

Студент 4 курсу

факультету менеджменту та маркетингу ХНЕУ

TOBACCO PRICE INCREASE – IS IT GOOD OR BAD?

Annotation. The basic stages of pricing on tobacco products, main reasons of tobacco price increase, social and economic consequences of this policy in Ukraine and new innovations in the sphere of tobacco smoking are studied.

Анотація. Викладено основні етапи ціноутворення тютюнової продукції, основні причини підвищення цін на тютюнову продукцію, соціальні й економічні наслідки цієї політики в Україні, а також останні новітні розробки в сфері табакопаління.

Аннотация. Изложены основные этапы ценообразования табачной продукции, основные причины повышения цен на табачную продукцию, социальные и экономические последствия данной политики в Украине, а также последние новшества в сфере табакокурения.

Key words: VAT, excise duty, pricing, e-cigarettes, tax rate.

There are many problems in Ukraine. But we cannot mention one of the burning problems, which worry the majority nowadays: "Tobacco price increase – is it good or bad?"

The topicality of the paper is today 72,5 % of Ukrainian population are smokers, and every fifth smoker is a woman or a child. Therefore, this problem concerns not only all levels of the population, but also has some moral aspects.

It is no secret that the first cigarettes appeared 500 years ago. However, cigarettes became more widespread during the Crimean War, when soldiers did not have time to smoke even a cigar; they started wrapping tobacco in paper. Thereby the first cigarettes appeared. The boom of tobacco industry happened at the end of 40's – early 50-ies, when thanks to famous actors smoking of cigarettes and cigars became an integral part of image, luxury and mystery. Nowadays turnover of cigarette sales is about 600 billion cigarettes a year, which is approximately 3 600 billion dollars a year [1; 2].

It is by no means clear, what was the real cause of price increase. To understand why and how the prices increased, it is necessary to consider the mechanism of pricing. In Ukraine a price on cigarettes consists of: 1) amount of excise taxes; 2) VAT; 3) cost of documentary stamps (these three amounts together are tax as part of the product price) and 4) amount of production and realization (tax-free price). VAT, as it is known, is 20 % or 16,6 % of retail price, but excise tax consists of two parts: specific (the total amount of cigarettes, in spite of their price) and ad valorem (the amount, which is calculated as a percentage from the price). So the price increase is primarily due to high rates of excise duty. The Cabinet of Ministers gives convincing arguments trying to explain the price increase as a control of smoking. The statistics shows that 67 % of

men and 20 % of women continue smoking in Ukraine. Perhaps there are other reasons.

In the first half of 2009 excise taxes on manufactured tobacco products in Ukraine, according to the Tax Administration, have contributed to the state budget 3 billion 25 million UAH, which is 2,3 times more than from January to June last year. However tobacco price increase led to a catastrophic decline in their production (28 %), because Ukraine falls behind in production for 10 years. But this does not mean that Ukrainians have started smoking by 25 % less! According to the data of the State Committee for Statistics a third of production is in shade. And an average price level is close to the European one. But we should not forget that the quality of Ukrainian cigarettes does not correspond to the standard [3].

During the press conference on the increase of excise duty rates, where the bill 4202 was passed, the representatives of various tobacco brands declared that one of the sources of growth and high inflation on the consumer market in Ukraine is just high cigarette prices.

However, despite all the negative consequences of this policy in Ukraine, it has already been registered a positive trend in reduction of smoking. Thus, according to the Kiev International Institute of Sociology, the number of smokers among Ukrainians (adults) in 2005 amounted 41 %, in November 2008 – 35 %, and in May 2009 – 31 %, UNIAN reports. The Cabinet of Ministers has allocated 2,7 million UAH in implementation of the state social programs to reduce harmful effects of tobacco on health of population in 2009 – 2012.

But for those who are not ready to give up this harmful habit yet, the scientists have invented a new and easier way – to smoke electronic cigarettes [4].

Using electronic cigarettes, you will still receive nicotine, but it stops torturing lungs concomitant with combustion products, resins, carcinogens and toxins. Note that an electronic cigarette creates steam but not smoke. Smoke – a product of combustion, which contains harmful compounds, including resin acids, oils. Electronic cigarettes contain only moisture from air and nicotine.

The process of steam production is as follows. When you inhale air through an electronic cigarette, it passes through a narrow nozzle. There is formed small air pressure by moisture and when heated the effect of smoke is made [5].

Electronic cigarette is not a burning process, so it does not emit harmful gases. Electronic cigarette contains no tobacco. So you also reduce a risk of cancer. Such cigarettes can be smoked in public places and without fear for others [5].

Summing the information given by this article up, it is possible to say that this problem is a serious one in Ukraine and deserves further considerations. But now we are not ready to solve this problem, because the main key to success is our own desire to give up this harmful habit, in another way all efforts of the government will be in vain.

Наук. керівн. Сичова Ю. В.

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