

Uzbekistan

Overview of

TOBACCO USE, TOBACCO CONTROL LEGISLATION, AND TAXATION

World Bank Group
Global Tobacco Control Program
Country Brief

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Uzbekistan

Overview of Tobacco Use, Tobacco Control Legislation, and Taxation A Country Brief

Executive summary

Uzbekistan conducts a rather comprehensive tobacco control policy in recent years. In October 2011, the President of Uzbekistan signed a law "On the restriction of distribution and consumption of alcohol and tobacco products". In 2012, Uzbekistan Republic ratified the World Health Organization Framework Convention on Tobacco Control (FCTC).

In 2010-2013, cigarette excise rates were increased by 20-25% every year. In 2014-2017, the average annual increase of cigarette specific excise rates was 30%. Such taxation policy had beneficial results: (1) Tobacco excise revenue in 2010-2017 increased more than 3-fold in real (inflation-adjusted) terms; (2) Annual cigarette sales in 2010-2017 decreased by 33%, or by 5 billion cigarettes; (3) Estimated cigarette smuggling into the country substantially decreased.

Cigarette prices in 2010-2018 increased by 450% in nominal terms, but it was caused not only by taxation, as tobacco industry also increased its (net-of-tax) part of the price well above the inflation to secure its profits on declining cigarette market in Uzbekistan.

In 2018, the cigarette excise tax was increased by 120%, but cigarette prices increased only by 28% as excise tax was less than 30% of the cigarette retail price. In 2019, the specific excise rate was further increased by 40% from January and by 20% from July, and an additional small ad valorem excise was introduced. Despite the excise hikes of 2018 and 2019, cigarette excise taxes in Uzbekistan are still lower than in most neighboring countries. So, there is a great potential for a further excise rate increase.

The following recommendations could provide both public health and fiscal benefits for Uzbekistan:

- Annually increase specific excise rate for cigarettes by at least 50% annually.
- Increase ad valorem excise rate to at least 10% of the final retail price.
- Special policies aiming to discourage nasway use should be implemented in Uzbekistan, while the introduction of excise or other taxes for such a home-made product can hardly produce substantial benefits.
- It is worth considering excise taxation for electronic cigarette liquids and devices in line with the World Bank recommendations.
- Effective policies to counteract tobacco smuggling into and out of the country should be implemented in line with provisions of the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, which is recommended to be ratified by the country.

Acknowledgments

This country brief was prepared by a team from the World Bank Group Global Tobacco Control Program led by Patricio V. Marquez, including Konstantin Krasovsky, and Tatiana Andreeva.

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Introduction

The Objective of the Country Brief

This country brief presents an overview of current tobacco control legislation, tobacco use, and taxation policy in Uzbekistan. Data and information were collected from various sources. The brief is intended to serve as the context for complementary assessments on different aspects of tobacco taxation in the country to be shared with government teams and other national and international stakeholders.

Tobacco control legislation

In 2012, Uzbekistan Republic ratified the World Health Organization Framework Convention on Tobacco Control (FCTC). This prompted the development of related legislation. In October 2011, the President of Uzbekistan signed a law "On the restriction of distribution and consumption of alcohol and tobacco products".

Article 12 of the law requires tobacco packs to have health warnings on 40% of both the front and back sides of the tobacco packs with text and/or pictorial. Article 8 of the law entitles the Ministry of Health to develop and adopt the text. Ministry of Health issued the Order N317 of November 17, 2011, whose Annex 2 includes the texts of health warnings. Currently, the text of the main health warning on the front of the pack (wrap) should be one of the following: "Smoking kills" or "Smoking shortens your life" or "Smoking causes serious harm to your health and the health of those around you". The text of the additional health warning on the back of the pack (wrap) should be one of the following: "Smoking causes lung cancer" or "Smoking during pregnancy harms your baby" or "Protect children: do not let them inhale tobacco smoke" or "Smoking causes strong nicotine addiction".

Article 18 of the law bans tobacco advertising in Uzbekistan. The Law on Advertising of Uzbekistan includes Article 23 with more detailed provisions including a ban of sponsorship, ban of goods with tobacco images, and ban of information about tobacco in points of sale. However, the ban is not comprehensive because point-of-sale advertising is widely used.

Article 19 of the law prohibits tobacco use in workplaces, health, educational and sports facilities, fire-dangerous places, like petrol stations, except specially designated smoking areas, and public transport. Since 2016, a fine of one-third of the minimum wage was imposed for smoking in all public places¹.

In 2015 [1], tobacco control policies in Uzbekistan were assessed at 21 out of 37 points.

In July 2018, the Law on restrictions of water-pipes and electronic cigarettes smoking in public places was adopted².

Tobacco use

Tobacco use among adolescents and youth

In 2008, the GYTS was conducted in Tashkent, revealing that 2.7% of boys and 1.6% of girls (aged 13-15 years) currently used tobacco. It was found that 1.8% of adolescents (2.4% of boys and 1.2% of girls) were current cigarette smokers while 0.6% (0.3% of boys and 0.8% of girls) reported using other tobacco products [2]; 17% of surveyed teenagers reported living in homes where others smoked in their presence, which corresponded with the rate of smoking among adult males. The nation-wide GYTS conducted in

¹ <https://www.gazeta.uz/ru/2015/12/30/smoking/>

² <http://lex.uz/ru/docs/3803255>

2013 [3] revealed that only 0.7% of young people smoked cigarettes (1.0% of boys and 0.4% of girls), while 6% of both boys and girls used smokeless tobacco.

Tobacco use among adults

In the Demographic and Health Survey (DHS) conducted in Uzbekistan in 2002 [4], a little more than 1% of women reported ever use of cigarettes or ever smoking regularly. Less than 1% of women reported that they were current smokers. Although the prevalence of current smoking was low, there were notable differentials. The prevalence of current tobacco use exceeded the national level in urban areas (2%), in Tashkent city (3%), and among non-Uzbek women (5%). Less than 0.5% of women reported ever use of nasway or pipe/cigars. Among men participating in the DHS, 41% reported ever smoking cigarettes, and 32% reported ever smoking regularly. Approximately one in five men (21%) reported that they currently smoked. A significant proportion of men also reported having ever used nasway (38%), while only 1% reported having ever used pipes or cigars. There were substantial differences in the background characteristics of current cigarette smoking by men. Current use was lowest among men aged 15-19 years (3%), higher among men aged 20-24 year (16%), and even higher (between 22% and 34%) among men aged 25 to 59 years. The prevalence of current use was relatively high in urban areas (28%), in Tashkent City (39%), and among men of non-Uzbek ethnicity (30%).

According to the survey conducted in 2006, 19.6% of men smoked cigarettes, and 22.3% used nasway [5]. However, only 20% of smokers reported consuming nasway concurrently with cigarettes. Nasway, which is mostly used by the rural population, is characterized by varying composition of carcinogenic and toxic components [6]. Cigarette smoking is more common in the higher-educated urban population, but this behavioral pattern may be adopted by the rural population. Therefore, greater public health potential is deemed pertinent to the reduction of cigarette smoking rather than of nasway use.

The results of household surveys [4, 5, 7] show that the prevalence of cigarette smoking among both men and women in 2002-2006 were fairly stable at about 20% among men and 1% among women.

The prevalence of daily smoking among adults in Uzbekistan in 2013 was estimated to be 10% [8]. Among men, 24.2% were estimated to be current smokers and 18.9% - daily smokers; among women, 1.3% smoked currently and 0.6% daily [9].

According to the latest WHO report [3], the prevalence of tobacco smoking in Uzbekistan among the population aged 15 years and older, adjusted for age and gender, constituted 12.8% in 2015, which was the second lowest among all the countries of the WHO European Region, after Turkmenistan. However, Uzbekistan observes a high prevalence of use of smokeless tobacco called nasway.

In Uzbekistan, the WHO STEPS survey on NCD risk factors was carried out between January and April 2014 [10]. A total of 4350 adults aged 18-64 participated in the survey.

Table 1. Tobacco use in Uzbekistan in 2014, WHO STEPS survey

	Both	Males	Females
Current tobacco smokers, %	14.4	26.8	1.4
Current daily tobacco smokers, %	9.0	16.6	0.9
Among current daily tobacco smokers:			
<i>The average age when started smoking, years</i>	20.1	20	21.4
<i>Daily smokers smoking manufactured cigarettes, %</i>	90.2	89.8	98.6
<i>Mean number of manufactured cigarettes smoked per day (per smoker of manufactured cigarettes)</i>	8.4	8.5	7.2
Current smokeless tobacco use [3], %	12.0	23.2	0.2

In May 2019 media reported results of the survey conducted by some marketing agencies (and probably paid by the tobacco industry)³: smoking prevalence among persons 22 years old and older in Uzbekistan increased from 11.5% in 2016 to 12.3% in 2019.

Tobacco-related mortality

The proportion of deaths attributable to tobacco in Uzbekistan in 2004 was estimated to be 10% for men (aged 30 years and over) and 3% for women (aged 30 years and over) [11].

Health care costs of tobacco use

Direct health care costs and indirect costs of smoking by males aged 35 years and older in 2005 in Uzbekistan [7] including government expenditures for inpatient and outpatient hospital care and out-of-pocket spending to treat smoking-related diseases were estimated to be US\$ 17.3 million (20.4 billion Uzbekistan soms [UZS]), or 2.7% of health care expenditures. The indirect cost of smoking to society was US\$ 75.2 million (UZS 88.5 billion); 3% of this loss was due to premature mortality, 74% due to a disability, and 23% due to sickness. Total estimated costs of smoking constituted 0.6% of GDP [12].

Tobacco production and sales

According to the estimates [13] by the Food and Agriculture Organization of the United Nations (FAO), area harvested by tobacco in Uzbekistan decreased from 10,500 hectares in 2001 to 3,553 hectares in 2017. According to official data reported by the FAO, annual raw tobacco production was 33,800 tons in 1998 and then decreased to 5,543 tons in 2017.

More than 90% of all cultivated tobacco leaf in Uzbekistan is used by UzBAT for domestic production and exports. In 2015, the national government issued an order to make locally produced raw materials constitute not less than 20% of all the tobacco UzBAT uses for the production of cigarettes.

British American Tobacco (BAT) has a monopoly on tobacco production in Uzbekistan. Within the joint venture UzBAT, the BAT owns 97.4% of shares, while the government of Uzbekistan – 2.6%. In 2017, the UzBAT was employing 157 permanent workers⁴. It also hired part-time and seasonal workers.

Data on cigarette production, import, export, and sales from several Euromonitor reports (Tobacco in Uzbekistan, Cigarettes in Uzbekistan, July 2011, September 2013, August 2015, August 2016, July 2017, and July 2018) are used in Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2. We calculated cigarette turnover as production + import – export (Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

³ <https://nuz.uz/ekonomika-i-finansy/40391-kto-i-skolko-kurit-v-uzbekistane-obzor-tabachnogo-rynka.html>

⁴ <https://nuz.uz/ekonomika-i-finansy/24758-top-5-dostizheniy-za-20-let-samarkandskaya-fabrika-gotovitsya-otmetit-yubiley.html>

Table 2). For some years, the turnover differs from the estimate of cigarette sales. Cigarette sales substantially increased in 2007-2010 but then gradually decreased in 2011-2015. In 2015-2017, the reported cigarette sales were rather stable: about 10.5 billion cigarettes annually.

However, it was also reported that cigarette sales in 2016-2018 decreased by 4% (from 10.46 billion to 10.04 billion cigarettes)⁵.

Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2. Cigarette production and trade, Euromonitor estimates

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Production, million cigarettes	5661	8313	12644	13528	11852	9932	10104	10925	10760	10692	10735
Import, million cigarettes	4980	4725	3195	3065	1798	1642	1526	541	529	348	182
Export, million cigarettes	550	594	723	352	690	605	135	123	116	118	12
Turnover, million cigarettes	10091	12444	15116	16241	12960	10969	11495	11343	11173	10921	10792
Sales, million cigarettes	10091	12444	15115	15606	13098	12699	11462	11432	10638	10637	10382
Cigarette sales, UZS billion	1032	1272	1523	1732	1821	2087	2164	2471	2688	3174	3694
<i>Average price (soms per 20 cigarettes pack)</i>	<i>2045</i>	<i>2044</i>	<i>2015</i>	<i>2220</i>	<i>2781</i>	<i>3287</i>	<i>3776</i>	<i>4323</i>	<i>5054</i>	<i>5969</i>	<i>7117</i>
<i>Average price increase (previous year = 100)</i>	<i>101.4</i>	<i>99.9</i>	<i>98.6</i>	<i>110.1</i>	<i>125.3</i>	<i>118.2</i>	<i>114.9</i>	<i>114.5</i>	<i>116.9</i>	<i>118.1</i>	<i>119,2</i>
Illicit trade estimates, million cigarettes	1853	2140	2461	1618	1248	883	544	468	430	345	282

Tobacco taxation

The cigarette taxation system in Uzbekistan has undergone several changes. In 1991-2004, ad valorem system was in place with the differential taxation of different classes of cigarettes; further on in 2005, the country applied a specific taxation system [14].

In 2008-2017, specific excise rate for domestic filter cigarettes increased more than 7-fold (Table 3). The largest excise rate increase (120%) was implemented in 2018. Since 2015, unified specific rates have been used for both filter and non-filter domestic cigarettes.

Table 3. Excise rates for cigarettes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 January	2019 July
Filter cigarettes (soms per 1000)	5206	5727	7159	8949	10739	13424	17451	19196	28794	37432	84222	117900	141480
<i>Annual excise rate increase, %</i>	<i>0</i>	<i>10</i>	<i>25</i>	<i>25</i>	<i>20</i>	<i>25</i>	<i>30</i>	<i>10</i>	<i>50</i>	<i>30</i>	<i>120</i>	<i>40</i>	<i>20</i>
Non-filter cigarettes (soms per 1000)	1476	1919	2 879	4319	5183	6479	8423	19196	28794	37432	84222	117900	141480
Imported cigarettes (USD per 1000)	10	10	10	10	13	18,2	18,2	18,2	18,2	18,2	60	45	

⁵ <https://nuz.uz/ekonomika-i-finansy/40391-kto-i-skolko-kurit-v-uzbekistane-obzor-tabachnogo-rynka.html>

Source. Decrees of the President of Uzbekistan, site <http://lex.uz/ru/>.

The excise tax rate for imported cigarettes is set in US dollars. In 2018, the rate was 18.2 USD = 149,700 UZS, which is 78% higher than the specific rate for domestic cigarettes. In 2008-2017, the actual specific rates for imported cigarettes were two-three-fold higher than the rates for domestic cigarettes.

From June 2018, an additional excise tax was introduced (1000 UZS per 1000 cigarettes) which should be used to finance the governmental Sports Foundation⁶.

From 1 January 2019, the specific excise increased by 40% to 117,910 UZS per 1000 domestic cigarettes – a 40% increase. An additional 20% increase in specific excise rate is effective from 1 July 2019.

Excise rates for imported cigarettes were increased from 18.2 USD to 60 USD per 1000 cigarettes in 2018, but then it was decreased to 45 USD per 1000 cigarettes in 2019.

From March 2019, ad valorem excise was introduced in Uzbekistan, but it is only 4% and is calculated not as a percentage of the final retail price, but of the retail price exclusive of excise and VAT⁷. So, ad valorem excise rate is actually about 2% of the final retail price.

Cigarettes produced in Uzbekistan are subject to a 20% value-added tax (VAT). Imports are also levied with a Customs Fee, which consists of four administrative customs payment (0.2% of CIF value) and customs duty (30% of CIF value).

Tobacco excise revenue

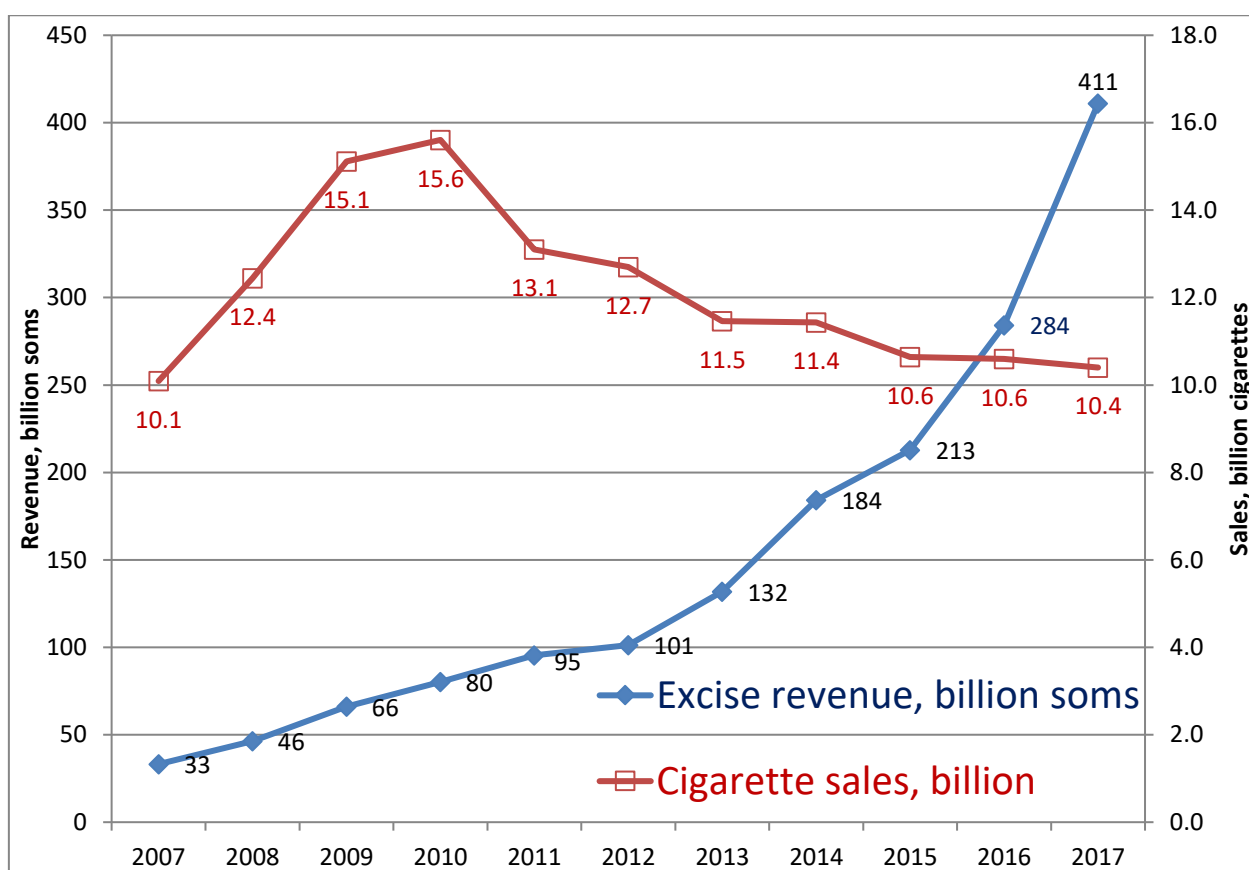
In 1999, the real excise revenues doubled, which was due to a sharp increase in excise duty [14]. Between 1999 and 2005, a significant annual reduction in excise tax revenues in real terms was observed. A reduction in excise rates in 2002 and their retention at the same level in 2003-2004 did not yield any revenue increase; on the contrary, fiscal revenue fell more than three-fold compared to the level of 1999. A substantial augmentation of revenue in real terms was only observed in 2006, 2008 and 2009, but this was due to a sharp increase in cigarette sales. In 2010-2011, revenues increment was caused by the increase of the real rate of excise duty by 9-10%, despite the decline in cigarette sales in those years.

Trends in excise revenue in 2007-2017 are presented in Figure 1.

Figure 1. Tobacco excise revenue and cigarette sales.

⁶ <https://nuz.uz/obschestvo/30880-sportivnyy-sbor-v-uzbekistane-proizvoditeley-tabaka-i-alkogolya-obyazali-oplachivat-razvitie-sporta.html>

⁷ <http://lex.uz/ru/docs/4131693#4134349>



Sources: Sales – Euromonitor; Revenue – information from the Ministry of Health and media publications.

In 2007-2009, tobacco excise revenue increased mainly due to cigarette sales growth, while in 2011-2015, the revenue increased each year despite the cigarette sales reduction. In the 2011-2017, cigarette sales decreased by 21%, but the revenue increased by 331% in nominal terms and by 214% in real (inflation-adjusted) terms.

We estimated the expected revenue increase as follows: Change in cigarette sales (from Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**)). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2) * Change in excise rate for filter cigarettes (from Table 3) and compared them with a real change in excise revenue (Table 4).

Table 4. Comparison of actual and expected increases in the cigarette excise revenues

	2010	2011	2012	2013	2014	2015	2016	2017
Excise rate increase, %	25,0	25,0	20,0	25,0	30,0	10,0	50,0	30,0
Expected revenue increase, %	29,1	4,9	16,3	12,8	29,7	2,0	50,0	27,5
Actual revenue increase, %	21,2	19,0	6,1	30,2	39,8	15,5	33,5	44,6

Some differences between the expected and the actual revenues are caused by the following factors: (1) excise taxes in January are paid by lower rates of previous year, (2) different excise rates for filter and non-filter cigarettes were effective till 2015, (3) higher excise rates were applied to imported cigarettes and some other factors. However, the difference between expected and actual excise revenues became rather prominent in recent years. In 2015, the excise rate was increased just by 10%, and the reported cigarette sales declined, but actual revenue increased by 16%. An explanation behind that could be an

anticipation of the excise rate increase by 50% from January 2016. Manufacturers increased production and stock of cigarettes in the last months of 2015 to pay taxes by a much lower rate of 2015. So, a substantial number of cigarettes was taxed in 2015 but sold by retail in 2016. Thus, the actual revenue increase in 2016 was much lower (34%), than the expected increase (50%). A similar process was observed in 2017: while an expected revenue increase should be 28%, in reality, it was much higher (45%). Again, in anticipation of the excise rate increase by 120% from January 2018, manufacturers increased production and stock of cigarettes in the last months of 2017. Therefore, the revenues in 2017 were much higher than expected. However, similarly to what was observed in 2016, we can forecast that the excise revenue in 2018 will be lower than expected.

Such a phenomenon is known as forestalling. The FCTC Guidelines on Article 6 [15] recommend preventing this from occurring and to ensure that the authorities receive the extra revenue from tax increases, rather than producers or importers. For this, Parties should consider implementing anti-forestalling measures, such as:

- restricting the release of excessive volumes of tobacco products immediately prior to a tax increase;
- levying a new tax on products already produced or kept in stock, and not yet supplied to the final consumer, including those in retail (known as a floor-stock or inventory tax).

Cigarette prices

National statistics bodies do not provide data on average cigarette prices in Uzbekistan, so we used the calculated average annual cigarette prices from Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2. In 2008-2010, the average price was stable, but in 2011-2017, it increased 3.2-fold.

We used data from the WHO Global reports on tobacco epidemic and other sources to assess the price components (Table 5) for the most popular cigarette brand in Uzbekistan--Pall Mall brand (according to Euromonitor reports, the market share of this brand exceeded 50% over the last seven years).

Table 5. Price and price components of the Pall Mall cigarettes (in UZS per pack of 20 cigarettes)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (May)	Increase 2018/2010	
											Nominal	Inflation- adjusted
Price	1100	1500	1700	2000	2200	2500	3300	4500	6000	7500	5,5	2,86
Specific excise	143	179	215	268	349	384	576	749	1684	2358	11,8	6,18
Ad valorem excise										150		
VAT	183	250	283	333	367	417	550	750	1000	1250	5,5	2,86
Net-of-tax price	773	1071	1202	1398	1484	1699	2174	3001	3316	3742	4,3	2,25
Excise share, %	13,0	11,9	12,6	13,4	15,9	15,4	17,5	16,6	28,1	33,4	2,2	

Sources: WHO Global reports on the tobacco epidemic and information from the Ministry of Health.

In 2010-2018, the nominal price of Pall Mall cigarettes increased more than 5-fold (or by 450%). Inflation-adjusted price in 2010-2018 increased by 186%. The main factor of the price increase was the excise tax increase, but the tobacco industry also substantially (by 125% in the inflation-adjusted form) increased its (net-of-tax) part of the price. In 2017, the net-of-tax price was 4-fold higher than the excise rate. In 2018 and 2019, excise rates were substantially increased, but the net-of-tax price is still about 50% of the final retail price.

The excise share in the final retail price was about 13% in 2010-2013. It slightly increased to 16% in 2014-2017. The substantial excise hikes of 2018 and 2019 increased the excise share to 33%, but it is still much lower than in most other countries.

Comparison of cigarette prices and taxes in Uzbekistan and neighboring countries

The comparison of excise rates and cigarette prices in Uzbekistan and neighboring countries (Table 6) reveals that current taxes in Uzbekistan are much lower than in Kazakhstan, Kyrgyzstan and the Russian Federation.

Table 6. Cigarette prices and taxes in Uzbekistan and neighboring countries in May 2019

	Specific excise rate per 1000 cigarettes		Ad valorem excise, %	VAT, %	The average retail price of a 20 cigarettes pack		Price components (USD)		
	National Currency	USD			National Currency	USD	excise	VAT	Net of taxes
Kazakhstan	8700	22,8	0	12	415	1,09	0,46	0,12	0,51
Kyrgyzstan	1500	21,4	0	12	69	0,99	0,43	0,11	0,45
Russian Federation	2568	39,5	14,5	20	114	1,75	0,79	0,29	0,67
Tajikistan	9.8 euro	11,1	0	18	9	0,96	0,22	0,16	0,54
Uzbekistan	117900	13,9	4	20	8313⁸	0,98	0,29	0,16	0,53

Sources: Official sites of the relevant countries and other open sources.

However, cigarette prices in the Central Asian countries are rather similar and do not encourage cigarette smuggling between countries.

The net-of-tax prices of cigarettes are much higher than the excise in Uzbekistan and Tajikistan; it is lower than the excise in the Russian Federation, while in Kazakhstan and Kyrgyzstan, the excise and net-of tax values do not differ much. However, in monetary terms, the net-of-tax prices of cigarettes in the Central Asian countries do not differ much, and they are only about 30% lower than in the Russian Federation. The similarity of net-of-tax prices in these countries demonstrates that the cigarette prices are not defined by the average wages and costs of living in a country, but by the pricing policy of tobacco industry and taxation policy of governments.

Over recent years, the cigarette excise rates were increased in the neighboring countries. In Kyrgyzstan, the minimum excise rate for filter cigarettes in 2009-2014 was increased 4-fold, and the tobacco excise revenue increased 5-fold [16]. The only tobacco factory in the country was closed in 2014. In 2014-2019, excise rates in Kyrgyzstan increased from 450 soms (KGS) to 1500 KGS per 1000 cigarettes.

In July 2018, Tajikistan increased the excise rates by 9.8-fold.

⁸ <https://nuz.uz/ekonomika-i-finansy/40391-kto-i-skolko-kurit-v-uzbekistane-obzor-tabachnogo-rynka.html>

In January 2019, the Russian Federation increases cigarette excise rates by 10%, Kazakhstan – by 16%, and Kyrgyzstan – by 20%.

Cigarette affordability trends

In the current analysis, a modified tobacco affordability index (TAI) [17] is used to estimate the changes in tobacco affordability in 2007–2017. TAI is calculated as the percentage annual change in disposable income per capita divided by the tobacco price increase: $TAI = (\text{income increase} / \text{price index tobacco} - 1) * 100$. A negative TAI value means that tobacco became less affordable, and tobacco consumption is expected to decrease.

As national statistics do not provide indicators of the individual or household income for recent years, we used the indicator *Annual percentage growth rate of GDP per capita*⁹. As the GDP change is adjusted for the effects of price inflation, the price indicator should also be expressed in real (inflation-adjusted) terms. For inflation, we use the National statistics committee data on the consumer price index for all items.

We used both official consumer price indexes for tobacco products for 2012-2018¹⁰ and calculated average annual cigarette prices from Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2 to estimate the trends in cigarette prices and affordability (In 2007-2009, the average cigarette prices did not increase, and cigarettes became much more affordable. Starting from 2010, cigarette prices annually increased by 10-25%, and in 2011-2017 cigarettes were annually getting less affordable. However, only in 2011, the affordability reduction was sufficient to decrease cigarette sales (see Figure 1).

When the official CPI for tobacco products is used, cigarette affordability continued to grow in 2012-2017. According to the official report, in 2005-2016 average annual CPI (inflation) was 106.9, while average annual CPI for tobacco products was 103.6, so tobacco price increase was below the inflation rate in those years. However, in 2015-2018 tobacco price increase was above the inflation rate (see **Error! Not a valid bookmark self-reference.**).

Table 7).

In 2007-2009, the average cigarette prices did not increase, and cigarettes became much more affordable. Starting from 2010, cigarette prices annually increased by 10-25%, and in 2011-2017 cigarettes were annually getting less affordable. However, only in 2011, the affordability reduction was sufficient to decrease cigarette sales (see Figure 1).

When the official CPI for tobacco products is used, cigarette affordability continued to grow in 2012-2017. According to the official report¹¹, in 2005-2016 average annual CPI (inflation) was 106.9, while average

⁹ <https://stat.uz/ru/ofitsialnaya-statistika/natsionalnye-scheta/statisticheskie-tablitsy/186-ofytsyalnaia-statystyka-ru/natsional-nye-scheta-ru/2172-tempy-rosta-valovogo-vnutrennego-regionalnogo-produkta-na-dushu-naseleniya-za-2000-2017gg-v-protsetakh-k-predydushchemu-godu>

¹⁰ <https://stat.uz/ru/ofitsialnaya-statistika/tseny/statisticheskie-tablitsy/189-ofytsyalnaia-statystyka-ru/tseny-ru/4202-indeks-potrebitelskikh-tsen>

¹¹ <https://stat.uz/ru/ofitsialnaya-statistika/tseny/statisticheskie-tablitsy/433-analiticheskie-materialy-ru/2040-analiticheskaya-informatsiya-ob-indeksakh-tsen>

annual CPI for tobacco products was 103.6, so tobacco price increase was below the inflation rate in those years. However, in 2015-2018 tobacco price increase was above the inflation rate (see **Error! Not a valid bookmark self-reference.**).

Table 7. Estimates of cigarette affordability in Uzbekistan

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Annual growth rate of GDP per capita (previous year = 100)	107,9	107,3	106,2	105,4	105,4	106,6	106,3	106,2	106,0	104,3	102,7	103,3
Consumer price index, all items (December previous year = 100)	106.8	107.8	107.4	107.3	107.6	107.0	106.8	106.1	105.6	105.7	114.4	114.3
Consumer price index, tobacco products (December previous year = 100)						100,8	101,0	105,0	110,4	108,7	119,0	128,0
Average cigarette price annual change (previous year = 100)	101.4	99.9	98.6	110.1	125.3	118.2	114.9	114.5	116.9	118.1	119.2	
Tobacco Affordability Index, official CPI-tobacco						13.2	12.4	7.1	1.5	3.0	-0.5	-7.8
Tobacco Affordability Index, calculated average prices	13.7	16.2	15.8	2.8	-9.5	-3.5	-1.2	-1.8	-4.2	-5.2	-0.7	

Sources: National statistics committee website <https://stat.uz/ru/>.

Cigarette smuggling

Cigarettes in Uzbekistan are less expensive than in the Russian Federation and Kazakhstan and have similar prices with Kyrgyzstan and Tajikistan (see Table 6). Overall, the price differences are not large enough for large-scale smuggling, just some cigarette bootlegging takes place.

The Euromonitor estimates annual volumes of illicit cigarette sales into Uzbekistan (see Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**)). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2). In 2007-2009 (when cigarette prices were rather stable), the estimated volumes of cigarette smuggling increased and reached 2.5 billion cigarettes in 2009. Then the volumes of smuggling decreased every year, and in 2017 only 0.28 billion cigarettes were smuggled into Uzbekistan, while during that period of time cigarette prices substantially increased (see Using annual Euromonitor data on cigarette sales in monetary and physical terms, we calculated average annual cigarette prices (**Error! Not a valid bookmark self-reference.**)). The calculated average prices were stable in 2007-2009, but then they were going up by 10-25% annually.

Table 2 and Table 4).

In Turkmenistan, The Russian Federation, and some other countries, cigarettes are much more expensive than in Uzbekistan, and this creates incentives for cigarette smuggling out of the country. In 2011, more than 60 attempts to smuggle tobacco products from Uzbekistan into Turkmenistan were disclosed [14]. More than 100 attempts to smuggle cigarettes out of Uzbekistan were disclosed in the Tashkent airport in 2016¹².

¹² <https://nuz.uz/sobytiya/21304-grazhdanki-uzbekistana-pytalis-vyvezti-v-turciyu-krupnuyu-partiyu-sigaret.html>

Discussion

In 2010-2013, cigarette excise rates were increased by 20-25% every year. In 2014-2017, the average annual increase of cigarette specific excise rates was 30%. Such taxation policy has had the following results:

- Tobacco excise revenue in 2010-2017 increased more than 3-fold in real (inflation-adjusted) terms;
- Annual cigarette sales in 2010-2017 decreased by 33%, or by 5 billion cigarettes;
- Estimated cigarette smuggling into the country decreased almost 9-fold in 2009-2017.

Cigarette prices in 2010-2018 increased by 450% in nominal terms, but it was caused not only by taxation, as tobacco industry increased its (net-of-tax) part of the price well above the inflation (see Table 5).

The recent WHO-NCI monograph on tobacco taxation [12] states: *The best strategy for a monopolist would be to set the retail price lower than the short-run profit-maximizing position when the business environment is good. However, when the environment is unfavorable to the industry (e.g., when tobacco control legislation is passed or when the excise tax increases consistently), a more appropriate strategy would be to set the retail price much higher in order to maximize short-run profits, given the expected lower future profits. Ironically, the industry engineered a greater decrease in cigarette consumption in the short term by raising prices than the government was able to achieve by increasing the excise tax alone.*

By increasing the net-of-tax price, the tobacco industry managed to secure its profits on declining cigarette market in Uzbekistan.

Cigarettes became less affordable in Uzbekistan in 2011-2018 (see In 2007-2009, the average cigarette prices did not increase, and cigarettes became much more affordable. Starting from 2010, cigarette prices annually increased by 10-25%, and in 2011-2017 cigarettes were annually getting less affordable. However, only in 2011, the affordability reduction was sufficient to decrease cigarette sales (see Figure 1).

When the official CPI for tobacco products is used, cigarette affordability continued to grow in 2012-2017. According to the official report, in 2005-2016 average annual CPI (inflation) was 106.9, while average annual CPI for tobacco products was 103.6, so tobacco price increase was below the inflation rate in those years. However, in 2015-2018 tobacco price increase was above the inflation rate (see **Error! Not a valid bookmark self-reference.**).

Table 7), and their consumption declined, which is very beneficial for the population health. However the rates of affordability reduction were rather modest in recent years, and in 2013-2017, the decrease in cigarette sales was only 9.5% in five years.

In 2018, the cigarette excise tax was increased by 120%, but during the first six months of 2018, cigarette prices increased only by 15.2% as excise tax is only 28% of the cigarette retail price. So, there is a great potential for a further excise rate increase. In 2019, the specific excise rate was further increased by 40% from January and by 20% from July, and an additional small ad valorem excise was introduced.

Despite the excise hikes of 2018 and 2019, cigarette excise taxes in Uzbekistan are still lower than in most neighboring countries. It was partly caused by the recent devaluation of the national currency. As most of the neighboring countries scheduled further excise rate increase for 2020, the excise rate increase in Uzbekistan should be high enough to reach the rates in other countries.

Conclusions and recommendations

Annual substantial increases of tobacco excise taxes implemented in Uzbekistan in 2010-2019 reduced tobacco affordability and tobacco consumption in the country and also increased governmental tobacco excise revenues.

It is recommended to continue such policy in the next years and to increase specific excise rate for cigarettes at least by 50% annually.

The ad valorem excise for cigarettes which was introduced in 2019 has a very small actual rate (about 2% of the final retail price). The ad valorem rate should be increased to at least 10% of the final retail price, as the administration of ad valorem excise is more difficult than the administration of specific tax, and ad valorem revenue should be high enough to justify additional administration efforts.

To receive the extra revenue from tax increases, the government should consider implementing anti-forestalling measures in line with the FCTC recommendations.

Special policies aiming to discourage nasway use and related surveillance activities [6] should be implemented in Uzbekistan, while the introduction of excise or other taxes for such a home-made product can hardly produce substantial benefits. However, it is worth considering the excise taxation for electronic cigarette liquids and devices in line with the World Bank recommendations [18].

Effective policies to counteract tobacco smuggling into and out of the country should be implemented in line with provisions of the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, which is recommended to be ratified by the country.

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