

## IME: 5.6% of Smokers in Bulgaria with Non-Domestic Packs of Cigarettes

A total of 250 thousand smokers admit that they have bought illicit cigarettes in last 2-3 years

*Resume and policy recommendations*

**June 4, 2018**

In the past year, the team of the Institute for Market Economics (IME) has been studying various legal and economic aspects of illegal trade of tobacco in Bulgaria. The IME initiative<sup>1</sup>, entitled “By the book” aims to study the possible improvements in current policy and the ways to overcome institutional weaknesses which allow for illicit trade of tobacco products.

Alongside the analytical work, in the past months IME and Alpha Research conducted a large-scale sociological study of illicit trade in tobacco products. The study uncovered many particularities of the consumption and opinions of the population regarding the use of such products.

### 1. Excise tax policy and income from illicit trade of tobacco products

Revenues from taxation, including excise duties and value added tax (VAT), of tobacco products in Bulgaria in 2017 is about 2.9 billion leva (1.45 billion EUR). This is about 10% of all tax revenues under the consolidated fiscal framework of the country. Over 98% of tax revenues from tobacco products comes from taxation on ready-made cigarettes. In 2017, released for consumption and therefore taxed were 13,7 billion cigarettes. Cigarettes are the most heavily taxed product on the market – currently, more than 85% of the final price of the most frequently purchased brands of cigarettes is comprised by excise duty and VAT.

**Table: Revenues from taxes (excise duties and VAT) on cigarettes in Bulgaria**

(million BGN)	2012	2013	2014	2015	2016	2017
Total revenues from taxes on cigarettes in Bulgaria:	<b>2,206</b>	<b>2,220</b>	<b>2,202</b>	<b>2,565</b>	<b>2,819</b>	<b>2,886</b>
Revenues from excise duties	1,782	1,777	1,760	2,046	2,261	2,318
Revenues from VAT	424	443	442	519	558	568

Source: Customs Agency, IME

<sup>1</sup>This report is part of IME project “Law and Economics of Illegal Trade of Tobacco Products in Bulgaria”. IME project is supported by PMI IMPACT – a global initiative to support projects dedicated to fighting illegal trade and related crimes, such as corruption, organized crime and money laundering.

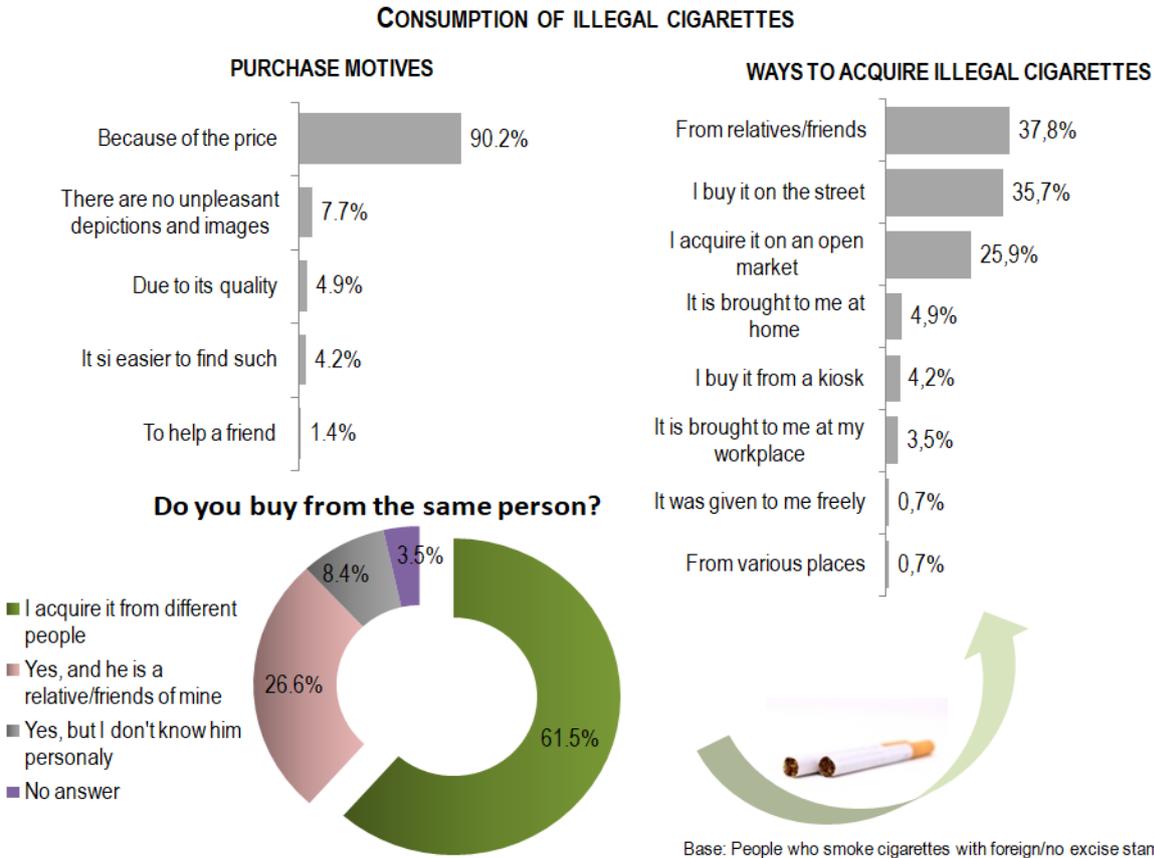
PMI IMPACT ([www.pmi-impact.com](http://www.pmi-impact.com)) is a grant award initiative of Philip Morris International (PMI). In the performance of its research, IME maintained full independence from PMI. The views and opinions expressed in this document are those of IME and do not necessarily reflect the views of PMI. Responsibility for the information and views expressed in this publication lies entirely with IME.

The study of excise policy and its effects on illicit trade in Bulgaria indicates that in the past 11 years (2007 - 2017) the illicit trade of tobacco products has brought the criminal world between 2.6 and 3.6 billion leva (1.3 to 1.8 billion EUR), according to IME estimates. The major expansion of illicit trade took place in 2010, when criminal income reached between 450 and 640 million leva (275 to 320 million EUR) in a single year. Currently, despite the shrinking of the underground market, the income from illicit trade of cigarettes is still rather large – estimated between 110 and 160 million leva (55 to 80 million EUR) in 2017. This is resource which largely flows into organized crime and creates possibilities for corruption in all stages and parts of government.

**2. Interviews with 5200 Bulgarian smokes**

The nationally representative sociological study, carried out by Alpha Research between March 20<sup>th</sup> and April 20<sup>th</sup> 2018 by request of the IME reveals a number of interesting facts. On the basis of shown and described packs of cigarettes of Bulgarian smokers, which are about 2.3 million people of the adult population, the IME and Alpha Research team established that a share of 5.6% of the total smoker population smoke cigarettes, not meant for sale on the local marker. Even more, 11.7% of all smokers report that in the past 2-3 years they have smoked illicit cigarettes.

These 11.7%, or about 250 thousand people, can be described as the potentially most-at-risk group, who, under certain conditions, for instance an increase in the prices of legal cigarettes or an easier access to illicit products, is inclined to smoke illicit cigarettes. The good news is that the current share of the use of cigarettes not intended for sale on the local market demonstrate that at least half of the people in risk group currently smoke legal products.

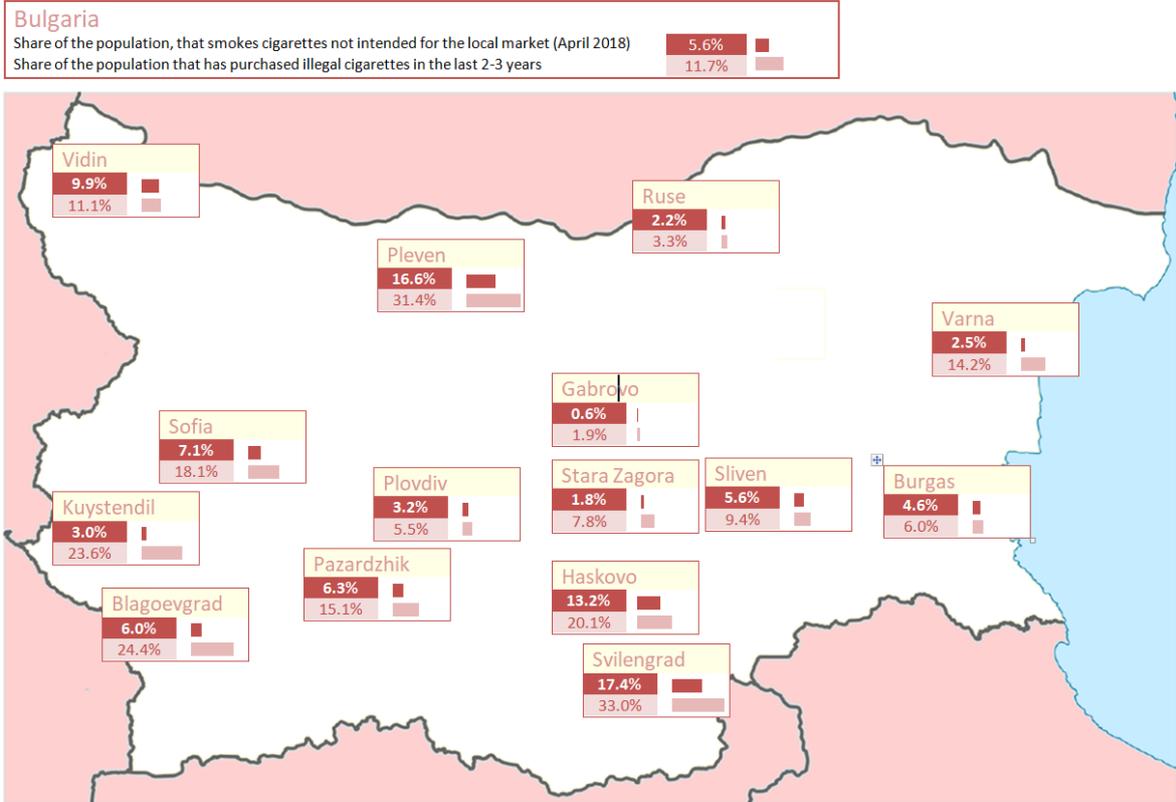


More than 90% of those 250 smokes state that the primary incentive for them to seek illegal products is their price. Asked how they buy the illegal cigarettes, the people in this group provide several answers, the most common among them being from friends and relatives (37.8%), on the

street (35.7%) and at open markets (25.9%). Nearly half state that in the past year or two the price of illicit cigarettes has increase – the average price of the cigarette packages, not intended for sale on the local market has reached 3.50 leva (1.75 EUR), or about 70% of the average on the legal market.

**2.1. Regional characteristics of the illicit cigarette market**

The study includes a focused representative sampling form 15 cities in Bulgaria. The largest share of people in whose position were found cigarettes not intended for sale on the local market was found in Svilengrad (17.4%), Pleven (16.6%), Haskovo (13.2%) and Vidin (9.9%). Gabrovo has the lowest share of such cigarettes - only 0.6% of the people showed boxes of cigarettes, not intended for sale on the local market. Asked whether in the past 2-3 years they have bought illicit cigarettes, 31.4% of the people in Pleven answered affirmatively, follows by these in Svilengrad (30.3%), Blagoevgrad (24.4%), Kyustendil (23.6%) and Haskovo (20.1%).



It is notable that there is no direct relationship between the shares on illicit consumption and the attempts to conceal it. While in Svilengrad and Haskovo more than half of the respondents were not willing to show their cigarette box they had on them, in Pleven and Vidin, where the share of use of such products is also above the country average, the respondents had no such qualms.

**2.2 A focus on hand rolling tobacco**

The larger share of hand-rolling tobacco used in the country is illegal. The momentary snapshot, created via the showing or describing of the packs of tobacco that the respondents had, shows a very large share of illicit products, reaching up to 70%. The respondents state that they buy packs of between 30 and 1000 grams, and frequently those pack have no branding and their prices vary even when the quantities are the same. In 70% of the cases the respondents did not have the packs with tobacco that they smoke on them, or they refused to show their tobacco.

Two thirds of all hand rolling tobacco do not know what brand they smoke, or state that their tobacco has no brand. In 57% of the cases the tobacco has no excise stamp, or it cannot be ascertained what its source is. Warning labels and images on the hazards of smoking, which are among the distinctive signs of legal tobacco products – 62% of the boxes were missing these. The price differences between legal and illicit tobacco are colossal – while 50 grams of hand rolling tobacco with banderol cost on average 12.5 leva (6,3 EUR), the ones without found with the respondents cost on average 2 leva (1 EUR), or at least six times less.

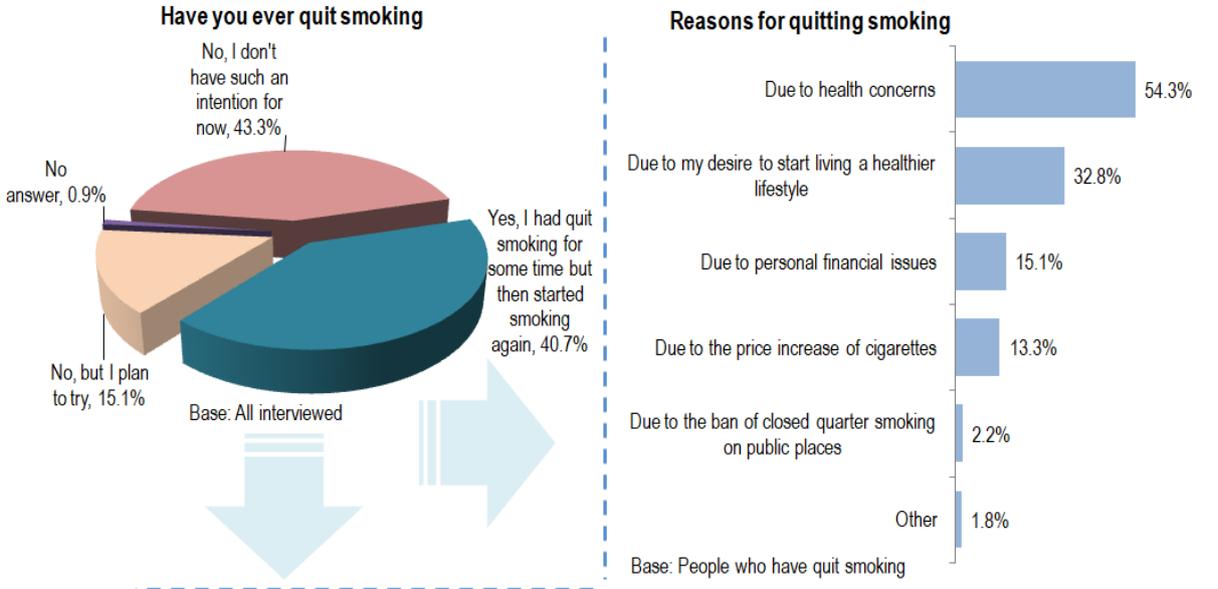
**3. Organized crime and illegal trade of tobacco products**

Punishment of smuggling and illicit trade in Bulgaria is settled in a good way and provides a broad tool for prosecuting them both in administrative and judicial proceedings. The rich jurisprudence and interpretative affairs of the Supreme Court, subsequently the Supreme Court of Cassation, have cleared the controversial issues of law enforcement. The coming into force of a new European directive on the identification and tracking of tobacco products next year will provide additional tools for better work of the control bodies.

Despite the detailed regulation of the types of liability, however, it is often implemented on specific perpetrators, over which there is a far longer chain of leaders, actors and patrons of crime. Such a convicted person is, for example, the driver who transported a smuggled commodity, but the true leaders and guarantors of the group remain hidden because they do not participate directly. One should not miss the presence of illegal Bulgarian cigarettes on foreign markets, such as in Turkey, which are also a source of funding for criminal groups, including in Bulgaria.

**4. Additional observations and recommendations**

The primary incentives driving people to quit or reduce smoking are health-related. More than 40% of the respondent smokers have attempted to quit smoking, and almost every one of them have done so on their own will. More than half of those 40 per cent state health as the primary reasons for their decision. In the same time, 60% state that they will not start using illicit cigarettes under any circumstances, while another 20% of the respondent smokers state that they could turn to such products in case of a sharp increase in the price on the legal market.



The consumption habits of smokers demonstrated above again underscore that a bad excise policy practice – for instance, a sharp increase in the excise tax rate, leads not as much to a reduction in smoking as to a turn to illicit products. This happened in 2010, when excise tax on cigarettes was increased sharply, and the illegal market jumped to over 30 per cent of the total consumption.

Given all of the above, the IME recommends:

- Maintaining the levels of excise tax on cigarettes in the medium term – excises were again increased in the past three years, until the actual European target was met in 2018. Currently there is no new European target, and it is therefore better not to make new increases which can impact the market negatively;
- Maintaining the common regulatory and tax framework regarding innovative heated tobacco products – the interest in the latter is caused primarily by the abovementioned health concerns of consumers. We recommend maintaining the shared framework, including the tax base (based on the share of tobacco in the products) and excise levels, which is lower compared to traditional cigarettes;
- Limiting the illegal supply of hand rolling tobacco – the so-called cut tobacco, usually local in origin. In practice, the hand rolling tobacco market is dominated by illicit products, which means that there is quite the large possibility for work of the controlling authorities;
- Physical control by the state authorities (The Ministry of the Interior and the Customs Agency) in local factories should be strengthened, as it gives good result. This is mostly visible after 2015, when such an increase in this type of control led to a decline in illicit trade of cigarettes. Such a campaign is again taking place since the beginning of 2018, and it should yield similarly good results;
- Closer cooperation with controlling and judicial authorities in other countries, especially Bulgaria's neighbours – data show that illicit cigarettes of Bulgarian origin can be found in foreign markets, especially in Turkey. The introduction of a system for identification and tracking of all cigarette boxes in the EU, including those intended for export outside of the bloc in May 2019 will further help the establishment of the source of illegal Bulgarian cigarettes, found in foreign markets;
- Systems for better control of the tobacco treatment and tobacco production machinery should be introduced – here we could recommend creating a registrar of such machines, as well as introducing rules for the sale of such machinery, including of ones already seized by controlling authorities;
- The possibility for removal of the price from cigarette excise stamps is also open, as it could be written and printed on the packaging by the producers – this way the consumers will be protected by possible speculations by the sellers, and in the same time the regime of printing excise stamps will be lightened, which currently takes away significant flexibility away from the market.

These are but a part of the IME recommendations resulting from the analyses and the sociological survey. Each and every working possibility for reducing illicit trade of tobacco products should be taken into consideration, as it will not only bring more money into the budget, but will also have the support of consumers – 80% of smokers share the opinion that the consumption of illegal cigarettes

harms the state and society. More than 62% of them also believe that the consumption of illegal cigarettes is more hazardous to their health compared to the use of legal products.

In addition, we should also not forget that illicit trade helps organized crimes and creates corruption – nearly 58% of smokers believe that the illegal trade of tobacco products is organized and is conducted via large channels and networks.

More information is available on IME  
webpage: [www.ime.bg](http://www.ime.bg)

Contacts:  
02/952 62 66, 952 35 03  
Vessela Dobrinova, [vessela@ime.bg](mailto:vessela@ime.bg)  
Petar Ganev, [ganev@ime.bg](mailto:ganev@ime.bg)