

# Kazakhstan

*Overview of*

## TOBACCO USE, TOBACCO CONTROL LEGISLATION, AND TAXATION

World Bank Group  
Global Tobacco Control Program  
Country Brief

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# Kazakhstan

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

### Executive summary

Tobacco taxation policy practiced in Kazakhstan in 2003-2013 resulted in increased tobacco excise revenues, but was not effective in terms of public health, as cigarette consumption did not decrease.

Tobacco excise taxes were drastically increased in Kazakhstan from 1 January 2014; and thereafter, the tobacco affordability was substantially reduced resulting in the subsequent decline in tobacco sales and smoking prevalence in the country. Two surveys have demonstrated that the prevalence of smoking among adults decreased by about 20%. Global Youth Tobacco Survey also revealed that tobacco use among young people almost did not change between 2004 and 2009, but dramatically decreased by 2014.

This decline in consumption could have an effect on tobacco-related mortality in Kazakhstan. Mortality rates of some tobacco-related causes of death substantially declined in Kazakhstan in 2013–2015 among men and women aged 30 to 79 years: by about 20% for acute ischemic heart disease and stroke and by 30–40% for respiratory tuberculosis and chronic obstructive pulmonary disease.

The sharp tax hike (by 94%) implemented in Kazakhstan in 2014 not only reduced the tobacco sales by 9% but also brought an additional 25 billion tenge to the national coffers.

After a successful policy in 2014, Kazakhstan returned to a policy of moderate tax increases in 2015-2019. The reduction in tobacco affordability in 2015 was caused not only by the excise increase but also by the tobacco industry pricing policy and a decline in real incomes. Tobacco consumption in Kazakhstan decreased in 2015, but the revenue increase was smaller than expected. A moderate excise rise in 2016-2018 could not ensure a substantial reduction in tobacco affordability, and annual tobacco sales did not change much. The country experience shows that a policy of moderate (below 30% annually) excise increases cannot ensure either tobacco consumption reductions or substantial revenue increases. The planned annual cigarette excise increase for 2020–2021, however, is only 12–14%.

In recent years, electronic cigarettes and heated tobacco appeared in the Kazakhstan market. The key consumers of such products are young adults, who follow modern trends, rather than dependent smokers looking for an effective means to quit. Heated tobacco products and liquids for electronic cigarettes will be taxed by excise from 2020, but the excise rates are very low and should be substantially increased.

Kazakhstan has great potential to increase its excise rates for all kinds of tobacco products to contribute to health objectives by means of reducing tobacco consumption. The greater the excise tax increase, the larger the reduction in tobacco consumption and the higher tobacco excise revenue growth will be.

## **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.

June 15, 2019

## **Introduction**

### *The Objective of the Country Brief*

This country brief presents an overview of current tobacco control legislation, use, and taxation policy in Kazakhstan. 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**

Kazakhstan became a Party to the WHO Framework Convention on Tobacco Control on April 22, 2007.

### **Tobacco Advertising, Promotion, and Sponsorship**

The Law on Advertising No. 508-II regulates advertising in general. Articles 13 and 14 of the Law regulate tobacco advertising and promotion. There is a ban on tobacco advertising and some forms of tobacco promotion. The ban applies mainly to direct forms of advertising and promotion and therefore some indirect or less conventional forms of advertising and promotion may escape the ban. There are restrictions on sponsorship by the tobacco industry<sup>1</sup>.

### **Smoke-free policies**

Article 159 of the Law on People's Health and Health Care System regulates smoking in public places as well as packaging and labeling of tobacco products. The law prohibits smoking in some workplaces and public places, including education and health facilities, cultural facilities, exhibition halls, stadiums and arenas, nightclubs and discos, and government facilities. However, smoking is permitted in designated areas of public catering facilities, "airports, railway and water stations." Smoking is prohibited on commercial aircraft and most ground transport; however, designated smoking areas are permitted on the long-distance rail and commercial watercraft.

### **Tobacco packaging and labeling**

Resolution No. 1366 and Ministry of Health Order No. 422 implement the provisions of Article 159 that pertain to packaging and labeling of tobacco products. Eurasian Economic Union Council Decision No. 18 and Technical Regulations for Tobacco Products, which are directly applicable to Kazakhstan as part of the Eurasian Economic Union, regulate tobacco product packaging and labeling and impose a final implementation deadline of November 15, 2017.

The law requires graphic and text warnings to occupy 40 percent of each of the principal display areas of tobacco product packaging. Each of the 12 authorized warnings must be applied to an equal number of tobacco packages. Misleading terms such as 'low tar,' 'light,' 'ultralight' or 'mild,' are prohibited on tobacco packaging; yet other elements of misleading packaging (e.g., colors, numbers, and symbols) are not prohibited.

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<sup>1</sup> <https://www.tobaccocontrolaws.org/legislation/country/kazakhstan/summary>

## **Help to quit tobacco use**

Smoking-cessation services are available in some clinics and primary care facilities and in offices of health professionals, with costs fully covered by the national health service or national health insurance. Cessation support can also be accessed at hospitals, where the cost is partially covered, and in the community (without cost coverage). Nicotine replacement therapy can be purchased over the counter in pharmacies without a prescription, but its cost is not covered. A toll-free quit line is available<sup>2</sup>.

As of 2015 [1], tobacco control policies in Kazakhstan were assessed at 28 out of 37 points, which is above the mean 24.35 in the European region.

## **Prevalence of smoking**

### **Tobacco use among adults**

In 1999, 9% of women in Kazakhstan, who had one or more children living with them, currently smoked cigarettes or other tobacco products [2]. Women residing in urban areas, women living in Almaty City and the Central region, women with a secondary-special education, and Russian women were more likely to be smokers than women of other population subgroups. Women younger than 20 years of age were less likely current smokers than older groups of women.

Results of population surveys measuring the prevalence of smoking in Kazakhstan in early 2000-s were reported by several authors [3-5].

According to the two Health in Times of Transition (HITT) surveys conducted among people aged 18 years or more, in 2001-2011, the prevalence of smoking among men decreased from 65.3% to 51.2%, while it did not change among women and was 9.3% both in 2001 and 2010 [6, 7].

The third and fourth national health lifestyle surveys showed the prevalence of smoking in Kazakhstan increasing from 23% in 2003 to 27% in 2007 [8]. The fourth and fifth national health lifestyle surveys (2007–2012) showed that the prevalence of smoking decreased slightly only from 27% to 26.5% among adults aged 18 and older<sup>3</sup>.

The prevalence of smoking decreased to 18.3% (a factor of 1.31 or by 8.2 percentage points) by the time of the sixth national healthy lifestyle survey in 2014<sup>4</sup>.

The Global Adult Tobacco Survey (GATS) was conducted in Kazakhstan in 2014 [9], involving 4425 men and women aged 15 years or older. The GATS results showed that the prevalence of daily smoking was 19.1%, which was close to the results of the sixth national healthy lifestyle survey. Among men, 36.9% were daily, and 42.4% were current smokers, and among women 3.2% and 4.5% respectively [9-11].

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<sup>2</sup> [http://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0003/337431/Tobacco-Control-Fact-Sheet-Kazakhstan.pdf](http://www.euro.who.int/__data/assets/pdf_file/0003/337431/Tobacco-Control-Fact-Sheet-Kazakhstan.pdf)

<sup>3</sup> <http://apps.who.int/fctc/implementation/database/parties/Kazakhstan>

<sup>4</sup> [http://www.hls.kz/announcements\\_2\\_2/](http://www.hls.kz/announcements_2_2/), accessed 2 February 2017

## Tobacco use among youth

The Global Youth Tobacco Survey (GYTS) was conducted in Kazakhstan in 2004 [12]<sup>5</sup>, 2009<sup>6</sup>, and 2014<sup>7</sup> [13].

**Table 1. The prevalence of current tobacco use (at least once during the last 30 days) among adolescents aged 13-15 years in Kazakhstan, %, GYTS**

	2004	2009	2014
<b>Currently used any tobacco product</b>	<b>11,3</b>	<b>9,9</b>	<b>3,2</b>
boys	13,8	12,2	3,9
girls	9,0	7,8	2,3
<b>Currently smoked cigarettes</b>	<b>7,4</b>	<b>7,7</b>	<b>1,7</b>
boys	9,1	9,7	2,0
girls	5,9	6,0	1,3
<b>Lived in homes where others smoked in their presence</b>	<b>66,7</b>		<b>18,2</b>
<b>Had one or more parents who smoked</b>	<b>49,8</b>	<b>52,7</b>	

Tobacco use and cigarette smoking among young people almost did not change between 2004 and 2009 but dramatically decreased by 2014. Percentage of teenagers, who lived in homes where others smoke in their presence, decreased from 67% in 2004 to 18% in 2014, which is an indirect indicator of smoking behaviors among adults.

## Electronic cigarettes and heated tobacco products

According to the Euromonitor International [14], there were no regulations in Kazakhstan to control electronic cigarettes, which became available in stores in 2010. There are several types of vapor devices available in Kazakhstan, including open vaping systems charging and vaporizing devices, e-liquids, rechargeable cig-a-likes (including nicotine cartridges) and heat-not-burn devices.

**The key consumers of e-cigarettes are young adults, who follow the modern trend of vaping, rather than smokers trying to quit the habit.**

At the end of 2016, Philip Morris Kazakhstan introduced IQOS, a heated tobacco product. Philip Morris supported the launch with a strong marketing and promotional campaign. The direct promotion of heated tobacco, as with any other tobacco product, is prohibited in Kazakhstan; however, Philip Morris has gained a foothold for IQOS in the market using legal loopholes.

## Tobacco production and sales

Domestic cigarette production increased from 19.3 billion in 2000 to 31.5 billion in 2007, and then it gradually declined to 17.9 billion in 2017.

Despite the increases in cigarette production between 2000 and 2005, the raw tobacco yield in Kazakhstan (Figure 1) was rather stable (15 000–16 000 tons per year), then it gradually decreased to 1100 tons in

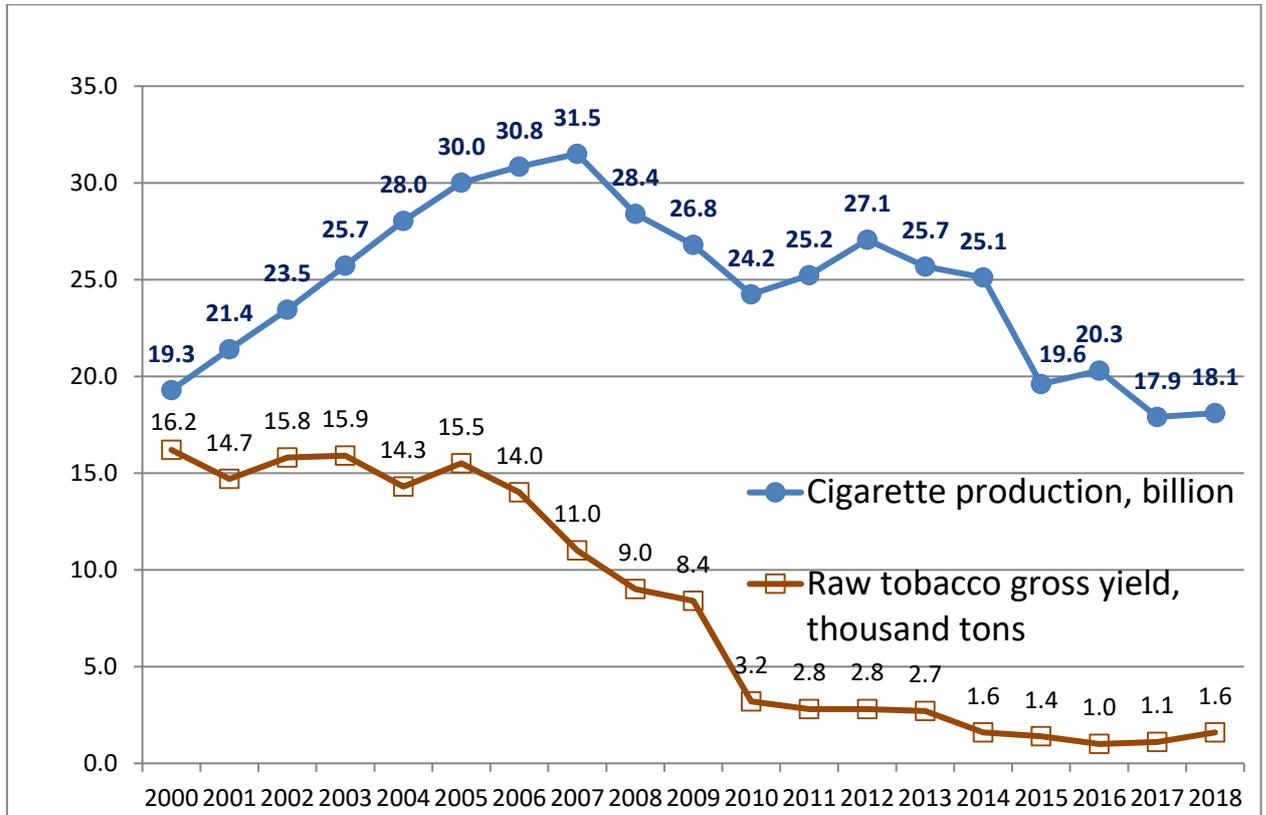
<sup>5</sup> <https://nccd.cdc.gov/GTSSDataSurveyResources/Ancillary/DownloadAttachment.aspx?ID=275>

<sup>6</sup> <https://nccd.cdc.gov/GTSSDataSurveyResources/Ancillary/DownloadAttachment.aspx?ID=1246>

<sup>7</sup> <https://nccd.cdc.gov/GTSSDataSurveyResources/Ancillary/DownloadAttachment.aspx?ID=1318>

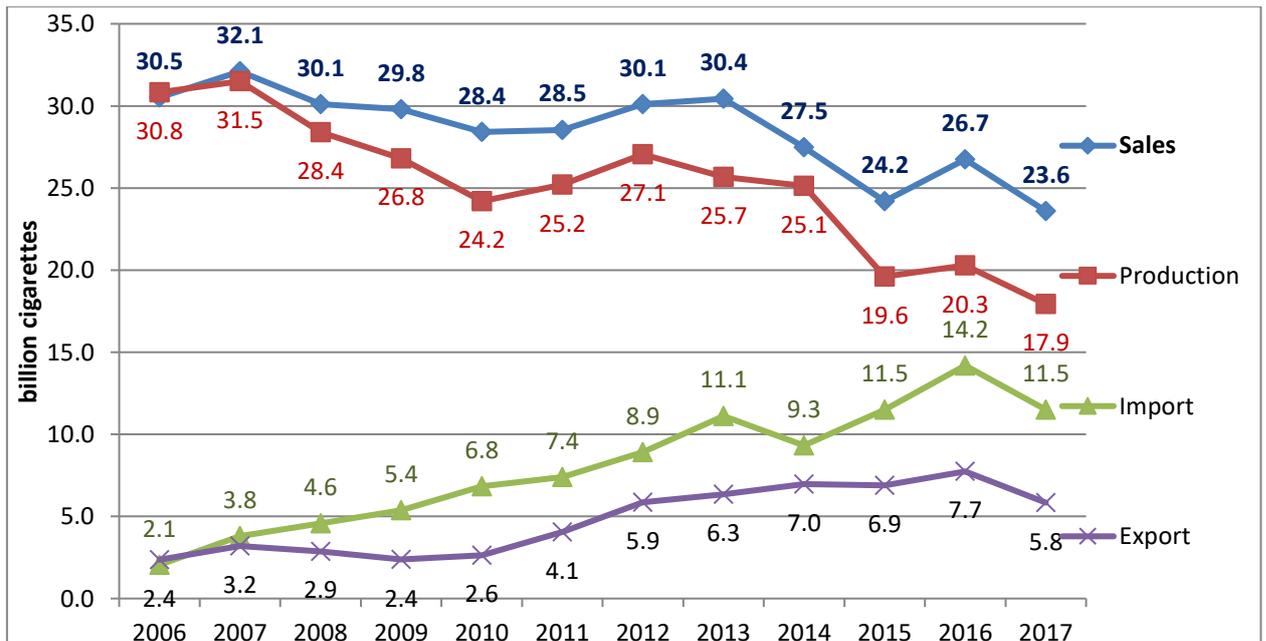
2017. The decrease in raw tobacco production took place even in years when cigarette production increased. In 2017, Kazakhstan imported 7,877 tons of raw tobacco and exported 368 tons: cigarettes produced in the country, therefore, contained only about 8.5% of domestic tobacco.

Figure 1. Tobacco-growing and cigarette production in Kazakhstan, 2000–2016



Cigarette sales or turnover in Kazakhstan were calculated from available statistics data (Figure 2) using the following formula:  $Sales = production + imports - exports$ .

Figure 2. Cigarette production, imports, exports and estimated sales in Kazakhstan (billion cigarettes)



Sales were stable between 2006 and 2013 (about 30 billion annually) but declined in 2014/2015. Imports increased from 2.1 billion cigarettes in 2006 to 11.5 billion in 2017, so the share of imported cigarettes in total sales volume increased from 10% in 2007 to 49% in 2017. Sales of non-filter cigarettes decreased from 5.25 billion in 2003 to 0.15 billion in 2014 (0.6% of total sales).

Employment at tobacco factories was also stable between 2000 and 2008 (about 2000 people) but decreased from 1900 workers in 2008 to 1200 in 2017 while cigarette production declined to a smaller extent (see Figure 2).

## **Cigarette prices**

According to Statistics Committee data, the mean price of a pack of 20 filter cigarettes in December 2009 was 82 tenge; by December 2015, it increased 3.6-fold to 296 tenge. The tobacco excise rate increased 6.5-fold between 2009 and 2015, from 12 to 78 tenge per pack (up by 66 tenge) (Table 2), but the non-tax part of the price (the producer and retailer price (PRP)) increased by 125 tenge.

**Table 2. Changes in cigarette prices, 2009–2016**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Price of 20 filter cigarettes, tenge	82	131	139	157	194	241	296	324	358	397
Excise, tenge	12	16	20	25	31	60	78	100	124	150
<i>Excise share in the retail price, %</i>	<i>15</i>	<i>12</i>	<i>14</i>	<i>16</i>	<i>16</i>	<i>25</i>	<i>26</i>	<i>31</i>	<i>35</i>	<i>38</i>
VAT, tenge	9	14	15	17	21	26	32	35	38	43
PRP, tenge	61	101	104	115	142	155	186	189	196	204
Inflation rate, %	1.06	1.15	1.23	1.30	1.37	1.47	1.67	1.81	1.94	2.04
Inflation-adjusted prices, tenge	77	114	113	120	142	164	178	179	185	195
Excise, tenge	11	14	16	19	23	41	47	55	64	74
VAT, tenge	8	12	12	13	15	18	19	19	20	21
PRP, tenge	58	88	85	88	104	106	112	105	101	100

Adjusting the price components to inflation rates increases the inflation-adjusted price of the pack from 77 to 178 tenge (up 101 tenge), of which 36 tenge is due to the excise increase, 11 to the VAT increase and 54 to the PRP increase. The increase in cigarette prices in Kazakhstan between 2009 and 2015 was therefore largely due to tobacco corporations' price policy, not the government's excise policy. A recent monograph from the National Cancer Institute and WHO reveals that this phenomenon is also observed in other countries. It states [10]: *"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."*

In 2016-2018, however, after the huge decline in cigarette sales over the two previous years (see Figure 2), the tobacco industry almost did not increase the PRP to maintain its customer base. The real (inflation-adjusted) cigarette price, therefore, decreased in 2016, despite the excise rate increase (see Table 1), which is one of the factors for the increase in cigarette sales that year.

The excise share in the average retail cigarette price remained stable between 2009 and 2013 (Table 2), despite the excise rate increased. The share increased from 16% to 25% in 2014, saw no real change in 2015, and then gradually increased to 38% in 2018.

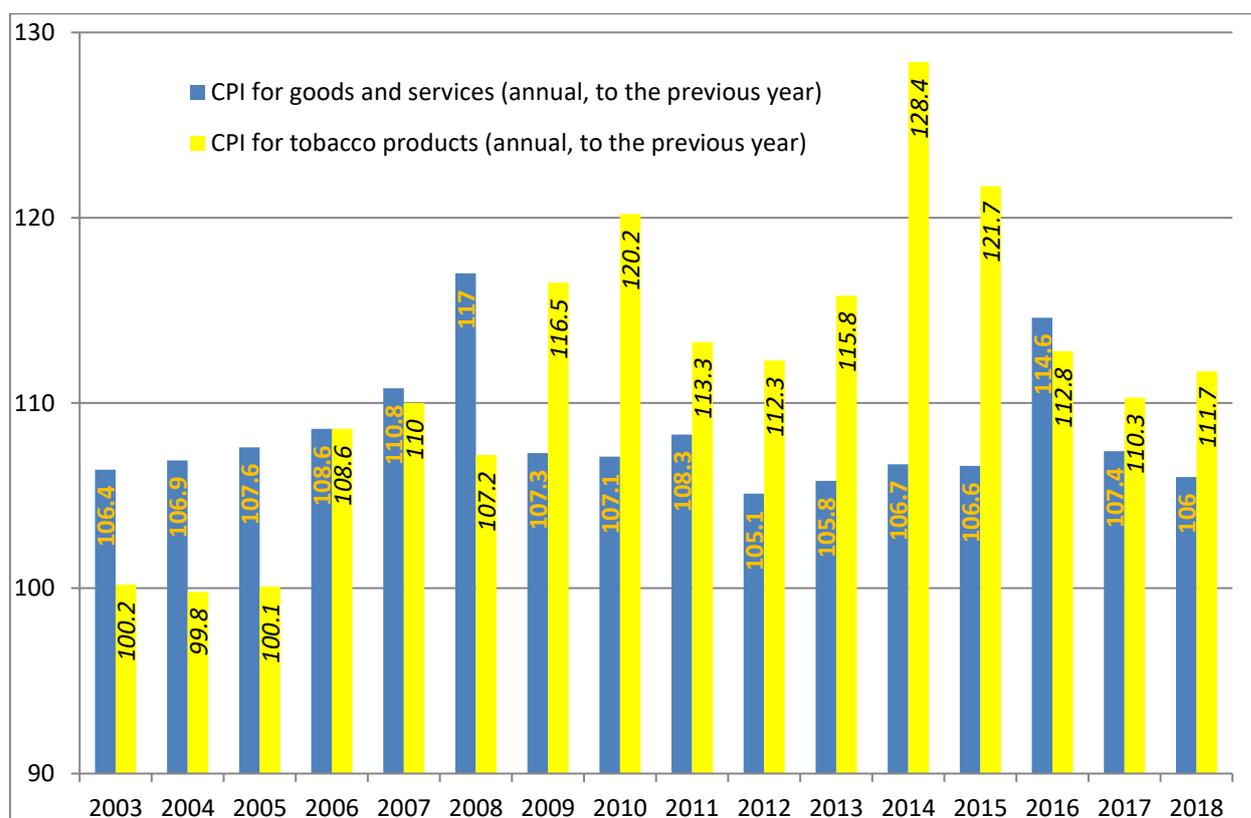
Kazakhstan introduced a minimum cigarette price in 2007, increased it gradually from 50 tenge per pack of 20 filter cigarettes (40 tenge for non-filter) in 2007 to 240 tenge from January 2016 and 300 tenge from January 2017. In 2017, the government set<sup>8</sup> the following minimum prices for a pack of 20 cigarettes: 320 tenge – from October 2017; 340 tenge – from January 2018; 360 tenge – from July 2018 and 380 tenge – from January 2019. On November 16, 2018, the government issued Order 751<sup>9</sup> and set that the minimum prices for a pack of 20 cigarettes will be 400 tenge from July 2019, and then it will be increased by 20 tenge every half a year till it reaches 520 tenge in July 2022. Taking into account the established minimum price and the adopted excise rate, it can be concluded that the maximum excise share in the retail price in 2016-2019 was in the range of 42-46%.

## Tobacco affordability

The guidelines for implementation of Article 6 of the WHO FCTC [15] state that: *tax rates should be monitored, increased or adjusted on a regular basis, potentially annually, taking into account inflation and income growth developments in order to reduce consumption of tobacco products.*

Tax rates in Kazakhstan have been adjusted annually since 2005, but the impact on tobacco consumption depended on inflation and income growth. Tobacco price growth was below inflation between 2003 and 2008 (Figure 3), but the price increases have been above inflation since 2009. Cigarette sales, however, declined only in 2009/2010 and 2014/2015 (see Figure 2), when tobacco price growth was much greater than inflation. The price increase in 2016 was below the rate of inflation, which could be a factor in the cigarette sales rise.

**Figure 3. Consumer price indices (CPI) for all goods and services and tobacco products in Kazakhstan**



<sup>8</sup> <http://egov.kz/cms/ru/law/list/P1700000587>

<sup>9</sup> [https://online.zakon.kz/Document/?doc\\_id=31912225](https://online.zakon.kz/Document/?doc_id=31912225)

Source. Ministry of National Economy of the Republic of Kazakhstan Statistics committee (<http://stat.gov.kz/>)

The guidelines for the implementation of Article 6 state that without price increases above growth in incomes, tobacco products will inevitably become more affordable over time, generally resulting in growing consumption. The guidelines recommend [15]: *When establishing or increasing their national levels of taxation Parties should take into account ... changes in household income, to make tobacco products less affordable<sup>10</sup> over time in order to reduce consumption and prevalence.*

This analysis uses the modified Tobacco Affordability Index (TAI) [16] to estimate changes in tobacco affordability between 2004 and 2018. This is calculated as the annual change in disposable income per capita, divided by the tobacco price increase (CPI\_tobacco) minus one and multiplied by 100:  $TAI = (income\ change / CPI\_tobacco - 1) * 100$ .

If the TAI has negative values, it means tobacco has become **less** affordable, and tobacco consumption is expected to decrease. Calculations of the TAI in Kazakhstan are presented in Table 3.

**Table 3. Tobacco affordability in Kazakhstan, 2005–2017**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CPI for tobacco products, annual	100.1	108.6	110	107.2	116.5	120.2	113.3	112.3	115.8	128.4	121.7	112.8	110.3	111.7
Disposable household incomes, average monthly, tenge per capita	9 751	13 723	16935	20 037	21 348	26 152	30 618	33 745	36 761	39 256	40 675	44198	48619	53224
Income annual change, %	116.3	140.7	123.4	118.3	106.5	122.5	117.1	110.2	108.9	106.8	103.6	108.7	110.0	109.5
<b>TAI</b>	<b>16.1</b>	<b>29.6</b>	<b>12.2</b>	<b>10.4</b>	<b>-8.5</b>	<b>1.9</b>	<b>3.3</b>	<b>-1.9</b>	<b>-5.9</b>	<b>-16.8</b>	<b>-14.9</b>	<b>-3.7</b>	<b>-0.3</b>	<b>-2.0</b>

Tobacco affordability increased greatly between 2004 and 2008, which could explain the upward trend in tobacco consumption. Cigarettes became much less affordable in 2009 and even more in 2014 and 2015, resulting in reduced tobacco consumption. However, in 2016–2018, the reduction in tobacco affordability was very small and could hardly have any substantial impact on tobacco consumption.

## **Tobacco excise rates**

Kazakhstan has been increasing the excise tax rate annually since 2006 but not between 2000 and 2005 [17]. Excise rates for non-filter and filter cigarettes have been the same since 2014 [18]. The cigarette excise rates for 2017, 2018 and 2019 were approved on November 30, 2016. One year later (on December 25, 2017)<sup>11</sup>, new tobacco excise rates were adopted (Table 4).

While the regimen of annual increases of excise rates for cigarettes was adopted, the pace of increase was slowed down from 94% and 30% in 2015 to 12% in 2021. Excise rates for cigars, cigarillos, smoking and smokeless tobacco were not changed in 2016–2021. From 2018, excise tax was introduced for heated tobacco products (HTP) and liquids for electronic cigarettes, but for 2018 and 2019, the excise rate was zero.

From 2020 on, the excise tax for HTP will be 7345 tenge per 1 kg. As 1 HTP stick on average contains 0.3 gram of tobacco, excise rate for 1000 HTP sticks will be 2204 tenge or 4.5-fold lower, than for cigarettes.

<sup>10</sup> Affordability means price relative to per capita income.

<sup>11</sup> [https://online.zakon.kz/m/Document/?doc\\_id=33745225#sub\\_id=430000](https://online.zakon.kz/m/Document/?doc_id=33745225#sub_id=430000)

In 2020, the excise rate for e-cigarette liquids will be just 5 tenge per 1 ml, whereas in the Russian Federation, it will be 50 rubles per 1 ml or 60-fold higher than in Kazakhstan. The Russian Federation also imposed an excise tax for e-cigarette devices, while Kazakhstan did not. Only nicotine-containing liquids are taxed, so the sellers can avoid the excise tax claiming that their liquids do not have nicotine.

**Table 4. Tobacco excise rates**

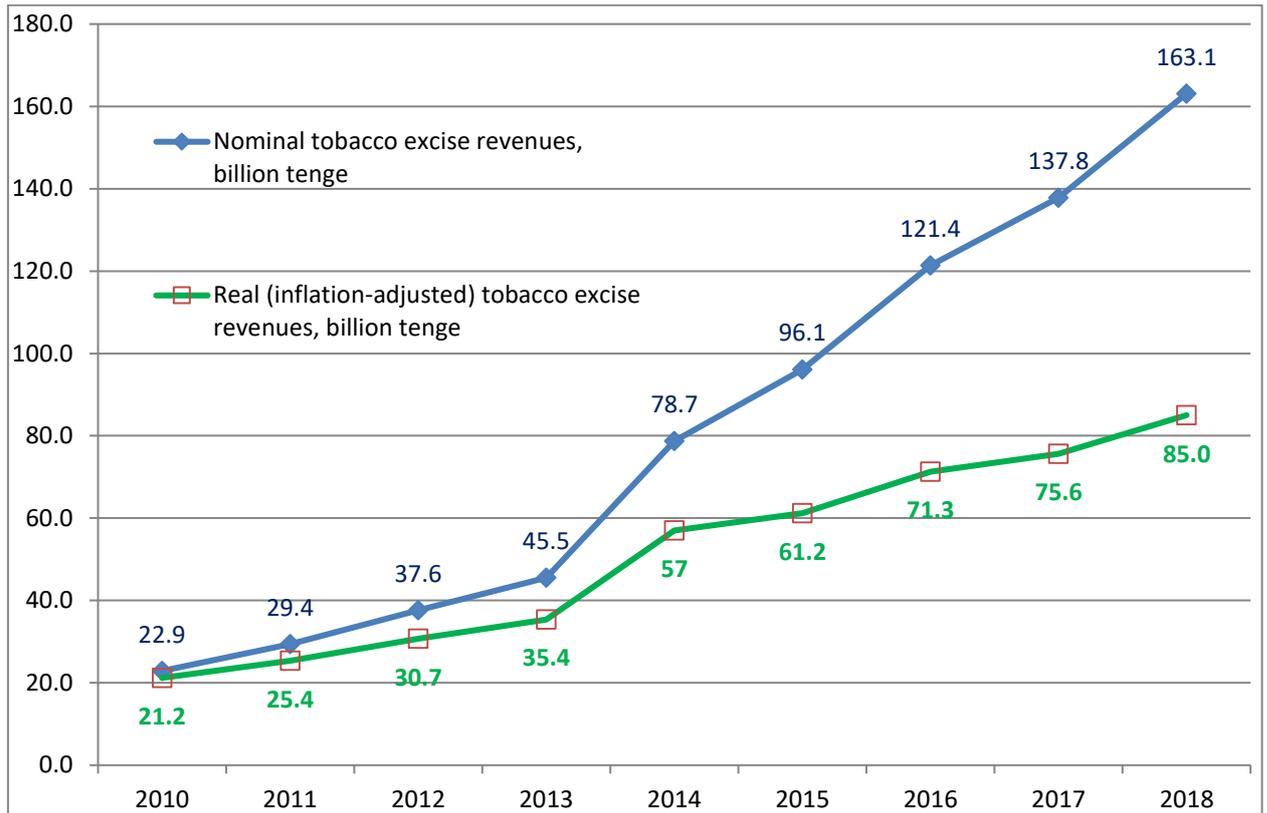
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Filter cigarettes, tenge per 1 000	1000	1250	1 550	3000	3900	5000	6200	7500	8700	9900	11100
Annual increase, %	25	25	24	94	30	28	24	21	16	14	12
Non-filter cigarettes, tenge per 1 000	600	750	950	3000	3900	5000	6200	7500	8700	9900	11100
Cigarillos, tenge per 1 000	1220	1530	1 930	3700	4800	6225	6225	6225	6225	6225	6225
Cigars, tenge per 1	95	120	150	475	620	750	750	750	750	750	750
Smoking and smokeless tobacco, per 1 kg	1220	1550	1940	3800	4900	7345	7345	7345	7345	7345	7345
Heated tobacco products, per 1 kg of tobacco	x	x	x	x	x	x	x	0	0	7345	7345
Nicotine-containing liquid for electronic cigarettes, tenge per 1 ml	x	x	x	x	x	x	x	0	0	5	5

The value-added tax (VAT) rate was reduced gradually from 20% in 2001 to 12% in 2008, and it remains at 12% thereafter.

## **Tobacco excise revenue**

Tobacco excise revenues increased between 2005 and 2013 in parallel with the excise rates increase (see Table 4), while cigarette sales remained stable.

The mean annual increase in nominal tobacco revenues between 2010 and 2013 was about 8 billion tenge (Figure 4), while the increase in 2014 was 33 billion tenge. The sharp tax hike (by 94%) not only reduced tobacco sales by 9% but also brought additional 25 billion tenge (about US\$ 150 million) to the national coffers (Figure 4).

**Figure 4. Nominal and real tobacco excise revenues in Kazakhstan, 2010–2018**

Source: The Ministry of Finance<sup>12</sup>. As revenue for cigarettes taxed in December is received in January next year, the calculations of taxed cigarettes between 2013 and 2017 are based on revenue received in February–December of the year and January of the next year.

In 2015–2019, the Ministry of Finances reported revenue from the domestic tobacco products in combination with excise revenue from domestic cars, so the tobacco excise revenue amount used for Figure 4 could be overestimated.

Nominal tobacco excise revenues increased by 17.4 billion tenge (22%) in 2015, while the excise tax rate increase was 30%. Cigarette sales decreased by 3 billion, or 12%, mainly due to the reduction of tobacco affordability. Kazakhstan was experiencing severe economic problems starting from August 2015: by the end of that year, the exchange rate went from 187 to 340 tenge per US\$ 1. The resulting income reduction caused a substantial decline in cigarette sales: sales declined by 1.5 billion cigarettes in the fourth quarter of 2015; this followed the declines of 1.7 billion in the previous three quarters.

In 2016, nominal tobacco excise revenues increased by 26%, but it was partly caused by the increase in cigarette sales by 6.5% (Figure 4). In 2017 and 2018, the reported tobacco revenues increased, while the real rate of increase cannot be estimated as the amount of domestic tobacco revenue includes revenue from domestic car excises.

Real (inflation-adjusted) tobacco excise revenue also had the largest increase in 2014, when they increased by 61% in one year (Figure 4). In 2011–2013, the average annual increase in real revenue was 22%, and in 2015–2017 it was only 11%.

<sup>12</sup>

[http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal\\_content/mf/kz.ecc.roles/kz.ec.c.anonymous/kz.ecc.anonymous/kz.ecc.anonym\\_budgeting/budgeting/reports\\_fldr/statistical\\_bulletin\\_fldr](http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ec.c.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/reports_fldr/statistical_bulletin_fldr)

## Excise rates and cigarette prices in neighboring countries

The comparison of excise rates and cigarette prices in Kazakhstan and neighboring countries (Table 5) reveals that both taxes and prices in Kazakhstan are a little higher than in Kyrgyzstan and Uzbekistan but much lower than in the Russian Federation. The net-of-tax part of a cigarette price also does not differ much between Kazakhstan, Kyrgyzstan, and Uzbekistan, so the incentives for cigarette bootlegging between these countries are rather small.

**Table 5. Excise rates and cigarette prices in Kazakhstan and neighboring countries (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
<b>Kazakhstan</b>	<b>8700</b>	<b>22,8</b>	<b>0</b>	<b>12</b>	<b>415</b>	<b>1,09</b>	<b>0,46</b>	<b>0,12</b>	<b>0,51</b>
Kyrgyzstan	1500	21,4	0	12	69	0,99	0,43	0,11	0,45
Uzbekistan	117900	13,9	4	20	8313	0,98	0,29	0,16	0,53
Russian Federation	2568	39,5	14,5	20	114	1,75	0,79	0,29	0,67

Price differences can encourage cigarette smuggling from countries with lower prices, but such difference should be high enough to cover transportation, bribery, and risk. So cigarette **outflow from** Kazakhstan could be much greater than cigarette **inflow to** the country. Price differences are not the only factor in the phenomenon of cigarettes being taxed in one country but smoked in another.

Tobacco excise hikes in Kazakhstan therefore not only reduced tobacco consumption within the country but also decreased the total number of cigarettes taxed in Kazakhstan but smoked in other countries.

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 [19], while in 2014 the only tobacco factory in the country was closed. In 2014-2019, excise rates in Kyrgyzstan increased from 450 soms to 1500 soms per 1000 cigarettes, and tobacco excise revenue increased from 2.86 million soms in 2014 to 4.85 million soms in 2017.

**Uzbekistan** increased cigarette excise rates by 50% from January 2016, by 30% from January 2017, by 120% from January 2018, by 40% from January 2019, and by 20% more from July 2019.

The average cigarette excise rate in the **Russian Federation** increased 8.5-fold between 2010 and 2017, and annual tobacco excise revenues grew from 108 billion roubles in 2010 to 591 billion in 2017. The cigarette market decreased by 31% (or by 117 billion cigarettes), from 377 billion in 2010 to 260 billion in 2017. Smuggling and counterfeiting, according to the tobacco industry estimates, comprised 2% of the market in 2016, or about 6 billion cigarettes. These changes confirm the general trend that tobacco excise hikes can increase illicit cigarette consumption, but the increase usually is much smaller than the decline in legal consumption, and total cigarette consumption reduces. The Russian Federation increased cigarette excise rates by 10% from July 2018 and by 10% more from January 2019. Low excise rates in Belarus and Kazakhstan were presented as the main argument against higher excise increases in the Russian Federation, so harmonization of tobacco excise increases has been proposed for these countries.

## **Eurasian Economic Union**

Kazakhstan is a member of the Eurasian Economic Union. The first draft agreement of principles for tobacco excise tax policy implementation in the countries of the Eurasian Economic Union was published in October 2015<sup>13</sup>. Article 4 proposed indicative, minimum and maximum cigarettes excise tax rates for 2016–2020, expressed in euro. However, the established excise rates in Kazakhstan in 2016-2019 were below the proposed minimum rates and they were much lower than the indicative rates.

Eventually, the first draft agreement was not implemented, and in early 2019 the countries arranged<sup>14</sup> that the excise rates should be in the range 28-42 euro per 1000 cigarettes, but starting only from 2024. The proposed rates are much lower than in the European Union, which has a minimum rate of €90 for every member from 2018.

The experience of Belarus, Kazakhstan, the Russian Federation, and other countries reveals that, given their inflation rates, the annual excise increase should exceed 30% to ensure the declines in tobacco affordability.

## **Cigarette smuggling**

In 2016, Kazakhstan authorities seized 11.1 million illicit cigarettes<sup>15</sup>, mainly from Kyrgyzstan and Tajikistan. It was admitted that in many cases Kyrgyz cigarettes were just moved via Kazakhstan to Russia, China<sup>16</sup>, and other countries.

A representative of British American Tobacco informed<sup>17</sup> that most smuggled cigarettes sold in Kazakhstan were supplied from Kyrgyzstan, but in 2016, illicit cigarettes constituted only 0.7% of the market. He suggested that in 2017 this percentage could increase 2-fold to make 345 million cigarettes. As the tobacco industry usually exaggerates the volumes of cigarette smuggled into a country, this estimate can be considered to be an upper level.

Euromonitor International (EMI) report [20] informed that after a sharp increase of excise rates in 2014 (see Table 4) the volume of smuggled cigarettes increased only from 356 million cigarettes in 2013 to 426 million cigarettes in 2015. In 2017, the volume of smuggled cigarettes was estimated to be 1.02 billion cigarettes, while cigarette tax and price increases in 2016 were rather moderate. EMI estimated that the share of smuggled cigarettes increased from 1.1% in 2012 to 1.9% in 2016 and then to 4.6% in 2017, but it had to admit that the total (licit + illicit) cigarette consumption in Kazakhstan decreased from 29.9 billion cigarettes in 2012 to 22.2 billion cigarettes in 2017 or by 25% in five years.

The Nielsen report for the Russian Federation<sup>18</sup> (commissioned by the tobacco industry) claimed that in 2015, 8% of illicit cigarettes in Russia were cigarettes from Kazakhstan. In 2016, the share of Kazakhstan

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<sup>13</sup> [https://docs.eaeunion.org/sites/storage1/Lists/PublicDiscussions/faa22d1e-150d-4765-ba68-fdf48434bc06/b5c8ba6f-08b6-4e93-9e30-91d461fa3a88\\_%D0%9F%D1%80%D0%BE%D0%B5%D0%BA%D1%82%20%D0%A1%D0%BE%D0%B3%D0%BB%D0%B0%D1%88%D0%B5%D0%BD%D0%B8%D1%8F%20%D0%BF%D0%BE%20%D0%B0%D0%BA%D1%86%D0%B8%D0%B7%D0%B0%D0%BC%20%D0%BD%D0%B0%20%D1%82%D0%B0%D0%B1%D0%B0%D1%87%D0%BD%D1%83%D1%8E%20%D0%BF%D1%80%D0%BE%D0%B4%D1%83%D0%BA%D1%86%D0%B8%D1%8E.pdf](https://docs.eaeunion.org/sites/storage1/Lists/PublicDiscussions/faa22d1e-150d-4765-ba68-fdf48434bc06/b5c8ba6f-08b6-4e93-9e30-91d461fa3a88_%D0%9F%D1%80%D0%BE%D0%B5%D0%BA%D1%82%20%D0%A1%D0%BE%D0%B3%D0%BB%D0%B0%D1%88%D0%B5%D0%BD%D0%B8%D1%8F%20%D0%BF%D0%BE%20%D0%B0%D0%BA%D1%86%D0%B8%D0%B7%D0%B0%D0%BC%20%D0%BD%D0%B0%20%D1%82%D0%B0%D0%B1%D0%B0%D1%87%D0%BD%D1%83%D1%8E%20%D0%BF%D1%80%D0%BE%D0%B4%D1%83%D0%BA%D1%86%D0%B8%D1%8E.pdf)

<sup>14</sup> <https://www.alta.ru/tamdoc/18r00184/#p2>

<sup>15</sup> <https://ism.kz/v-kazahstane-stali-izymat-bol-she-nezakonnyh-sigaret>

<sup>16</sup> [https://aqparat.info/news/2016/08/05/8358255-krupnyu-partiyu\\_kontrabandnyh\\_sigaret\\_i.html](https://aqparat.info/news/2016/08/05/8358255-krupnyu-partiyu_kontrabandnyh_sigaret_i.html)

<sup>17</sup> <https://informburo.kz/novosti/kontrabanda-sigaret-iz-kyrgyzstana-vyrosla-za-god-v-dva-raza.html>

<sup>18</sup> <https://iz.ru/news/599369#ixzz4ZQpLavN8>

cigarettes decreased to 6%<sup>19</sup>, but the total estimated share of illicit cigarettes on the Russian market increased from 1% to 2%, so the number of cigarettes smuggled from Kazakhstan to the Russian Federation increased and could be estimated as follows: 300 billion x 1% x 8%= 240 million cigarettes in 2015 and 280 billion x 2% x 6%= 336 million cigarettes in 2016. In 2017, the following Nielsen report claimed<sup>20</sup> that 0.21% of the total cigarette market in Russia were cigarettes smuggled from Kazakhstan, so their number was: 260 billion\*0.21%= 546 million cigarettes in 2017.

Kazakhstan is also a transit country for cigarette smuggling. The share of illicit Kyrgyz cigarettes on the Russian market is higher than the share of Kazakh cigarettes, but these cigarettes are moved to Russia via Kazakhstan.

Kazakhstan is also used for other kinds of transit smuggling. In 2015-2017, according to the official Kyrgyz customs reports<sup>21</sup>, about 3.7 billion cigarettes were imported from Serbia to Kyrgyzstan in three years, but Serbian cigarettes are almost absent on the Kyrgyz market. It was reported<sup>22</sup> that these cigarettes were transferred to Russia through Kazakhstan via duty-free shops. In 2017, according to Nielsen estimates<sup>23</sup>, smuggled Serbian cigarette brand *Fast* held 0.29% of the total Russian market (about 750 million cigarettes).

In February 2018, six million cigarette packs (produced in the United Arab Emirates) were seized in the train moving from Kazakhstan to Moscow<sup>24</sup>. In November 2017, 1.25 million cigarette packs from UAE were seized in a lorry on Kazakh-Russian border<sup>25</sup>.

Cigarette smuggling from Serbia and UAE reveals that excise and price differences between countries are just one factor of smuggling. Smugglers use loopholes in the current legislation (duty-free sales and others). Stronger international cooperation is needed to close all kinds of loopholes, which encourage tobacco smuggling.

While cigarette smuggling is a problem, it should not be overestimated and used as an argument against further excise increases. The FCTC Article 6 Guidelines state [15]: *The development, implementation and enforcement of tobacco tax and price policies as part of public health policies should be protected from commercial and other vested interests of the tobacco industry, including tactics of using the issue of smuggling in hindering implementation of tax and price policies.*

## **Conclusions and recommendations**

Between 2003 and 2008, tobacco prices in Kazakhstan increased by less than the inflation rate, and cigarettes became relatively more affordable. This encouraged tobacco consumption.

The policy of annual increases in excise rates by 25–30% between 2010 and 2013 resulted in increased revenues in Kazakhstan, but was not effective in terms of public health, as cigarette consumption did not decrease.

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<sup>19</sup> <https://www.vedomosti.ru/business/articles/2016/10/12/660540-nelegalnih-sigaret>

<sup>20</sup> <https://ria.ru/society/20171220/1511300539.html>

<sup>21</sup> <http://www.customs.kg/index.php/ru/custstat/tabiform/139-sravdan/1751--2017>

<sup>22</sup> <https://www.pravda.ru/society/04-12-2017/1358317-tobacco-0/>

<sup>23</sup> <https://ria.ru/society/20171220/1511300539.html>

<sup>24</sup> <https://360tv.ru/news/chp/kanal-postavki-kontrabandnyh-arabskij-sigaret-perekryli-sotrudniki-mvd-rf/>

<sup>25</sup>

[https://total.kz/ru/news/proisshestviya/iz\\_kazahstana\\_v\\_rossiu\\_vvezli\\_1\\_240\\_500\\_pachek\\_kontrabandnih\\_sigaret\\_date\\_2017\\_11\\_25\\_12\\_23\\_59](https://total.kz/ru/news/proisshestviya/iz_kazahstana_v_rossiu_vvezli_1_240_500_pachek_kontrabandnih_sigaret_date_2017_11_25_12_23_59)

Tobacco excise taxes were drastically increased in Kazakhstan from 1 January 2014, and the tobacco affordability was substantially reduced resulting in the subsequent decline in tobacco sales and the prevalence of smoking in the country. Substantial reduction of smoking prevalence in 2014 was demonstrated by the results of the sixth national healthy lifestyle survey in 2014 and by the GATS and GYTS results.

This decline in consumption could have an effect on tobacco-related mortality in Kazakhstan. Mortality rates of some tobacco-related causes of death substantially declined in Kazakhstan in 2013–2015 among both men and women aged 30 to 79 years. The mortality declined by about 20% for acute ischaemic heart disease and stroke and by 30–40% for respiratory tuberculosis and chronic obstructive pulmonary disease [17].

The taxation policy implemented in Kazakhstan in 2014 not only contributed to achieving the health-related objectives to reduce tobacco consumption. Tobacco excise revenues more than doubled in two years.

In previous years, however, Kazakhstan followed a policy of moderate tobacco excise increases. Experience showed that the policy resulted in neither increased revenues nor a reduction in tobacco consumption.

After a successful policy in 2014, Kazakhstan returned to a policy of moderate tax increases in 2015–2019. The reduction in tobacco affordability in 2015 was caused not only by the excise increase but also by the tobacco industry pricing policy and a decline in real incomes. Tobacco consumption in Kazakhstan decreased in 2015, but the revenue increase was smaller than expected.

A moderate excise rise in 2016 and 2017 could not ensure a substantial reduction of tobacco affordability, and tobacco sales in 2015–2017 did not change much.

The country experience shows that a policy of moderate (below 30% annually) excise increases cannot ensure either a reduction in tobacco consumption or a substantial revenue increase. The planned annual cigarette excise increase for 2020–2021, however, is only 12–14% (Table 4).

Heated tobacco products and liquids for electronic cigarettes will be taxed by excise from 2020, but the excise rates are very low and should be substantially increased. The e-cigarette liquids and devices should be taxed in line with the World Bank recommendations [21].

The impact of tobacco tax increases in Kazakhstan was modeled in several papers [17, 22, 23]. They demonstrated that increasing tobacco taxes, which reduce tobacco affordability and tobacco consumption, is an effective way of reducing mortality in the country, especially among middle-aged people. Mortality for some causes of death already declined in Kazakhstan in the first years after the tobacco consumption reduction. Further increases in tobacco excise rates can reinforce the health benefits.

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

Kazakhstan has great potential to increase tobacco excise rates in subsequent years to contribute to health objectives aiming to reduce tobacco consumption. The greater the excise tax increase, the larger the reduction in tobacco consumption, and the higher tobacco excise revenue growth will be.

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