

Azerbaijan

Overview of

TOBACCO USE, TOBACCO CONTROL LEGISLATION, AND TAXATION

World Bank Group
Global Tobacco Control Program
Country Brief

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Azerbaijan

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

Executive summary

In 2007-2014, tobacco consumption in Azerbaijan slowly increased because cigarettes became more affordable in those years. A substantial decline in cigarette sales was observed only in 2015 and 2016, as cigarette affordability substantially reduced at that time. It was followed by some reduction of smoking prevalence in 2016 and 2017.

However, the affordability changes were caused not by the government taxation policy. The main factor of the cigarette affordability reduction in 2015 was the national currency devaluation and pricing policy of the tobacco industry. In Azerbaijan, the industry-determined net-of-tax part of cigarette price is much higher than in neighboring countries, and so, retail cigarette prices are higher than in those countries, while excise burden in Azerbaijan is much lower. In 2017, cigarette prices were decreased by the tobacco industry, cigarettes became more affordable, and cigarette sales increased.

Tobacco industry tries to exaggerate the problem of cigarette smuggling into Azerbaijan in order to create an impression that tobacco taxes should not be increased, as smuggling is already very high. The industry usually substantially overestimates the volumes of smuggling, but even according to Euromonitor International (an agency, affiliated with the tobacco industry) estimates, the total (licit + illicit) cigarette sales in Azerbaijan decreased in 2014-2017 by 15%.

From 2016, the government provides subsidies for tobacco growers to stimulate raw tobacco production in Azerbaijan. Such subsidies contradict the World Bank policy. The governmental subsidies to tobacco growers mean that public money is used to make raw tobacco cheaper. Eventually, this policy is expected to encourage tobacco consumption by reducing cigarette prices.

In 2019, Azerbaijan increased tobacco excise taxes, but such taxes were also increased in Russia, Armenia, and Georgia, and tax burden in Azerbaijan is still much lower than in neighboring countries.

While taxation policy in Azerbaijan had a small impact on tobacco consumption, it substantially increased tobacco excise revenue. Tobacco tax reforms of 2015 and 2018 increased excise burden on cigarettes and it was very beneficial for governmental revenue.

Azerbaijan has a high potential for the further increases of excise tax rates for all kinds of tobacco products (including electronic cigarettes). Substantial increase which will reduce tobacco affordability is able to both reduce tobacco consumption in the country and increase government revenues.

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 Azerbaijan. 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.

In this paper, we analyzed tobacco control and tobacco taxation policies in Azerbaijan as well as trends in indicators characterizing tobacco taxes, cigarette prices, and tobacco sales resulting from these policies. Further on, we consider the indicators of tobacco consumption as well as the prevalence of tobacco use which is the outcome of the corresponding policies. Based on this data, we conclude on the periods of more and less successful tobacco taxation policies and potential factors which influenced their change. The reconstructed history of tobacco taxation and tobacco use serves for projections of potential refinements of tobacco taxation in the country.

Tobacco control legislation

Azerbaijan became a Party to the Framework Convention on Tobacco Control on January 30, 2006.

The Law of the Azerbaijan Republic "On tobacco and tobacco products" was adopted in 2001 and entered into force in January 2002¹, and it was rather controversial. The main declared aims were: (1) *cultivation of valuable and high-quality tobacco products to increase exports of tobacco and tobacco products, protection of the domestic tobacco market; and (2) the strengthening measures to protect public from the harmful effects of tobacco products.*

In 2015 [1], tobacco control policies in Azerbaijan got 21 out of 37 points assessment.

On December 29, 2017, Azerbaijan's Parliament adopted the law "On restriction of tobacco products use" that the President subsequently signed². This law acts in parallel with the Law "On tobacco and tobacco products". Among other measures, the new law established smoke-free public places and a ban on tobacco advertising, promotion, and sponsorship. Significantly, the law also defined water pipes and electronic cigarettes as tobacco products.

The adoption of the new law became a result of a series of activities and efforts that involved multiple sectors of the Government, ministries, and agencies. The adoption of the national strategy on the prevention and control of non-communicable diseases in December 2015 created new momentum for tobacco control activities.³

Smoke-free places

According to the law "On tobacco and tobacco products" adopted in 2001⁴, the list of public places, where smoking was banned, was rather short and included healthcare and educational facilities. The law also required the establishment of designated smoking places in hotels, on transport, on workplaces.

¹ Law on tobacco and tobacco products (unofficial English translation) https://untobaccocontrol.org/impldb/wp-content/uploads/reports/azerbaijan_2016_annex3_law_on_tobacco_and_tobacco_products_2002.pdf

² <https://president.az/articles/26671>

³ <http://www.euro.who.int/en/countries/azerbaijan/news/news/2018/01/azerbaijan-adopts-new-tobacco-control-law>

⁴ <https://www.tobaccocontrolaws.org/files/live/Azerbaijan/Azerbaijan%20-%20Law%20No.%20138-IIG%20%20-%20national.pdf>

Businesses were made responsible for placing "no smoking" signs and for the dedication of places for smoking.

As revealed in the study which assessed support for tobacco control policies in several countries of the former Soviet Union [2], Azerbaijan was among those countries with relatively high opposition to any kind of smoking ban in restaurants, bars and cafes (Armenia (7%), Azerbaijan (8%), and Georgia (10%) compared to just 2% in Moldova, 3% in Ukraine and 4% in Russia).

The law "On restrictions of tobacco products use" adopted in 2017 introduced a wider list of public places where smoking should not be allowed. However, there are two categories of public places: 1) in healthcare and educational institutions, theaters, and some other places, smoking is totally banned; 2) in catering facilities (restaurants, café, bars), commercial and administrative buildings and other workplaces the owner can establish designated smoking place "where the ventilation system is provided". Commentaries in the media emphasize that the business owners themselves can decide whether to arrange designated smoking places⁵.

According to Article 212.1 of the Administrative Code persons can be fined by 30 manats (AZN) for cigarette smoking in public places where smoking is not allowed. If the "No smoking" sign is absent and there is no special designated place for cigarette smoking in enterprises or organizations (Article 212.2)⁶, the legal entity can be fine by 1000 AZN and managers of the entity by 400 AZN. In October 2018, the fines were increased to 50 AZN, 1200 AZN, and 500AZN respectively⁷.

Tobacco advertising, promotion, and sponsorship

Through a law on advertising adopted in 1997 and amended several times, Azerbaijan had bans in place on all forms of direct and some forms of indirect advertising. However, promotional discounts, sponsored events, use of tobacco brand names on non-tobacco products, product placement, and tobacco products display at points of sale were not banned. The law did not require fines for violations of these bans [3].

Although some sources mention that the new law "On restriction of tobacco use" introduces a ban on advertising and sponsorship, others⁸ explain that in the draft law adopted in the second reading, the concepts of "sponsorship" and "charity" were considered identical. As the chairman of the parliamentary committee has stated, "the charitable activities of tobacco companies will not be limited".

⁵ <https://minval.az/news/123751060>

⁶

<http://scfwca.gov.az/store/media/NewFolder/%D0%9A%D0%BE%D0%B4%D0%B5%D0%BA%D1%81%20%D0%90%D0%B7%D0%B5%D1%80%D0%B1%D0%B0%D0%B9%D0%B4%D0%B6%D0%B0%D0%BD%D1%81%D0%BA%D0%BE%D0%B9%20%D0%A0%D0%B5%D1%81%D0%BF%D1%83%D0%B1%D0%BB%D0%B8%D0%BA%D0%B8%20%D0%BE%D0%B1%20%D0%B0%D0%B4%D0%BC%D0%B8%D0%BD%D0%B8%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B8%D0%B2%D0%BD%D1%8B%D1%85%20%D0%BF%D1%80%D0%BE%D1%81%D1%82%D1%83%D0%BF%D0%BA%D0%B0%D1%85.doc>

⁷ <https://jam-news.net/%D0%B2-%D0%B0%D0%B7%D0%B5%D1%80%D0%B1%D0%B0%D0%B9%D0%B4%D0%B6%D0%B0%D0%BD%D0%B5-%D1%83%D0%B2%D0%B5%D0%BB%D0%B8%D1%87%D0%B8%D0%BB%D0%B8-%D1%88%D1%82%D1%80%D0%B0%D1%84%D1%8B-%D0%B7%D0%B0-%D0%BA%D1%83/?lang=ru>

⁸ <https://www.trend.az/azerbaijan/society/2829389.html>

Tobacco packaging and labeling

Article 13 of the law “On tobacco and tobacco products” requires health warnings on tobacco packs determined by the relevant executive authority.

The study published in 2012 [4], found several drawbacks in tobacco pack health warnings in Azerbaijan. The warnings were text only, non-rotated (single type of warning), occupying just 6% of the front panel and 5% of the back one.

Since 2012, Azerbaijan adopted a new standard for labeling tobacco products: AZS 335-2009 "Tobacco products. Packaging and labeling" The State Standard require that 30% of the surface of a cigarette pack is occupied by the inscription "Smoking damages your health" in the national language. The warning does not include a photograph or graphic, however, and does not describe the harmful effects of tobacco use on health [3].

Although the deceitful labeling was banned [5], it was still present on the packs.

The study which measured tobacco-health impact awareness and support for tobacco control measures in several countries of the former Soviet Union found that the level of knowledge of Azerbaijan was the lowest [2]. Among other questions, Azerbaijan participants got the lowest scores for the knowledge that tobacco use can cause heart disease, bronchitis, and stroke. Azerbaijan was also among the countries with high levels of misunderstanding about the potential effects of ‘light’ cigarettes. Better knowledge was found among women, more educated, and urban.

Tobacco use

Tobacco use among adults

State Statistics Committee publishes the data on smoking prevalence among adults in the annual Statistical Yearbooks (see Table 1).

Table 1. Smoking prevalence (%) among adults (16 years and older in 2002-2008 and 15 years and older in 2009-2015)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Male	41.7	39.9	41.2	37.9	38.6	38.0	38.0	36.3	36.0	35.3	35.3	36.6	35.9	35.5	33.5	33.1
Female	0.3	0.4	0.3	0.2	0.1	0.1	0.1	0	0	0	0	0	0	0	0	0
Total	19.6	19.0	19.3	17.9	18.2	17.7	17.7	17.1	17.0	16.7	16.7	18.4	18.2	17.0	16.2	15.9

Source. The State Statistical Committee. Annual Statistical Yearbooks.

Smoking prevalence among men aged 16 years and older decreased from about 41% in 2002-2004 to 38% in 2007. In 2009-2015, smoking prevalence among men aged 15 years and older was rather stable at the level of 35.3-36.6%, but in 2016 it decreased to 33.5%. In 2009-2015, the prevalence of smoking among men of different age groups was also rather stable and did not have clear trends: 0.5-0.9% among men aged 15-19 years; 28-35% among men aged 20-44 years; 51-55% among men aged 45-64 years; 36-42% among men aged 65 years and older. In 2016-2017, the prevalence of smoking declined in all age groups, but the reduction was more prominent among younger men: from 0.9% to 0.1% among men aged 15-19 years and from 31% to 26.4% among men aged 20-44 years.

Smoking prevalence among women aged 16 years and older decreased from about 0.3% in 2002-2004 to 0.1% in 2007. In 2009-2016, the reported smoking prevalence among women aged 15 years and older was zero. Over the period of all the reported years, an average smoker smoked daily about 16 cigarettes.

According to the Reproductive Health Survey conducted in Azerbaijan in 2001 [6], of 7,668 participating women aged 15-44, only 4% reported ever trying smoking, and 1% had smoked at least 100 cigarettes during their lifetime (i.e., ever smokers), including 0.6% who smoked daily or almost daily during the 30 days preceding the survey (i.e., daily smokers).

In 2000, the reported prevalence of smoking in Azerbaijan was 30.2% among men and 1.1% among women [7].

Demographic and Health Survey conducted in Azerbaijan in 2006 only among men aged 15-49 years found that the prevalence of smoking was 49.80% (CI 47.38-52.21), and the prevalence of smokeless tobacco use was 0.24% (CI 0.10-0.38) [8]. Smoking was more prevalent among men of older age and lower income, while no difference was seen between urban and rural men [9].

In 2011, Azerbaijan implemented National Survey on Risk Factors for Chronic Noncommunicable Diseases (NCD survey)⁹. The sampling frame included all the population of Azerbaijan aged 18 years and above; the sample size was 2400 participants. The survey showed that the prevalence of current smoking and daily smoking was 22.9% and 21.3% respectively. Overall, 46.1% of men reported daily smoking, and an additional 3.4% were occasional smokers. Only 0.5% of women reported current smoking at the time of the interview. Daily smokers smoked on average 20 cigarettes a day. The prevalence of current smoking was approximately equal in urban and rural areas.

According to STEPS survey conducted in 2017¹⁰, among persons aged 18-69 years, 47.2% of men and 0.2% of women were daily smokers (of any tobacco product), while 9.8% of men and 0.2% of women were former smokers.

In 2011 [10], the reported prevalence of current tobacco smoking was 33.5% among men and less than 1% among women.

In 2015, the prevalence of daily smoking among men in Azerbaijan was 40.2%(36.5 to 43.7), among women 1.6%(1.1 to 2.1). No decrease in prevalence was present in both 1990-2005 and 2005-2015 [11]. The comparison with other countries of the former Soviet Union showed that Azerbaijan had the second lowest (21.7%) prevalence of smoking after Moldova and the lowest quit ratio (10.5 vs. 37.6 in Belarus) [12]. In this study, however, daily smokers in Azerbaijan showed increased willingness to quit.

Estimates of trends in adult smoking

According to international estimates [13], smoking prevalence in Azerbaijan did not change and kept at the level of 43-45% among men and 0.8-0.9% among women in 1980-2012.

Tobacco use among youth

Global Youth Tobacco Survey conducted in Azerbaijan in 2011 [14] and 2016 [15] at the national level revealed a slight increase in any tobacco use and no change in current cigarette smoking (

⁹ https://untobaccocontrol.org/impldb/wp-content/uploads/reports/azerbaijan_2016_annex1_ncd_risk_factors_survey_2011.pdf

¹⁰ https://untobaccocontrol.org/impldb/wp-content/uploads/Azerbaijan_2018_report.pdf

Table 2).

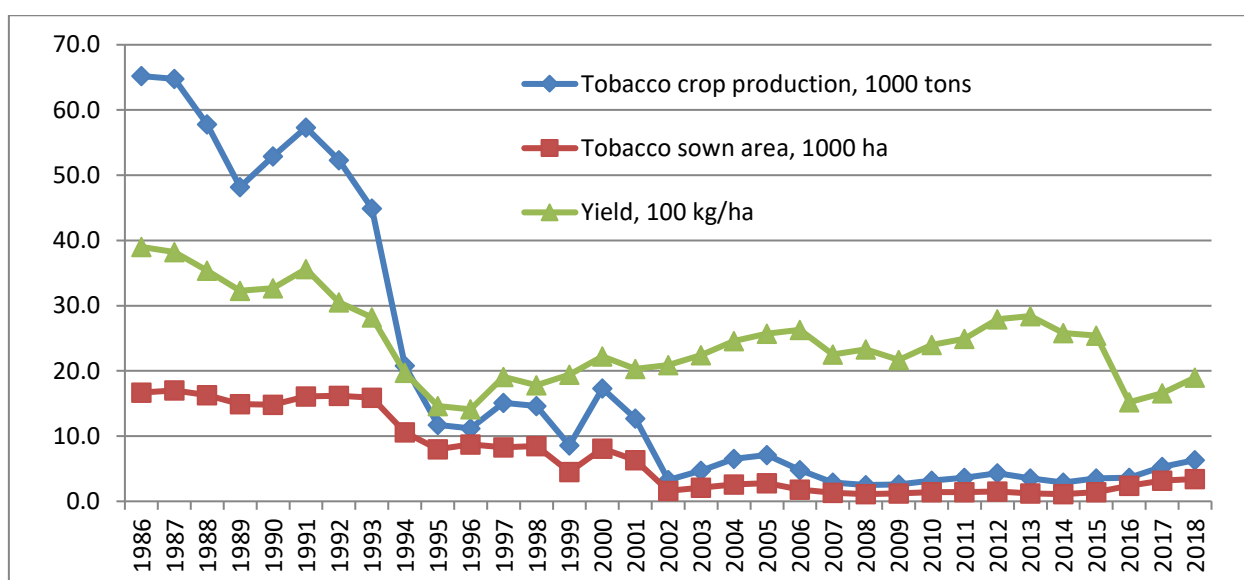
Table 2. Prevalence of tobacco use-related behaviors among adolescents aged 13-15 years in Azerbaijan, %, GYTS

	National level	
	2011	2016
Currently used any tobacco product (at least once during the last 30 days)	6.8	8.4
boys	11.4	12.9
girls	2.1	3.1
Currently smoked cigarettes (at least once during the last 30 days)	2.7	2.9
boys	4.5	4.6
girls	0.9	1.0
Lived in homes where others smoke in their presence	27.1	28.8
Had at least one parent who smoked	40.5	

Tobacco growing

Tobacco growing in Azerbaijan was rather high in Soviet times, but then it declined (Figure 1).

Figure 1. Raw tobacco production in Azerbaijan.



Source: The State Statistical Committee data.

In 1986-2014, the area harvested for tobacco decreased 12-fold, and the crop production reduced 18-fold, as the annual yield declined from 3.9 tons per hectare in 1986 to 2.0-2.5 tons in 2000-2014. In 2014-2017, the area harvested for tobacco increased more than 3-fold: from 1100 hectares to 3400 hectares, but production increased a little more than 2-fold, as average yield decreased to about 1.7 tons per hectare in 2016-2018.

Such a situation is typical for all former USSR countries. In Ukraine, in 2009 the raw tobacco production constituted just 0.4% of the production in 1970 [16]. In Kyrgyzstan, while in 1990, 53 900 tons of tobacco leaves were grown, this amount fell to 4400 tons in 2014 [17]. A similar trend occurs in most other European countries. Since January 1, 2010, the EU has not granted any specific subsidies for raw tobacco production¹¹. Instead, the EU supports rural development programs, particularly in tobacco-growing regions.

¹¹ https://ec.europa.eu/agriculture/tobacco_en

Contrary to this common trend, the government of Azerbaijan tries to revive the growing of tobacco in the country. In February 2016, the Minister of Economics and the Minister of Agriculture met with representatives of the enterprises involved in tobacco manufacture and processing¹². During the meeting, the officials said that they would take measures to increase the interest of entrepreneurs in tobacco growing and to create conditions for the expansion of providing farmers with subsidized loans and leasing services. In October 2016, the President issued an order on providing state support to tobacco-growing development¹³.

The government pays AZN 0.05 in subsidy to the tobacco manufacturers for each 1 kg of dry tobacco and 10 kg of wet tobacco sold to the processing enterprises. In June 2017, the Ministry of Economy of Azerbaijan reported¹⁴ that entrepreneurs get the subsidized loans through the National Entrepreneurship Support Fund for the development of the industry. The Fund has given subsidized loans of more than AZN 2 million to about 80 entrepreneurs for growing tobacco.

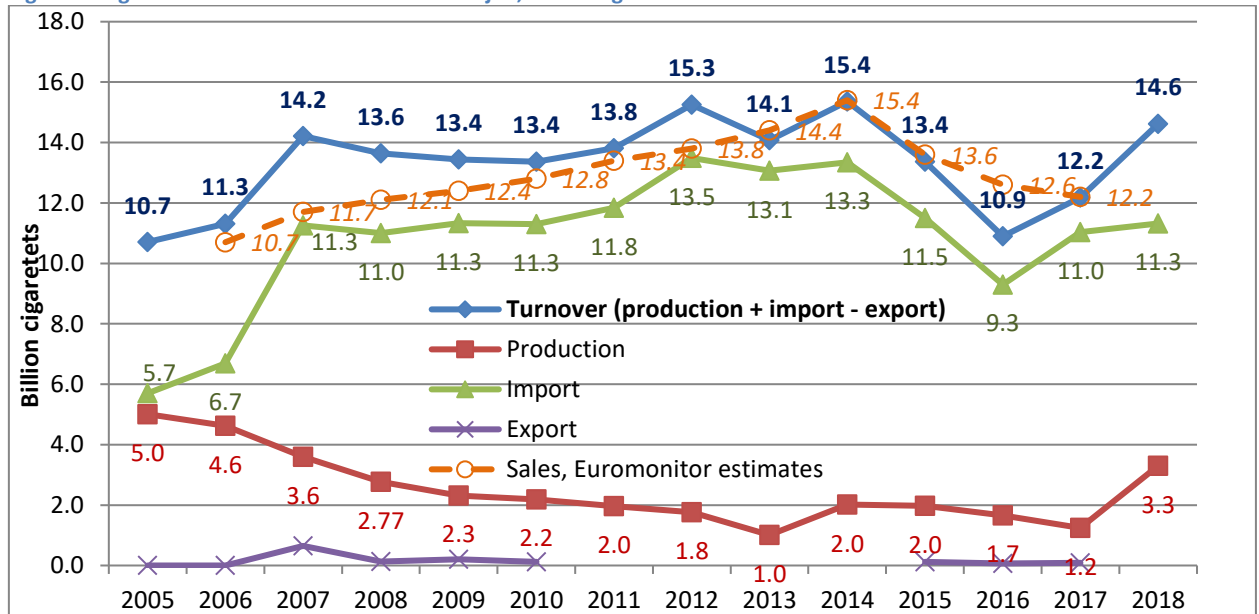
Such subsidies contradict the World Bank policy. Since 1991, the World Bank’s policy has been not to lend, invest in, or guarantee investments or loans for tobacco production, processing, or marketing [18].

The governmental subsidies to growers mean that public money goes to making raw tobacco cheaper. Eventually, this policy is expected to encourage tobacco consumption by reducing cigarette prices.

Cigarette production and sales

Figure 2 shows the data on cigarette turnover (production + import – export) taken from the annual Statistics Yearbooks. Euromonitor International estimated [19, 20] cigarette sales in Azerbaijan, and these estimates are also presented in Figure 2.

Figure 2. Cigarette turnover and sales in Azerbaijan, billion cigarettes.



Source: The State Statistical Committee data.

The annual cigarette turnover in Azerbaijan increased from about 11 billion cigarettes in 2005-2006 to about 13.5 billion cigarettes in 2008-2011 and about 15 billion cigarettes in 2012-2014, and then in 2015, it decreased to the average level of 2008-2011 – 13.3 billion cigarettes. In 2016, the turnover

¹² <http://abc.az/eng/news/94028.html>

¹³ <http://en.apa.az/azerbaijan-economy/agrarian-industry/azerbaijan-subsidizes-tobacco-manufacturers.html>

¹⁴ <http://abc.az/eng/news/104232.html>

decreased to 11 billion cigarettes, but then it increased to 12.2 billion in 2017. In 2018, according to the preliminary data, the turnover increased to 14.6 billion cigarettes.

Domestic cigarette production substantially decreased in 2005-2017: from 5 billion to 1.2 billion cigarettes, while in 2018, due to the governmental support¹⁵, it increased by 2.7 times¹⁶. In November 2018, the President of the Republic of Azerbaijan Ilham Aliyev attended the opening of a tobacco factory owned by Tabaterra CJSC in Sumgayit Chemical Industrial Park¹⁷. The factory has the projected annual production capacity of 11 billion cigarettes. The project anticipated the creation of 200 jobs.

Cigarette import greatly increased from 5.5 billion in 2005 to 11.3 billion cigarettes in 2007. In 2007-2011, the average annual import was about 11.5 billion cigarettes. Then it increased to 13.3 billion cigarettes in 2012-2014. In 2015, 2017 and 2018, the annual import constituted about 11 billion cigarettes, while in 2016 the import declined to 9.3 billion cigarettes.

In 2008-2017, Azerbaijan imported 117 billion cigarettes: 56% from the Russian Federation, 23% from Germany, 19% from Ukraine, and 2% from other countries.

The number of employees in tobacco factories in Azerbaijan decreased from 1,200 in 2005 to 300 in 2014-2016.

According to Euromonitor International estimates, cigarette sales had a steady upward trend in 2006-2014 (Figure 2), and overall they increased by 4.7 billion cigarettes, or by 44% in eight years. In 2015, cigarette sales declined, and they were 13.6 billion cigarettes, very close to their turnover. In 2016, the estimated sale was much higher than the turnover, but in 2017 the estimated sale and turnover were very close again. In 2014-2017, the estimated sales declined by 3.2 billion cigarettes.

According to the published international estimates [13], annual cigarette consumption in Azerbaijan increased from about 6 billion cigarettes in 1980 and 1996 to 7.2 billion cigarettes in 2006 and 10 billion cigarettes in 2012.

The increase in cigarette sales is partly caused by the population growth: in 2006-2014, the male population of Azerbaijan increased by 12%. However, the estimated increase in cigarette consumption substantially exceeded the changes due to population growth. It could be caused by the following factors: (1) the official smoking prevalence estimates underestimate the real prevalence of smoking, especially among women; (2) the average number of cigarettes smoked daily could be underestimated as well; (3) some cigarettes could be sold in Azerbaijan, but smoked in other countries, including Turkey and Russia, where cigarette taxes and prices are higher.

Tobacco taxation

The excise rates for domestic and imported cigarettes were different for some years.

From November 2005, according to the Governmental Order N 209,¹⁸ the excise rate for 1000 imported cigarettes, cigars or cigarillos was 1.8 US dollars. However, with the change of the official currency exchange rates in 2012, the actual excise in local currency decreased from 1.55 AZN in 2006 to 1.4 AZN.

¹⁵ <http://cbc.az/en/en/news/development-of-tobacco-production-in-azerbaijan1506494321>

¹⁶ <https://www.stat.gov.az/news/index.php?id=4092>

¹⁷

https://azertag.az/en/xeber/President_Ilham_Aliyev_launched_tobacco_factory_in_Sumgayit_Chemical_Industrial_Park_VIDEO-1215299

¹⁸ <http://www.az-customs.net/rus/209-151105.htm>

In January 2015, according to the Governmental Order N 17, the excise rate was changed to 10 AZN per 1000 cigars or cigarillos and 4 AZN per 1000 cigarettes (or from 0.028 to 0.08 AZN per pack of 20 cigarettes). While it looked like a huge (by 185%) increase in excise rate, in monetary terms, the excise per pack of cigarettes increased only by 0.052 AZN. Such growth of the excise rate (taking into account the VAT) could increase the average cigarette retail price only by 5%. However, the effect of excise rate change occurred to be even smaller due to the national currency devaluation in 2015-2016, as with the new exchange rates the old excise would be much higher.

According to Article 190.3.8 of the Tax Code, the excise tax for domestic cigarettes was 12.5% of their price until January 2015. According to the Law No.1167 of 30.12.2014¹⁹, from 11 January 2015, the excise for domestic cigarettes was changed from ad valorem (12.5%) to the specific one: 4 AZN per 1000 cigarettes.

In the middle of 2017, the excise rate for both imported and domestic cigarettes was 4 AZN (=2.4 USD) per 1000 cigarettes or 0.08 AZN (=0.048 USD) per pack of 20 cigarettes. However, based on the analysis of the tobacco use and taxation situation in Azerbaijan [21], in July 2017, Patricio Marquez visited Azerbaijan and recommended tobacco tax increases ^{20 21 22 23 24 25 26 27 28}.

On January 23, 2018, the Azerbaijan government increased excise tax rates for imported cigarettes by 200%: from 4 AZN to 12 AZN per 1000 cigarettes²⁹.

The Presidential Decree of 28 June 2018³⁰ increased excise rate for domestic cigarettes also to 12 AZN per 1000 cigarettes from July 1, 2018. Then the Tax Code was amended³¹, and the excise rate for domestic cigarettes was increased to 20 AZN per 1000 cigarettes from January 1, 2019. The amendments also set the following excise rates for other imported tobacco products: 1 AZN for 1 cigar; 20 AZN for 1000 cigarillos; 20 AZN for 1 liter of liquids for electronic cigarettes.

On January 23, 2018, the Azerbaijan government increased excise tax rates for imported cigarettes by 200%: from 4 AZN to 12 AZN per 1000 cigarettes³². On January 11, 2019³³, the government further increased excise tax rates for imported cigarettes to 28 AZN for 1000 cigarettes. This governmental order also set the excise rates for other imported tobacco products (cigars, cigarillos, and liquids for electronic cigarettes) at the same level as for domestic products.

In addition to the excise tax, import duty is paid for imported cigarettes³⁴: 0.5 USD per 1000 cigarettes (or 0.01 USD per pack of 20 cigarettes).

¹⁹ <http://www.taxes.gov.az/modul.php?name=qanun&news=1063>

²⁰ <https://www.youtube.com/watch?v=GdvQTDynQk4>

²¹ <https://report.az/ru/biznes/ekspert-vsemirnyj-bank-storonnik-vnedreniya-naloga-na-sigarety/>

²² <https://news.day.az/economy/912817.html>

²³ <http://regionplus.az/ru/articles/view/6280>

²⁴ <http://interfax.az/view/707676>

²⁵ <http://vestikavkaza.ru/material/203215>

²⁶ <http://ru.echo.az/?p=60727>

²⁷ <https://haqqin.az/news/104518>

²⁸ <http://www.kaspiy.az/news.php?id=64939#.XGkxValzZhE>

²⁹ <http://vestnikkavkaza.net/news/Azerbaijan-increases-excise-on-import-of-alcohol-and-tobacco.html>

³⁰ <https://president.az/articles/29186>

³¹ <http://www.taxes.gov.az/modul.php?name=qanun&cat=3>

³² <http://vestnikkavkaza.net/news/Azerbaijan-increases-excise-on-import-of-alcohol-and-tobacco.html>

³³ <https://cabmin.gov.az/az/document/3281/>

³⁴ <http://www.az-customs.net/en/G24.htm>

The value-added tax (VAT) rate in Azerbaijan has been 18% in all years under consideration.

Tobacco tax revenue

Revenue from excise on domestic tobacco products was about 2.2 million AZN annually in 2010-2012 and decreased to 1.36 million AZN in 2013. An average excise per pack of 20 cigarettes (calculated as revenue/cigarette production) gradually increased from 20 AZN in 2010 to 30 AZN in 2014. In 2015 (when excise tax for domestic cigarettes changed from ad valorem to specific one), the average excise per pack increased to 65 AZN, and the domestic excise revenue in 2015 was 6.4 million AZN, while in 2016 and 2017 it was about 5.4 million AZN a year.

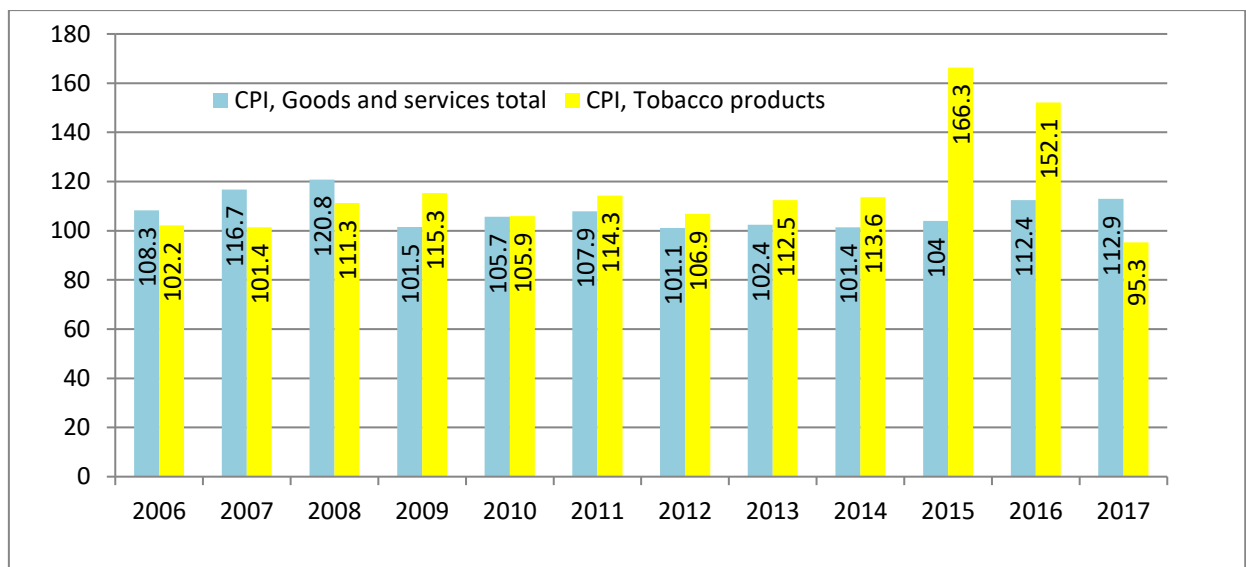
Average annual revenue from excise on imported tobacco products in 2010-2016 combined was 165.35 million AZN or 23.6 million AZN. An average excise per cigarette pack was 39 AZN. In 2017, the revenue from imported cigarettes increased to 44.1 million AZN, and average excise per pack increased to 80 AZN. From February 2018, the excise rate increased 3-fold, and the revenue in February-April 2018 was 23.4 million AZN, while in February-April 2017 it was only 8.9 million AZN.

Cigarette prices

Cigarette consumer price growth was above inflation since 2009 (Figure 3). However, only in 2015 and 2016, consumer price index (CPI) for cigarettes substantially exceeded CPI for all items.

The average price for a pack of 20 filter cigarettes increased from 0.5 AZN in 2006 to 0.99 AZN in 2013, 1.21 AZN in 2014, 1.55 AZN in 2015 and 2.2 AZN in 2016. However, in 2017, an average price sharply decreased to 1.56 and returned to the level of 2015. As reported, the largest tobacco operators set prices lower in late 2017. As declared, the price reduction was undertaken “in order to reduce the share of illicit trade” [19].

Figure 3. Consumer price indices for all goods and services in total and for tobacco products (previous year = 100).



Source: The State Statistical Committee data.

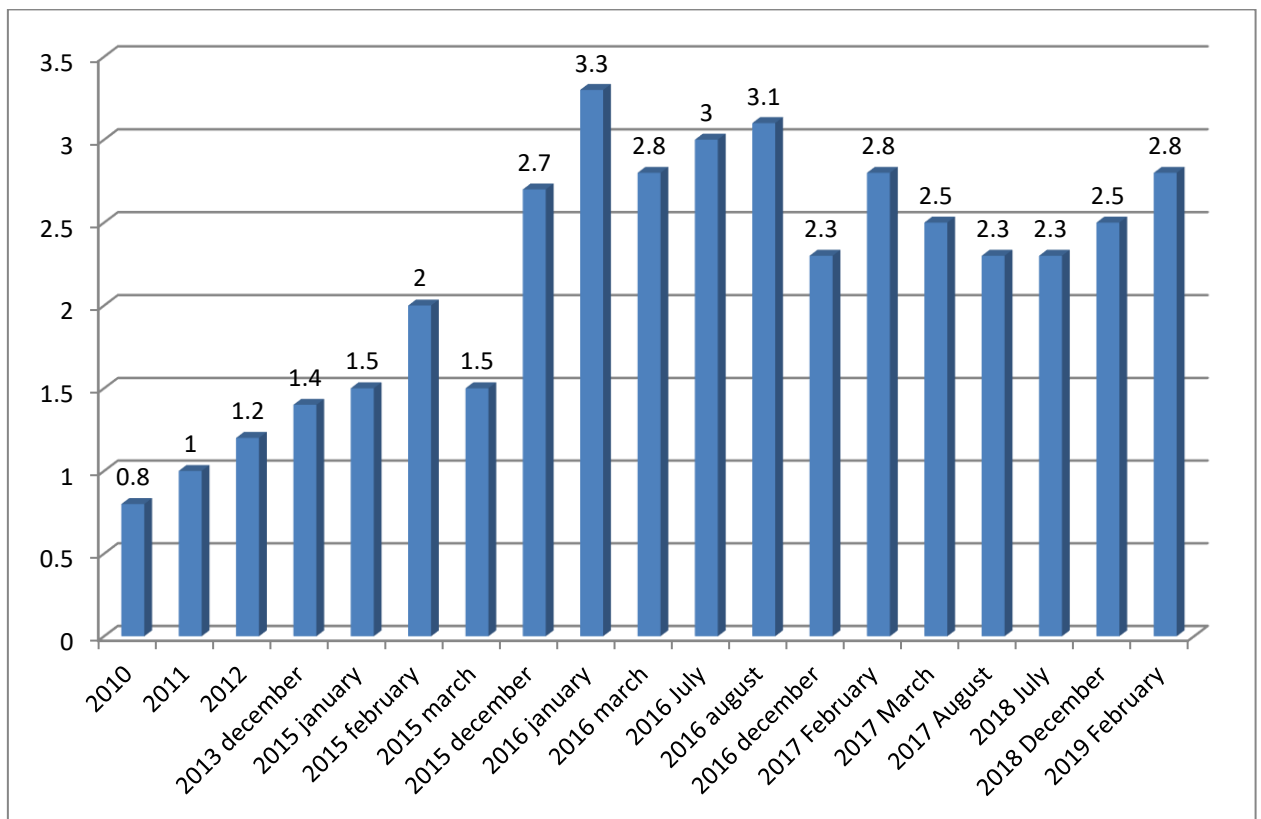
The cigarette price growth in 2015-2016 was mainly caused by the national currency devaluation as most cigarettes used in Azerbaijan are imported ones. The introduction of certain administrative

provisions was another factor of this price increase. However, this growth was rather inconsistent. In May 2017, prices of some cigarette brands reduced by 30%³⁵.

Another factor of price variations was the changeability of the average declared customs price of imported cigarettes. Statistical reports present annual data on the number of imported cigarettes and their total value (in US dollars). We calculated average annual customs price (which does not include taxes) for a 20-cigarette pack. This price gradually increased from 0.35 USD in 2008 to 0.58 USD in 2014, but then declined to 0.32 USD in 2016 and 0.29 USD in 2017. In February 2019, the prices of cigarette packs increased by 0.2 AZN (for cigarettes with prices below 2 AZN per pack) and by 0.3 AZN (for cigarettes with prices above 2 AZN per pack)³⁶.

The price variations are illustrated with the graph of retail prices for a pack of Winston cigarettes (Figure 4) according to media and other reports.

Figure 4. The retail price of a Winston cigarette pack in 2010-2019 (AZN per pack of 20 cigarettes).



Comparison of cigarette prices and taxes with neighboring countries

Comparative data on cigarette prices and taxes in Azerbaijan and neighboring countries are presented in

³⁵ <https://minval.az/news/123691112>

³⁶ <http://www.1news.az/news/v-azerbaydzhane-podorozhali-sigarety>

Table 3. In June 2017, cigarette prices for similar brands in Azerbaijan were lower than in Russia but higher than in Georgia and Armenia. However, this difference is not caused by high excise taxes in Azerbaijan. In monetary terms, cigarette excise rates in Azerbaijan are 5-17 times lower than in neighboring countries. The excise share in the final retail price in Azerbaijan is only 4-10%, while in Armenia, Georgia, and Russia it ranges from 28% to 70%.

Table 3. Cigarette prices and taxes in Azerbaijan, Georgia, Russia and Armenia

	Price per pack of 20 cigarettes		Excise per pack of 20 cigarettes				Import duty	Total excise + duty	Excise + duty	VAT	Total tax	Net-of-tax price	Exchange rate LC to USD
			specific		ad valorem								
	LC*	USD	LC	USD	%	USD	USD	USD				USD	
Azerbaijan													
Winston Blue 2018	2,3	1,38	0,24	0,14	0	0	0,01	0,15	11,2	15,3	26,4	1,02	0,6
Winston Blue 2019	2,8	1,68	0,56	0,34	0	0	0,01	0,35	20,6	15,3	35,8	1,08	0,6
Azeri (non-filter)	0,7	0,42	0,24	0,14	0	0	0	0,14	34,2	15,3	49,5	0,21	0,6
Georgia													
Winston Blue 2018	4,2	1,68	1,7	0,68	10	0,15	0	0,83	49,3	15,3	64,5	0,60	0,4
Winston Blue 2019	4,8	1,92	1,7	0,68	30	0,52	0	1,20	62,3	15,3	77,5	0,43	0,4
Astra Blue (non-filter)	1,4	0,56	0,6	0,24	10	0,05	0	0,29	52,1	15,3	67,4	0,18	0,4
Russian Federation													
Winston Blue 2018	125	2,00	34,4	0,55	14,5	0,29	0	0,84	42,0	15,3	57,2	0,86	0,016
Winston Blue 2019	137	2,19	37,8	0,60	14,5	0,32	0	0,92	42,1	16,7	58,8	0,90	0,016
Prima (non-filter)	75	1,20	51,4	0,82	0	0	0	0,82	68,5	15,3	83,7	0,20	0,016
Armenia													
Winston Blue 2018	480	0,99	146	0,30	0	0	0	0,30	30,3	16,7	47,0	0,53	0,00207
Winston Blue 2019	510	1,06	167	0,35	0	0	0	0,35	32,8	16,7	49,5	0,53	0,00207
Garni	320	0,66	146	0,30	0	0	0	0,30	45,5	16,7	62,1	0,25	0,00207

LC* – local currency

Both in 2018 and 2019, filter cigarettes of the same international brand had lower prices in Azerbaijan than in Georgia and Russia. High cigarette prices in Azerbaijan are caused by very high net-of-tax cigarette prices (see Table 3) as the tax share in filter cigarette price was 26-37%, while in Russia, Georgia, and Armenia it was 47-78%. Cheap domestic cigarettes in Azerbaijan also had a higher price but lower tax than similar cigarettes in Russia, Georgia, and Armenia.

Tobacco affordability

The Guidelines for implementation of Article 6 of the WHO FCTC recommend: “When establishing or increasing their national levels of taxation Parties should take into account – among other things – ... changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence”. In the Guidelines, “affordability” means price relative to per capita income. In the current analysis, a modified tobacco affordability index (TAI) [22] is used to estimate the changes in tobacco affordability in 2006–2017. TAI is calculated as the percentage annual change in the disposable income per capita divided by the tobacco price increase: $TAI = (\text{income increase}/\text{consumer price index tobacco} - 1) * 100$. A negative TAI value means that tobacco became less affordable, and tobacco consumption is expected to decrease. Calculations of TAI in Azerbaijan are presented in Table 4.

Table 4. Tobacco affordability in 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Income (AZN, per capita per month)	74.4	88.1	108.9	125	144.2	166	190.9	214.7	230	240.5	264.7	278.8
Income change (previous year =100)	147.6	118.4	123.6	114.8	115.4	115.1	115.0	112.5	107.1	104.6	107.2	104.1
CPI tobacco (previous year =100)	102.2	101.4	111.3	115.3	105.9	114.3	106.9	112.5	113.6	166.3	152.1	95.3
Tobacco Affordability Index	44.4	16.8	11.1	-0.4	8.9	0.7	7.6	0.0	-5.7	-37.1	-29.5	9.2

Source: The State Statistical Committee data.

In 2006-2012, tobacco became more affordable, and it could cause the observed increase in cigarette sales (see Figure 2). In 2015-2016, the tobacco affordability greatly declined, and this could cause a decrease in tobacco sales in those years and the reduction of smoking prevalence in 2016 (see Table 1). In 2017, cigarettes became more affordable, and cigarette sales increased.

According to the Statistical Yearbooks, average monthly per capita household expenditures for tobacco products increased from 1.5 AZN in 2008 to 3.9 AZN in 2017 with the sharpest increase in 2016 (from 2.57 to 3.61). However, as a percentage of total expenditures, the share of tobacco decreased from 1.3% in 2008-2009 to 1.0% in 2012-2015 and then increased to 1.4% in 2016-2017.

Illicit cigarette sales

According to Euromonitor International estimates [19, 20], illicit cigarette sales in Azerbaijan only slightly increased from 1.01 billion cigarettes in 2006 to 1.17 billion cigarettes in 2014 and then increased to 1.4 billion, 1.7 billion and 1.86 billion cigarettes in 2015, 2016 and 2017 respectively. As legal sales declined in 2014-2017, the share of illicit cigarettes increased from 7% in 2014 to 13% in 2017, but the total (licit + illicit) estimated consumption declined from 16.5 billion cigarettes to 14 billion cigarettes, or by 15%.

Japan Tobacco International (JTI) contracted Nielsen to conduct the Empty Pack Survey (EPS) across quarters of 2015³⁷. The average estimated scale of contraband in Azerbaijan was around 13%, which amounted to more than 1 billion cigarettes. Then JTI reported that the share of illegal tobacco was 13.9% in July 2017³⁸. However, the EPS methodology critique [23] mentions that it usually overestimates cigarette smuggling due to some flaws [24], for example, the EPS only cover urban areas.

Anti-illicit trade program was specifically developed for the State Customs Committee of Azerbaijan by the JTI. JTI invited international experts to deliver training courses on fighting illegal tobacco³⁹.

On July 8, 2016, the Government of Azerbaijan issued the Decree aimed to decrease tobacco smuggling. This Decree specified that the number of cigarettes, which individuals can legally bring to the country without paying taxes and duties, is limited to 600 cigarettes once a month⁴⁰. In 2017, the number of duty-free cigarettes was reduced to 200⁴¹.

Head of the Customs Service said that cigarettes were mainly smuggled to Azerbaijan from neighboring countries: Georgia, Russia, and Iran⁴². However, the reported cases revealed some additional issues. For instance, cigarettes smuggled from Georgia were bearing health warnings in English⁴³, so these were duty-free cigarettes, for which taxes were not paid. Cigarettes smuggled from the Russian Federation did not have Russian excise stamps, and the seized brand is not legally produced in Russia⁴⁴. So in both cases, smuggling was not caused by the tax rate differences between the countries.

On the other hand, the Russian customs reported numerous cases of cigarette smuggling from Azerbaijan to the Russian Federation⁴⁵.

Discussion

The prevalence of tobacco smoking in Azerbaijan was rather stable in 2007-2015, while tobacco consumption was slowly increasing over those years as tobacco products became more affordable. A substantial decline in cigarette sales was observed only in 2015 and 2016, as cigarette affordability substantially reduced those years. Eventually, some reduction in the prevalence of smoking was observed in 2016. However, in 2017, cigarette sales increased again due to increased affordability.

However, the affordability changes were caused not by the government taxation policy. The main two factors of the cigarette affordability reduction in 2015 were the national currency devaluation and the pricing policy of the tobacco industry (including importers, wholesalers, and producers). In Azerbaijan, the industry (net-of-tax) part of cigarette price is much higher than in neighboring countries, and so, retail cigarette prices can be higher than in those countries, while the excise burden in Azerbaijan is

³⁷ <https://www.azernews.az/business/105716.html>

³⁸ <https://report.az/en/business/jti-manifold-growth-in-excise-rates-will-reduce-legal-market-and-soar-illegal-tobacco-share/>

³⁹ <https://report.az/en/business/jti-average-scale-of-contraband-of-tobacco-products-in-azerbaijan-around-13/>

⁴⁰ <http://www.1news.az/economy/20160713103320966.html>

⁴¹ <http://1news.az/news/utverzhdeny-izmeneniya-snizhayuschie-bezakciznye-normy-vvoza-v-azerbaydzhan-alkogolya-i-sigaret-dlya-lichnogo-pol-zovaniya>

⁴² <http://www.apsny.ge/2016/other/1474516361.php>

⁴³ <http://www.trend.az/azerbaijan/incident/2497625.html>

⁴⁴ <http://minval.az/news/12367386>

⁴⁵ http://sktu.customs.ru/index.php?option=com_content&view=article&id=6218:-----17----&catid=5:2011-10-19-12-30-19

much lower. Even Euromonitor International [19] admits that *taxation did not significantly impact the price of cigarettes*.

In 2017, cigarette prices decreased, and they became more affordable, so their consumption can increase. Euromonitor reported that the taxation did not impact price indices of cigarettes but rather reduced margins of manufacturers and distributors, which set prices lower in 2017.

Tobacco industry tries to exaggerate the problem of cigarette smuggling into Azerbaijan to create an impression that tobacco taxes should not be increased, as smuggling is already very high. However, cigarette smuggling into Azerbaijan is not caused by differences in tax rates, as the tobacco excise burden in Azerbaijan is much lower. Relatively high cigarette prices in Azerbaijan are mainly determined by the pricing policy of the tobacco industry. However, over recent years, cigarettes in Azerbaijan were cheaper than in Russia, so numerous cases of cigarette smuggling from Azerbaijan to Russia were registered.

While the taxation policy in Azerbaijan had a small impact on tobacco consumption, it substantially increased tobacco excise revenue. Tobacco tax reforms of 2015 and 2018 increased the excise burden on cigarettes, and it was very beneficial for governmental revenue.

In 2019, Azerbaijan increased taxes on cigarettes and other tobacco products, but such taxes were also increased in Russia, Armenia, and Georgia, so, the tax burden in Azerbaijan is still much lower than in neighboring countries.

Azerbaijan has a high potential for further tobacco excise tax increase; however, the next excise rate increases should be based on careful analysis of current situation with cigarette prices, production, sale, and revenue, as the tobacco industry traditionally uses sophisticated tactics to prevent any potential excise increases or even to reduce the excise rate, as it was done in Georgia in 2006⁴⁶.

Conclusions

1. Tobacco control policies implemented in Azerbaijan in 2006-2015 did not decrease the prevalence of tobacco smoking in the country.
2. Tobacco products became more affordable in 2006-2013, and their consumption in Azerbaijan increased. In 2014-2016, the tobacco affordability reduced, but this was caused not by the governmental tobacco taxation policy but by the pricing policy of the tobacco industry. However, this affordability reduction caused the decline in tobacco consumption and smoking prevalence, and these changes demonstrated the potential to reduce tobacco consumption, which the tobacco tax increase undertaken in line with the FCTC provisions might have.
3. Tobacco tax reforms of 2015 and 2018 were rather beneficial for governmental revenues.
4. In 2018 and 2019 tobacco excises in Azerbaijan were substantially increased, but they are still low compared with all neighboring countries both in monetary terms and as a percentage of final retail prices. A substantial increase in tobacco excise rates is able to both reduce tobacco consumption and to increase governmental revenues.

⁴⁶ <http://pubdocs.worldbank.org/en/482091549635012834/WBG-Tobacco-IlicitTrade-Georgia-v2.pdf>

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