



SMUGGLING OF TOBACCO PRODUCTS, ITS IMPACT ON THE ECONOMY AND PUBLIC HEALTH

Boykabilov Bahodir Mustafayevich

Candidate of physics-mathematics, employee of the Institute of Budget-Tax Scientific Research under the Ministry of Economy and Finance

Article history:		Abstract:
Received:	24 th November 2023	<p>The article discusses the reasons for the increase in cases of smuggling of tobacco products, factors influencing their increase, smuggling channels, producing countries of these smuggled products, the effectiveness of measures to combat smuggling, the impact of the excise tax rate on the smuggling of tobacco products.</p> <p>It has been shown that not only smuggling, but also tobacco produced in our republic, the consumption of its products has a negative impact on the health of the population.</p> <p>At the same time, based on foreign experience, the article examines the possibilities of preventing the illegal entry of contraband products into the territory of our republic and makes recommendations</p>
Accepted:	20 th December 2023	
Published:	26 th January 2024	
Keywords: Excise tax rate, concepts of smuggling and counterfeiting, cigarette smuggling, customs territory, taxes and taxation, excise tax, goods, pack, selling price.		

INTRODUCTION. Fiscal bodies conducting tax policy announce the main directions of the next tax policy with the budget on the eve of the end of each year. Of course, information is given on whether the tax rates are being changed or remain unchanged for each type of tax. Changes in tax rates lead to an increase in the tax burden on taxpayers. At the same time, changes in tax rates may not always lead to an increase in budget revenues. In practice, such a situation is manifested especially in the increase of excise tax rates. In some cases, an excessive increase in excise tax rates on cigarettes or alcohol may lead to the smuggling of these products or the increase of counterfeit goods.

Actually, if we look at the difference between the concepts of "contraband" or "counterfeit":

Smuggling (contr... and ital. bando - government decree) is the illegal (secret) transfer of goods, valuables, foreign exchange wealth, etc., the import and export of which is prohibited to this country, as well as making illegal actions to transport prohibited goods. . Products imported using such actions are treated as contraband products.

Counterfeit products are goods manufactured and sold in violation of intellectual property rights.

In this article, we will focus on the causes of tobacco smuggling, which is widespread in our country, and the issues of their elimination from the concepts presented above.

If we think about the smuggling of tobacco products, this is a serious problem that affects not only the state budget, but also the health of the population, especially the health of young people.

The root of the problem is that the damage caused by smuggling falls on the state budget, not on the manufacturers, distributors or wholesalers of these tobacco products.

For this reason, the Law "On the State Border of the Republic of Uzbekistan" assigns tasks to the border troops of the State Security Service of the Republic of Uzbekistan and the Customs Committee under the Ministry of Economy and Finance of the Republic of Uzbekistan to develop and implement anti-smuggling measures.

At the same time, according to the content of the Customs Code of the Republic of Uzbekistan (Article 5) and the Law "On the State Border of the Republic of Uzbekistan" (Article 3), the customs border of the Republic of Uzbekistan overlaps with the State border of the Republic of Uzbekistan and the land territory of the Republic of Uzbekistan, territorial and internal waters and the airspace above them constitute the customs control areas of the Republic of Uzbekistan.

As can be seen from the above, the customs authorities have the authority to restrict the illegal movement of goods not only passing through the customs posts located on the border of the republic, but



also moving in the customs control areas of the republic on the basis of operational information.

According to statistical data, the cases where illegal importation of tobacco products was stopped by the customs authorities were determined.

INFORMATION on cases of detection of illegal importation of cigarettes by customs authorities

Nº	Name	2019 year	2020 year	2021 year	2022 year	2023 year 9 in the month
1	Quantity (thousand boxes)	355	1 065	1 589,0	1 639,0	4 813,0
2	Amount (in billion soums)	5,3	14,7	18,8	19,8	84,9

For some reason, the number of cases of illegal import of tobacco products is increasing.

For this, first of all, we need to pay attention to the formation of the sales price of cigarettes produced by local manufacturers.

If the selling price of one box of "Pall Mall" cigarettes, which is currently the most in demand, is 10,500.0 soums, then:

VAT amount – 1,125 soums ($10,500 \cdot 12 / 112$)

excise tax (from 283,500 soums per 1,000 pieces) - 4,477 soums +

(10 percent) – 937.5 soums ($(10,500 - 1,125) \cdot 10\%$).

In this case, the price of a pack of cigarettes includes VAT + excise tax - 6,539.5 soums ($1,125 + 937.5 + 4,477$), that is, 62.3 percent of the price, and only the excise tax is 5,414.5 soums ($937.5 + 4,477$) is 51.6 percent of the selling price of cigarettes.

This figure is 43 percent in Russia, 47 percent in the Republic of Kazakhstan, and 41 percent in Kyrgyzstan.

INFORMATION on the share of excise tax in the sales price of cigarettes sold in other countries

Nº	Country name	Excise duty amount fixed for every 20 boxes (\$)	Average retail price per box of 20 (\$)	The share of excise tax on the final sale price (%)	The share of VAT and excise tax in the final sale price (%)
1	Austria	3,49	5,79	60,3	77,0
2	Belgium	5,24	7,66	68,4	65,7
3	Bulgaria	1,95	2,92	66,8	83,4
4	Croatia	2,59	4,32	60,0	79,8
5	Cyprus	2,72	4,58	59,4	75,2
6	Czechia	3,3	5,37	61,5	78,8
7	Denmark	5,55	7,63	72,7	92,8



8	Estonia	3,5	4,91	71,3	87,9
9	Finland	7,11	9,86	72,1	91,5
10	France	7,31	10,68	68,4	85,1
11	Germany	3,73	7,00	53,3	69,3
12	Greece	2,87	4,38	65,5	84,9
13	Hungary	2,65	4,95	53,5	74,7
14	Ireland	9,78	15,05	65,0	83,6
15	Italy	3,3	5,47	60,3	78,3
16	Latvia	2,81	4,18	67,2	84,7
17	Lithuania	2,77	4,38	63,2	80,5
18	Luxembourg	2,9	5,15	56,3	70,8
19	Malta	3,57	5,63	63,4	78,6
20	The Netherlands	6,1	7,95	76,7	94,1
21	Poland	2,15	2,87	74,9	83,8
22	Portugal	2,97	5,03	59,0	77,8
23	Romania	2,66	4,67	57,0	72,9
24	Slovakia	2,81	4,47	62,9	79,5
25	Slovenia	2,87	4,4	65,2	83,4
26	Spain	3	4,85	61,9	79,1
27	Sweden	3,5	6,18	56,6	76,7
	Ўртача	3,82	5,94	64,4	80,4

Of course, we can say that the share of excise tax on cigarettes is much less compared to the European standard, but currently in Europe, 0.26 percent of the average monthly salary (2,239.5 US dollars [2]) is spent on 20 packs of cigarettes, while in Uzbekistan (the average monthly salary is 4.4 when calculated as million soums [3]), this indicator is 5.5 percent.

In addition, the electronic marking printed on a cigarette box costs 78 soums, and the price of an excise stamp is 20 soums. The price of electronic marking is 78 soums and has almost no effect on the price of cigarettes[4].

In the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 833 of December 30, 2020 "On measures to ensure the gradual introduction of a mandatory digital marking system for certain types of products", the regulations on the features of digital marking of tobacco and tobacco products by means of identification were approved.

The main purpose of introducing the mandatory digital marking system is to control the process of the listed goods from production or import to the final

consumer, and to prevent the sale of unmarked or counterfeit alcohol and tobacco products that do not meet the quality requirements.

In addition, Article 227¹ of the Tax Code stipulates that manufacturers, importers and sellers of goods (products) who violate the rules of mandatory digital marking by means of identification shall be subject to a fine in the amount of the net income received in the last reporting quarter in which the sale was made [5].

It is clear to them how much money has been spent by domestic manufacturing enterprises to acquire the techniques of displaying electronic marking on goods in order to introduce the mandatory digital marking system. In fact, in the end, all such costs fall on the shoulders of our people, who are consumers of these goods.

Calculating based on the statistical data noted below, the mandatory digital marking of 78 soums indicated above by local manufacturers only during the production process of cigarettes will be 41.6 billion soums (10,663.1/20*78) in 2021, and 37.7 billion in



2022. billion soums ($9,672.9/20 \times 78$) shows that funds have been spent.

After all, the main purpose of the introduction of this system was to increase tax revenues by ensuring the sale of only electronically marked products in the market of our country, preventing the sale of low-quality contraband products and controlling the sale of domestic producers' goods.

In fact, wholesalers are even profiting from illegal trade. The reason is that first they get income from the primary sale of tobacco products. In addition, when cheap tobacco products are supplied to the markets by illegal importers, they reduce prices and, as a result, increase the demand for tobacco products and the number of smokers among the population.

The profits from the illegal importation of tobacco products are huge. Recently, it has been said that smuggling tobacco products is as profitable as drug trafficking, only the punishment for smuggling tobacco products is much lighter.

The current situation shows that the main reason for the increase in cases of illegal importation of tobacco products is the high tax rates and weak anti-smuggling measures.

Currently, the rate of excise tax on cigarettes in the Republic of Uzbekistan is fixed (at a fixed rate per 1000 cigarettes) and advo (percentage). Excise taxes on cigarettes in our country were set at a fixed rate only per 1,000 cigarettes. From 2019, an additional 9 percent of the sales price will be added to it, and this ad valorem rate is 10 percent today.

INFORMATION on the change in the fixed rate of excise tax per 1000 pieces of tobacco products produced in the Republic of Uzbekistan (filtered and unfiltered cigarettes, cigarettes, cigarillos (cigarettes), bidi, kretek)

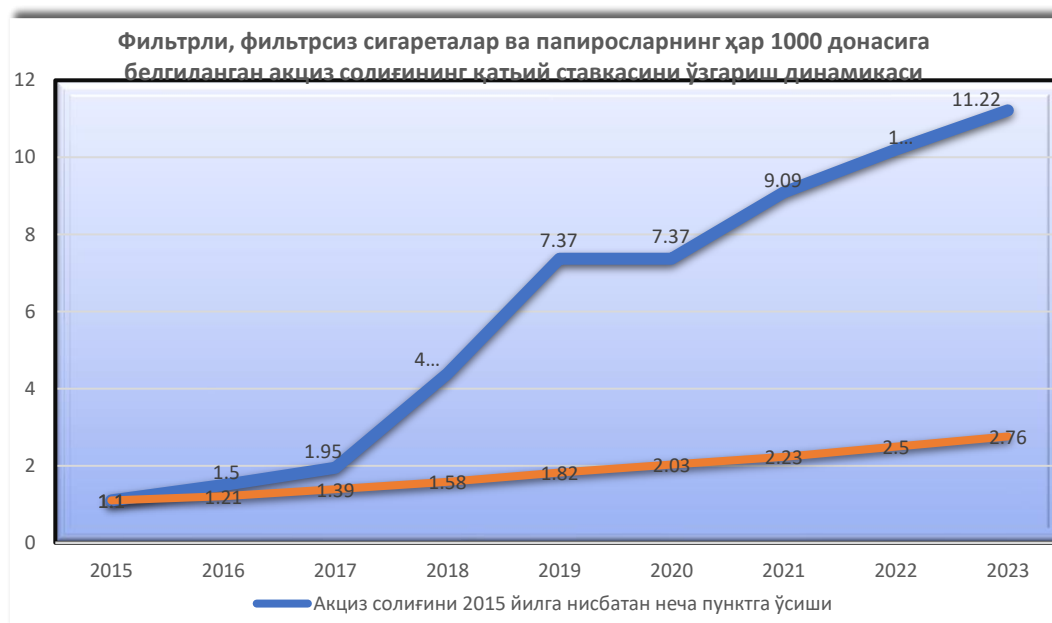
No	Name	2015 year	2016 year	2017 year	2018 year	2019 year	2020 year	2021 year	2022 year	2023 year
1	Fixed tax rate per thousand pieces (in soums)	19 196	28 794	37 432	34 222	141 500	141 500	174 542	195 792	222 154
2	Excise tax Growth rate compared to 2015	1,10	1,50	1,95	4,39	7,37	7,37	9,09	10,20	11,22
3	Inflation rate	10,40	9,70	14,40	14,30	15,20	11,10	9,98	12,25	10,20



4	Inflation A picture of growth compared to 2015	1,10	1,21	1,39	1,58	1,82	2,03	2,23	2,50	2,76
---	-----------------------------------------------------------------------	------	------	------	------	------	------	------	------	------

In this case, 222,154 soums were received through the account book as follows:
 $(203\,500 + 11 \cdot 223\,850) / 12 = 222\,154,2$

If we compare the above indicators, that is, the change in the excise tax rate (without taking into account the rate in the form of ad valorem (interest)) in relation to the increase in the level of inflation, we can see the following.



In international practice, there is the concept of the Laffer curve, which shows the relationship between tax rates and tax revenues. In most cases, when excise tax rates on tobacco products increase, tax revenues to the state increase. But there is a forbidden range of this curve, and after crossing it, it can lead to the opposite results.

That is, when tax rates reach the prohibitive range of the Laffer curve, tax revenues begin to decline

sharply. In addition, the penetration of contraband products into the market will increase as consumers begin to prefer products with lower excise duty.

We can see this situation in the example of countries like Great Britain and Ireland.

We can see the excise tax revenues and its share in total tax revenues in the following data.

INFORMATION on the dynamics of excise tax revenues collected for tobacco products produced and imported in the Republic of Uzbekistan

		billion soums							
№	Years	2015 year	2016 year	2017 year	2018 year	2019 year	2020 year	2021 year	2022 year



	Total tax revenue	36 493,3	41 043,4	49 681,0	79 099,1	112 165,4	132 938,1	164 799,4	202 042,9
1	Total Excise Tax Receipts	6 861,3	7 789,8	9 233,7	11 246,1	10 314,7	11 697,3	13 086,5	13 455,0
	Share of excise tax in total tax revenue	18,80	18,98	18,59	14,22	9,20	8,80	7,94	6,66
	including tobacco excise tax revenue								
2	Tax Committee	215,94	284,15	412,44	825,77	1 364,24	1 545,01	1 929,78	1 998,41
3	Customs Committee	54,83	51,90	58,12	0,00	27,20	22,23	28,14	3,13
	Total	270,77	336,05	470,56	825,77	1 391,44	1 567,24	1 957,92	2 001,53
	Share of tobacco excise in total excise tax	3,95	4,31	5,10	7,34	13,49	13,40	14,96	14,88

According to information provided on the website of the National Information Agency of the Republic of Uzbekistan on January 8, 2021, the consequences of smoking cause about 8 million deaths worldwide every year. Of these, more than 7 million are smokers and ex-smokers, and more than 1.2 million are exposed to second-hand smoke. Every year, 65,000 children die from diseases related to exposure to secondhand tobacco smoke.

16.5% of the population of our country (aged 18-69) smoke tobacco (32.9% of men, 0.8% of women). Among the population of Uzbekistan, it was a tradition to smoke smoked and smokeless (nosvoy) tobacco. In particular, 9.4 percent of the population smokes. Among smoked tobacco products, cigarettes are in the

main place, that is, they are used by 86 percent of smokers[6].

In particular, if we take into account the fact that the population of Uzbekistan is 36,606,500 as of January 1, 2022, and according to the Statistics Committee, tobacco smokers (cigarette and snuff smokers) make up 9.4 percent, the total number of smokers is 3,347,000.

86% of the total number of smokers, i.e. 2,878,420 ($3,347,000 \times 0.86$) are cigarette smokers.

Taking into account that each smoker smokes 11 cigarettes per day on average (according to the Ministry of Health), the annual need of smokers is 11,556.9 million cigarettes ($2,878.4 \times 11 \times 365$).

INFORMATION on the sale of cigarettes produced in the territory of the Republic of Uzbekistan in 2017-2022

		million pieces					
Nº	Years	2017 year	2018 year	2019 year	2020 year	2021 year	2022 year
1	The number of cigarettes sold in the domestic market with the remaining balance	9 913,30	9 573,50	11 293,80	11 065,20	10 663,10	9 672,09



at the beginning of the year						
------------------------------	--	--	--	--	--	--

If we say that 9,672.1 million cigarettes sold in the domestic market by local manufacturers were sold, we can see that 1,884.8 million (11,556.9-9,672.1) cigarettes are being met at the expense of smuggled cigarettes. If we take into account that 600-750 thousand packs of cigarettes (depending on the type of cigarette) go to one car dealership, it indicates that cigarettes are illegally imported into at least 125-155 cars in a year.

(In this case, as a result of 1,884.8 million cigarettes entering our markets through smuggling, only VAT and excise tax remain unpaid to the budget in the amount of at least 616.3 billion soums (1,884.8/20*6,540).)

On the other hand, it is suspicious that such a large number of illegally imported cigarettes are illegally transported on foot through roundabouts in the Fergana Valley, where sales are high.

It is known that the source of origin of "cheap white" cigarettes is the Persian Gulf countries, mainly the United Arab Emirates. It is there that the Jabal-Ali (Jafza) free economic zone (SEZ) is located, and about 27 large tobacco factories are located in this area [7].

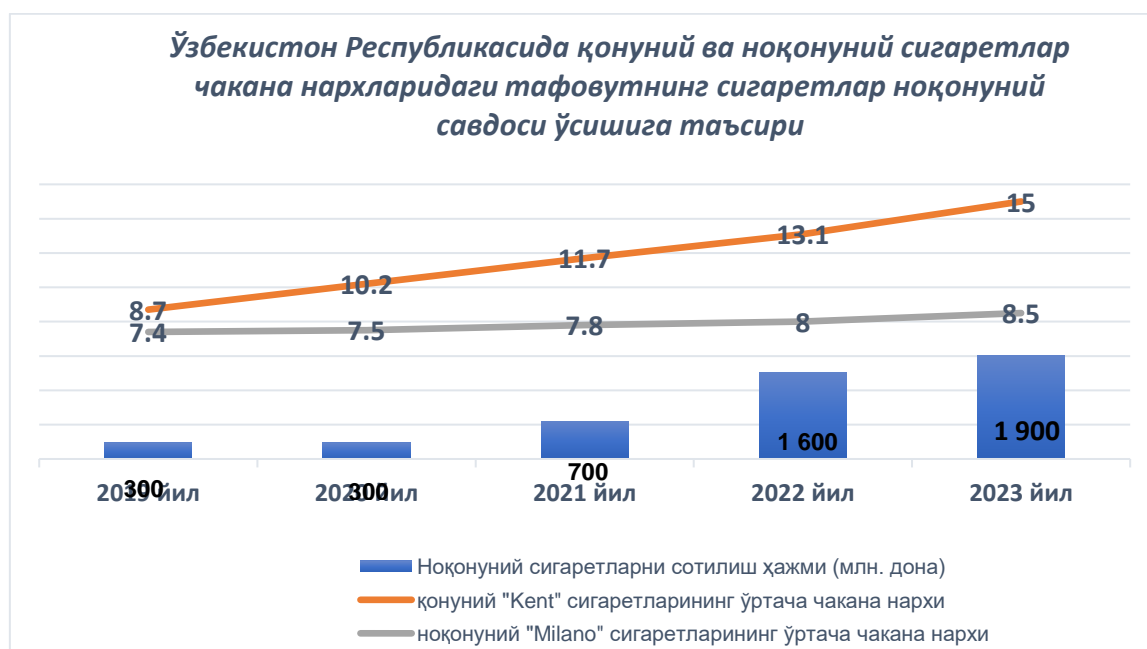
Enterprises operating in the free economic zone of Jabal-Ali (Jafza) are provided with no currency or minimum investment restrictions, 100 percent foreign ownership, no local partner participation required, and a 50-year exemption from corporate tax if the products are exported. customs fees are not charged, and there are no restrictions on the attraction of foreigners.

They can make custom made cigarettes of any brand or look and name you want, in any quantity and completely legally.

Then they legally ship large batches of cigarettes to any recipient (with a duty-free trade license), including Central Asian countries.

"Milano", "Mond", "Oris" and "Manchester" cigarettes, which are sold illegally in the markets of our country, are products produced in this region. The current retail price of these cigarettes is 7-9 thousand soums.

Comparing the prices of legally produced and widely smoked cigarettes with the prices of illegal cigarettes, we can see the following situation.



According to the data, if the law enforcement system works normally, the average level of detection



*of cases of illegal import in the world is from 4% to 10%, while in our republic this indicator will be 1.8% in 2022 (33,396/1,884,800 *100) just organized.*

In addition, Kazakh experts on the fight against illegal trade in Central Asia, talking about the illegal tobacco market in 2020, noted that the duty-free trade zone of the Kyrgyz Republic is considered one of the main sources of the distribution of illegal cigarettes.

It was noted that 2.8 billion cigarettes are transported annually through the duty free channel of the Kyrgyz Republic, while the legal need for cigarettes of the smoking population of the Kyrgyz Republic is 3.2 billion.

The most interesting thing is that in Bishkek, the capital of the Kyrgyz Republic, there is only one shop selling duty-free cigarettes.

As you know, the sale of these cigarettes is aimed at consumers of the population of the Republic of Uzbekistan through the Fergana Valley. For this reason, every second pack of cigarettes smoked in the Fergana Valley is considered a contraband product [8].

Some experts may say that these cigarettes are distributed to the countries of the Eurasian Economic Union through the Republic of Kazakhstan.

However, recent statistics from the mass media show that most of the cigarettes imported to the Republic of Kazakhstan from the UAE come from Mangistau region from Iran through the Kasbi Sea [7].

Because it is well known that it is cheaper for an illegal trader to agree with one regulatory body than with two or three.

Regarding the Republic of Tajikistan, there is no information at all about the imported cigarette products and the needs of the country's citizens for this product.

It can be seen that legally manufactured cigarettes differ in that all taxes are paid to the public treasury compared to illegally imported ones, and nothing is paid in circulation when illegally imported. Legally produced cigarettes meet all technical requirements and strict control methods, but the same cannot be said about illegally imported products. In addition, illegally imported cigarettes differ in that the release price is much lower.

In general, the main body that controls the situation related to trade in the markets is the tax authorities. Because it is the tax authorities that must control the rules of retail trade and their compliance. But is it easy to control the sale of illegally imported products in many separate shops after they are distributed in the markets, or is it easy to stop their

illegal importation. After all, one tax inspector cannot be attached to each point of sale.

Based on the above, the following is suggested.

1. Suspending the indexation of the excise tax rate as an experiment until the illegal sale of tobacco products is drastically reduced.

2. Taking into account the fact that cheap tobacco products that do not meet the quality requirements cause great harm to the health of the population, especially the health of young people, to take measures to attract the public using the existing mechanism of encouraging those who inform against the sale of illegally imported cigarettes with the help of mass media.

3. The agencies tasked with combating the smuggling of tobacco and alcohol products (the Ministry of Internal Affairs, the Department for Combating Economic Crimes under the General Prosecutor's Office of the Republic of Uzbekistan, the Headquarters and Tax Offices) together, on the basis of operative information, identify the points where large quantities of tobacco products are illegally sold and their organization. to identify and take measures to eliminate them.

REFERENCE:

1. <https://taxfoundation.org/data/all/eu/cigarette-tax-europe-2023/>
2. <https://take-profit.org/en/statistics/wages/euro-area/>
3. <https://daryo.uz/2023/10/26/uzbekiston-hududlarida-ortacha-oylik-ish-haqi-qanchaligi-malum-qilindi>
4. Ўзбекистон Республикаси Вазирлар Маҳкамасининг 2020 йил 31 декабрдаги "Айрим турдаги маҳсулотларни мажбурий рақамли маркировкалаш тизими босқичма-босқич жорий этилишини таъминлаш чора-тадбирлари тўғрисида" 833-сонли қарори.
5. Ўзбекистон Республикасининг 2019 йил 30 декабрдаги "Ўзбекистон Республикасининг Солиқ кодексига ўзгартиш ва қўшимчалар киритиш тўғрисида"ги ЎРҚ-599-сон қонун
6. Институт повышения квалификации кадров и статистических исследований при государственном комитете Республики Узбекистан по статистике "ANNUAL REPORT" Информационно-аналитический обзор рынка сигаретной продукции и табачного сырья Республики Узбекистан



World Economics & Finance Bulletin (WEFB)

Available Online at: <https://www.scholarexpress.net>

Vol. 30, January, 2024

ISSN: 2749-3628,

7. [//forbes.kz/actual/kak tabachnyie kompanii r eshayut problemu rosta kontrabandyi v kazahstane](https://forbes.kz/actual/kak-tabachnyie-kompanii-r-eshayut-problemu-rosta-kontrabandyi-v-kazahstane)
8. [//podrobno.uz/cat/obchestvo/tenevaya-ugroza-kontrabanda-i-ee-posledstviya-dlya-ekonomiki/](https://podrobno.uz/cat/obchestvo/tenevaya-ugroza-kontrabanda-i-ee-posledstviya-dlya-ekonomiki/)