-Tabak)	--	--	NA	NA
AZERBAIJAN					
1999	European Tobacco forms JV, European Tobacco-Baku	NA	NA	NA	\$50M

Sources: [24, 25]

NA, Not available

Table 7 Percent market share for 1998–2000 (or nearest years where data available) based on legitimate sales only for all countries bar Belarus

	Azerbaijan			Belarus		Estonia		Georgia			Kazakhstan			Kyrgyzstan	
	1998	1999	2000	1999	2000	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999
<i>Multinational</i>															
<i>manufacturers</i>															
BAT						6.4	10.1								
Philip Morris						51	63.0				70.0	78.0	75.0		
JTI/RJR											15.0	12.0	8.5		
Gallagher/Liggett															
Ducat/Austria Tabak						29	27.0				10.0	4.2	6.9		
Reemtsma														17.0	35.0
House of Prince Riga (BAT associate)															
Seita/Altadis															
<i>sub-total</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>86</i>	<i>100</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>95</i>	<i>94</i>	<i>90</i>	<i>17</i>	<i>35</i>
<i>Other named manufacturers</i>															

	Azerbaijan			Belarus		Estonia		Georgia			Kazakhstan			Kyrgyzstan	
	1998	1999	2000	1999	2000	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999
Amer Tobacco						5.1									
Bulgartabak															
Balkan Star															
CNTIEC-Kazakhstan															
Donskoy Tabak															
European Tobacco															
Baku	33.9	64.4	64.0												
Neman				40.0	39.0										
Nevo Tabak															
Tabak Invest				2.0	6.0										
Tutun CTC															
Others															
Other manufacturers	1.2	2.9				8.5		20.3	36.9	44.3			3.0		
Other importers	64.9	32.7	36	15.0	15.0			79.7	63.1	55.7				83	65.0

	Azerbaijan			Belarus		Estonia		Georgia			Kazakhstan			Kyrgyzstan	
	1998	1999	2000	1999	2000	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999
(includes TTCs)															
Others unspecified											5.0	5.8	6.6		
<i>Smuggled / counterfeit brands (where data given - Belarus only)</i>				43.0	40.0										

Source: ERC statistics

Note: no data given at all for Armenia or Tajikistan and no market share data for Turkmenistan in part due to the high levels of smuggling.

tobacco																
Direct mail	None	Complete	none	n/a	none	n/a	n/a	none	Complete	none	none	none	none	none	none	
giveaways																
Promotional	None	partial	none	n/a	none	n/a	n/a	none	Complete	none	none	none	none	none	none	
discounts																
<i>Distributi</i>																
<i>on of tobacco</i>																
<i>products through</i>																
<i>various outlets</i>																
Vending machines	None	Complete	none	Complete	none	none	n/a	Complete	Complete	Complete	Complete	Complete	none	none	Complete	none
Self-service displays	None	partial	partial	none	none	none	none	none	none	Complete	none	none	none	none	partial	none
Mail order or	None	none	none	none	none	none	none	none	none	Complete	none	none	none	none	none	none
electronic sales																
Sale of single or	None	Complete	none	Complete	none	none	none	partial	Complete	Complete	Complete	Complete	none	none	Complete	none
unpacked cigarettes																
Sales of duty free	None	none	partial	none	none	none	n/a	none	none	Complete	none	none	none	none	none	none
tobacco products																
Free samples of	None	Complete	partial	none	none	none	none	Complete	Complete	Complete	none	none	none	none	Complete	none
cigarettes																
<i>Smoke</i>																
<i>free areas</i>																
Health care facilities	Partial	Complete	Complete	Complete	partial	partial	Complete	Complete	Complete	Complete	Complete	Complete	none	Complete	Complete	partial
Education facilities	None	Complete	partial	Complete	partial	none	Complete	Complete	Complete	Complete	Complete	Complete	none	Complete	Complete	partial
Government	None	Complete	partial	Complete	none	partial	none	partial	partial	partial	partial	Complete	none	Complete	partial	none
facilities																
Restaurants	None	partial	none	partial	none	none	none	partial	partial	partial	partial	none	none	none	none	none
Pubs and bars	None	none	none	partial	none	none	none	partial	none	none	none	none	none	none	none	none
Indoor workplaces	None	Complete	partial	Complete	none	none	partial	partial	Complete	partial	partial	Complete	none	Complete	partial	none

and offices

Theatres and cinemas	None	Complete	partial	Complete	partial	none	none	partial	Complete	partial	Complete	none	Complete	partial	partial
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Smoke

free public transport

Buses	None	Complete	Complete	Complete	partial	none	Complete	Complete	Complete	Complete	Complete	Complete	none	Complete	Complete	partial
Taxis	None	none	Complete	Complete	none	none	none	Complete	Complete	Complete	none	none	Complete	partial	none	
Trains	None	Complete	partial	Complete	none	none	n/a	partial	partial	partial	partial	none	Complete	partial	none	
International air transport	None	Complete	partial	Complete	partial	none	n/a	partial	Complete	Complete	partial	none	Complete	partial	Complete	

Health

warnings

Health warning on tobacco products	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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Source: WHO Regional Office for Europe, Tobacco Control Database <http://cisid.who.dk/tobacco/> (last accessed 12 May 2003)