

## TOBACCO FORMAL RESOURCES IN THE REPUBLIC OF ARMENIA

### *7.1. Cigarette Production in the Republic of Armenia*

According to 1997 data provided to the Ministry of Statistics by enterprises of Armenia, in 1997 the country produced 814.7 units of cigarettes or 40.74 million packs (the corresponding monetary value amounted AMD 2,158.2), of which 123.4 million units or 6.17 million packs were produced in January – August (monthly average 0.77 million packs), and 691.3 million units or 34.57 packs were produced in September – December 1997 (monthly average 8.64 million packs).

However, the growth of cigarette production in September – December 1997 (by average factor of 11.2) was preconditioned by not only the introduction of excise marks, but also by operationalisation of new production capacities that in September – December 1997 accounted for 65.5% of the total production.

*During January – August 1998, the production of cigarettes amounted 457.7 million units or 72.9 million packs (of which 85.9% by newly operationalised production capacities), thus exceeding the production volume for January – August 1997 by factor of 11.8.*

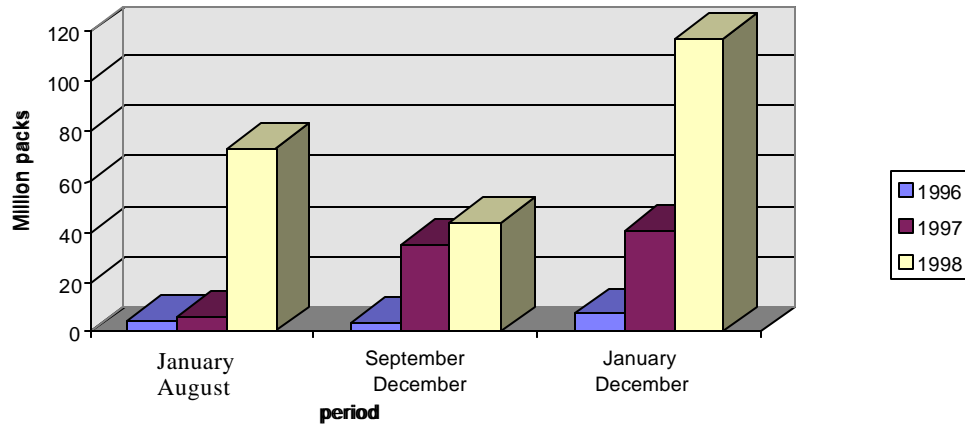
*During September 1997 – August 1998, the cigarette production amounted 2,149.0 million units or 107.45 million packs against 190.2 million units of 9.51 million packs produced in September 1996 – August 1997.*

The data series on cigarette production in 1996 – 1998 is presented in the table below.

**Table 14.** Dynamics of Cigarette Production

	<i>Cigarettes produced</i>	
	<i>Million cigarettes</i>	<i>Million packs</i>
<b>1996</b>	<b>152,0</b>	<b>7.6</b>
<i>January - August</i>	<i>85.2</i>	<i>4.26</i>
<i>September - December</i>	<i>66.8</i>	<i>3.34</i>
<b>1997</b>	<b>814.7</b>	<b>40.74</b>
<i>January - August</i>	<i>123.4</i>	<i>6.17</i>
<i>September - December</i>	<i>691.3</i>	<i>34.57</i>
<i>1998 January - August</i>	<i>1457,7</i>	<i>72,88</i>
<i>1996 September - 1997 August</i>	<i>190.2</i>	<i>9.51</i>
<i>1997 September - 1998 August</i>	<i>2149.0</i>	<i>107.45</i>

**Chart 6. Cigarette Production in the Republic of Armenia**



## **2 . Cigarette Import to the Republic of Armenia**

**7.2.1.** According to 1997 customs data, the cigarette import to Armenia looked as follows: 1,286.5 units of 64,324 packs (US\$11,876.2 thousand, average cost per pack US\$0.185 or AMD92) were imported by legal entities, and 364,334 thousand units of 18,217 thousand packs were imported by physical persons. During the same period, Armenia exported (by physical persons) 13,348 thousand units or 667 thousand packs of cigarettes. Net import of cigarettes to the country amounted 1,637,467 units or 81,874 thousand packs including 581,793 units or 29,090 packs during January – September (3,636 thousand packs monthly on the average), and 1,055,674 units or 52,784 thousand packs (monthly average of 13,196 million packs) during September - December (after the introduction of excise marks). During the 4 months of 1997 after the introduction of the excise marks, the average monthly import increased by factor of 3.63.

**7.2.2.** During September 1997 – August 1998 the net import of cigarettes to the Republic of Armenia amounted 3,023.2 thousand units or 151,158 thousand packs against 706,710 thousand units or 35,336 thousand packs imported during 1996 September – 1997 August, and during January – August 1998 the import amounted 1,967 thousand units or 98,374 thousand packs (monthly average of 12,297 thousand packs). The net import volumes for January – August 1998 exceeded those for January – August 1997 by factor of 3.38.

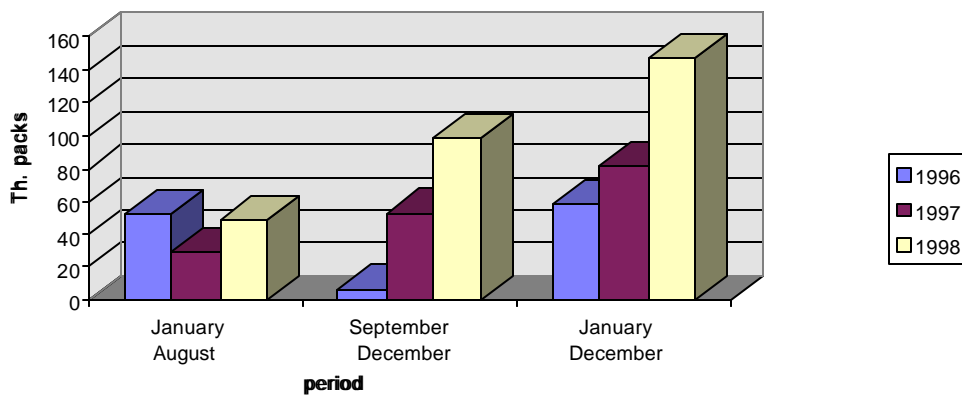
The dynamics of net import of cigarettes is presented in the table below.

**Table 15. Import of Cigarettes to Armenia**

	<i>Import, thousand packs</i>		<i>export Thousand d packs</i>	<i>Net Import, thousand packs</i>
	<i>By legal entities</i>	<i>By physical persons</i>		
<i>2</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4=1+2-3</i>
<b>1996</b>	<b>55,897</b>	<b>2,304</b>	-	<b>58,201</b>
<b>January - August</b>	<b>50,203</b>	<b>1,752</b>	-	<b>51,955</b>

<i>September - December</i>	<i>5,694</i>	<i>552</i>	<i>-</i>	<i>6,246</i>
<i>1997</i>	<i>64,324</i>	<i>18,217</i>	<i>667</i>	<i>81,874</i>
<i>January - August</i>	<i>19,520</i>	<i>10,236</i>	<i>666</i>	<i>29,090</i>
<i>September - December</i>	<i>44,804</i>	<i>7,981</i>	<i>1</i>	<i>52,784</i>
<i>1998 January - August</i>	<i>97,868</i>	<i>756</i>	<i>250</i>	<i>98,374</i>
<i>1996 September- 1997 August</i>	<i>25,214</i>	<i>10,788</i>	<i>666</i>	<i>35,336</i>
<i>1997 September - 1998 August</i>	<i>142,672</i>	<i>8,737</i>	<i>251</i>	<i>151,158</i>

**Chart 7. Cigarette Net Import to Armenia**

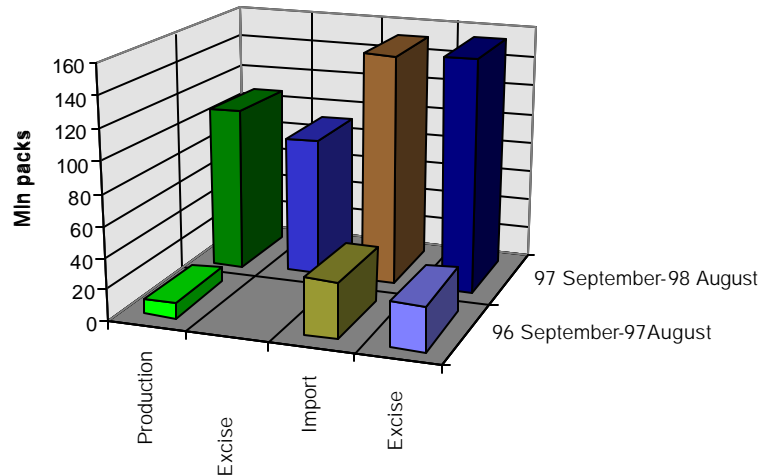


### ***7.3. Comparative Indicators of Use of Excise Marks, cigarette production and import***

**7.3.1.** *During October 1997 – August 1998, the customs bodies of Armenia used 91,105 thousand excise marks on local production cigarettes (including excise marks envisaged for imported cigarettes (94500). The latter were used for marking local production cigarettes (due to lack of corresponding excise marks). During the same period, the domestic production of cigarettes amounted 99,800 packs. The difference amounts 8,695 thousand packs or 9,54%.*

**7.3.2.** *During July 1997 – August 1998, the customs bodies of Armenia used 203,104 thousand excise marks on imported cigarettes, and 22,528 thousand marks were subsequently returned. The net use of excise marks amounted 180,576 thousand. During the same period, the import of cigarettes amounted 178,097 thousand packs, of which 151,409 thousand packs were imported to during September 1997 – August 1998. Besides, during August – November 1997, excise marks on imported cigarettes were also used by the tax inspectorate of Armenia (30,961.4 thousand), of which 326,4 thousand were subsequently returned. The net use of excise marks amounted 30,635 thousand. ***It is noteworthy that the above figure exceeds the amount of cigarettes imported during January – July 1997 (23,720.6 thousand packs) by 29.2%.****

**Chart 8. Comparative dynamics of use of excise marks,  
Cigarette import and export**



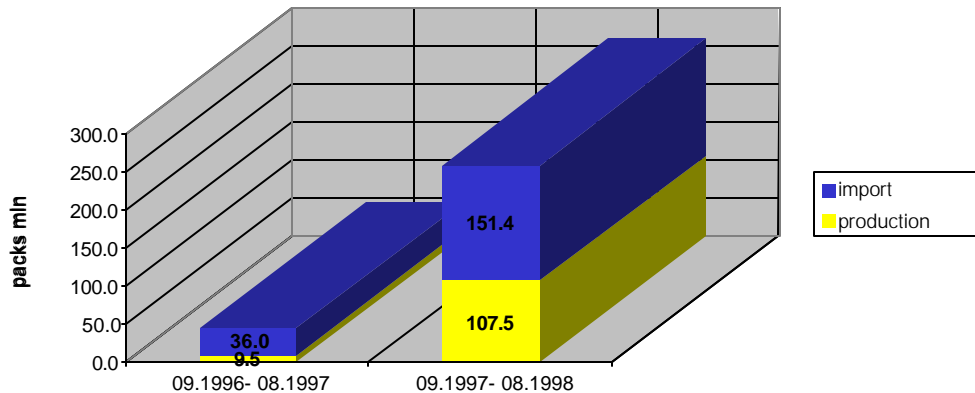
#### 7.4. Cigarette Consumption vs. Formal Resources

7.4.1. *The formal cigarette resources* in the country were assessed on the basis of official figures on production, import and export. For the period of September 1997 – August 1998, these resources amounted 258.6 million packs, and for September 1996 – August 1997 - 44.8 million packs. The dynamics of cigarette formal resources is presented in the table below.

*Table 16. Tobacco Formal Resources In the Republic of Armenia*

	<i>Cigarette formal resources, thousand packs</i>				
	<i>Production</i>	<i>Import</i>	<i>Export</i>	<i>Net import</i>	<i>Total resources</i>
<b>1996</b>	<b>7,600</b>	<b>58,201</b>	<b>0</b>	<b>58,201</b>	<b>65,801</b>
<i>January - August</i>	<i>4,260</i>	<i>51,955</i>	<i>0</i>	<i>51,955</i>	<i>56,215</i>
<i>September -December</i>	<i>3,340</i>	<i>6,246</i>	<i>0</i>	<i>6,246</i>	<i>9,586</i>
<b>1997</b>	<b>40,735</b>	<b>82,541</b>	<b>667</b>	<b>81,874</b>	<b>122,609</b>
<i>January - August</i>	<i>6,170</i>	<i>29,756</i>	<i>666</i>	<i>29,090</i>	<i>35,260</i>
<i>September - December</i>	<i>34,565</i>	<i>52,785</i>	<i>1</i>	<i>52,784</i>	<i>87,349</i>
<i>1998 January - August</i>	<i>7,285</i>	<i>98,624</i>	<i>250</i>	<i>98,374</i>	<i>105,659</i>
<i>1996 September</i>	<i>9,510</i>	<i>36,002</i>	<i>666</i>	<i>35,336</i>	<i>44,846</i>
<i>1997 August</i>					
<i>1997 September</i>	<i>107,450</i>	<i>151,409</i>	<i>251</i>	<i>151,158</i>	<i>258,608</i>
<i>1998 August</i>					

**Chart 9. Production and Import of Cigarettes in the Republic of Armenia**



#### **7.4.2. Unaccounted cigarette turnover**

The dynamics of cigarette production and import in the country indicates that compared to September 1996 - August 1997, in September 1997 - August 1998, the production and import of cigarettes increased considerably (see sections 7.1 and 7.2) which was definitely provoked by introduction of the excise marks. Since this factor as such contributed to the decreased volumes of unaccounted production and import of cigarettes, the assessment of unaccounted turnover of cigarettes was made for two periods before and after the introduction of the excise marks. The discrepancy between the formal cigarette resources and actual consumption was assessed with the following two reservations:

*a) first*, the actual volumes of cigarette consumption by the population was assessed on the basis of data obtained in the course of the survey which limited the possibility of observing the dynamic shifts and therefore the consumption volumes for the above two periods maintained at the same levels. This was done in view of the consideration that the annual growth of resident population in 1997 - 1998 amounted only 0.2% which could not have any significant impact on the volumes of consumption,

*b) second* reservation relates to the structure of consumption, specifically to the consumption of domestic and foreign filter cigarettes. As mentioned above, a growth in the domestic cigarette production was registered in May 1997 due to operationalisation of new production capacities (see section 7.1). Due to this factor, the growth of domestic cigarette production (by factor of 11.3) exceeded by factor of 2.63 the growth of foreign cigarette import (by factor of 4.3). In view of the fact that the survey was conducted in December 1997, and during November - December 1997 the 70.8% increase of the local cigarette production took place due to the operationalisation of new production capacities, in estimating the structure of consumption during September 1996 - August 1997, the volume of domestic filter cigarettes consumption was reduced by 70.8%, and that of the foreign filter cigarettes was increased by the same amount.

*c) third*, the consumption levels of domestic and foreign cigarettes without filter during the above two periods stayed at the same level.

The estimates made (see table 17) enable the following conclusions: during September 1997 - August 1998, the volumes of cigarette consumption by the population exceeded the formal resources of cigarettes by **4.5 million packs or by 1.7%**. Prior to the introduction of excise marks, (during August 1996 - September 1997) the above indicators amounted **218.3 million packs or factor of 5.9**.

***Thus, it may be inferred in summary that***

- ♦ the unaccounted cigarette turnover in the Republic of Armenia changed considerably after the introduction of excise marks, with drastic reduction of unaccounted turnover 213.8 million packs or by 80.5 %,

- ♦ in the periods before and after the introduction of the excise marks, the domestic cigarette production increased by factor of 11.3, while the consumption increased by 80.5%. The unaccounted turnover of this type of cigarettes decreased 34 million packs or 48.6 %,

- ♦ the import of foreign production cigarettes during the survey period increased by factor of 4.2, and the consumption decreased by 35.0%. While during August 1996 - September 1997, consumption of foreign cigarettes exceeded their import by factor of 5.1, during August 1997 - September 1998 there was a reverse processes whereby import exceeded consumption by 26.7%.

**Table 17. Comparative Indicators of Cigarette Consumption and Tobacco Resources Vs. total population \***

	<i>Cigarettes produced million packs</i> <i>1</i>	<i>Cigarettes exported million packs</i> <i>2</i>	<i>Cigarettes imported million packs</i> <i>3</i>	<i>Total resources million packs</i> <i>4</i>	<i>Cigarettes consumed, million packs</i>		
					<i>Total</i> <i>5</i>	<i>local production</i> <i>6</i>	<i>foreign production</i> <i>7</i>
<b>September 1996 - August 1997</b>	9.5	0.7	36	44.8	263.1	79.5	183.6
<b>September 1997 - August 1998</b>	107.5	0.3	151.4	258.6	263.1	143.5	119.5

\* The current number of the population was estimated on the basis of calculation of arrivals and departures by the State Department of Civil Aviation

## CONCLUSIONS

In conclusion, it should be mentioned that the findings of the survey may be used in the following areas:

- ♦ elaboration of economic policies aimed at reduction of unaccounted production and import of cigarettes (and not only cigarettes),

- ♦ accurate planning of state budget income from taxes on domestic production of cigarettes and custom duties from cigarette import,

- ♦ the report is also a survey of cigarette market in Armenia and as such may be of interest to cigarette producers and importers. It can also be possibly be of interest for those interested in cigarette markets of other CIS countries.

- ♦ elaboration of health and public awareness campaigns aimed at prevention of smoking-related diseases.

- ♦ In the area of statistics:

- a) for estimation of shadow economy (macroeconomic statistics),

- b) for estimation of real volumes of import (foreign economic relations statistics),

- c) for indirect assessments of domestic production and turnover (enterprise statistics),

- d) for sections on Armenia in statistical reports and books published by international organisations (to fill the gap in data on prevalence of smoking and number of smokers).