Georgia has a mixed two-tiered excise tax system with lower tax on non-filtered cigarettes.

As of Jan 1, 2017, filter cigarettes pay specific tax of GEL 1.70 per 20 cigarettes, and non-filter cigarettes pay specific tax of GEL 0.60 per 20 cigarettes. In addition, each pack is also levied 10% ad-valorem excise (ad-valorem component was added in 2015).

1 kg of pipe or loose tobacco is subject to GEL 35 excise tax. This translates to GEL 0.50 per pack using 0.7 g of tobacco per cigarette (only GEL 0.10 lower than non-filtered cigarettes).

All tobacco products are subject to 18% VAT.

The aspiration is to reach the EU tax level and structure.

We observed few interesting market features during our field trips:
- The cheapest (non-filtered) cigarettes costs GEL 1.25 per pack (about $0.5); many non-filtered are GEL 1.30 per pack (about $0.54); premium cigarettes are sold for about GEL 4 per pack ($1.65)
- Non-filtered cigarettes are being sold with individual filters that can be easily inserted into non-filtered cigarettes (tax avoidance); the filters are free with the purchase.
- 25 g of tobacco sold for GEL 3, a pack-equivalent of GEL 1.7
- Cheap devices (GEL 3 = $1.25) for rolling your own cigarettes are being sold
- Single cigarettes are being sold despite the ban on single cigarettes sales. The prices range from GEL 1.5 to GEL 2, which means that there is a premium charged for selling single cigarettes. The situation should change next year when the police will be able to issue a penalty on a stop of up to GEL 2,000 ($833)
- The majority of billboards in the capital promote cigarettes. Cigarette advertising will be banned as of Sept 1, 2018. It seems that the tobacco companies are using the last opportunity to promote their products. They also want to create an inflated demand for advertising services in order to get allies in advertising agencies.

Cigarette prices in most neighboring countries are higher (Russia, Turkey, Azerbaijan) therefore there the motivation for cross border shopping is small. The only country with lower prices is Armenia. However, the borders are very well protected and controlled. During our field trip to Gori we attempted to go to South Ossetia (an autonomous region occupied by Russians) to visit stores with cigarettes, but we were stopped about 10 km before the border and were not allowed to proceed.

Meeting with the MoF and his team of 5 colleagues.
SICPA system on alcohol, beer and tobacco was introduced in 2012. The industry covers the costs of the system, which is just a little more compared to the previous system consisting of simpler tax stamps. The SICPA system costs 5 Euro/1000 stamps.
SICPA expanded to non-alcoholic beverages in 2016. The costs is covered by the government until 2018, then it will be covered by the industry.
The MoF seems to be happy with the system and its ability to generate data quickly. I was impressed when I was presented with data from Jan – Aug 2017 in early September 2017.

The MoF has a memorandum of understanding with the UK Customs office to share intelligence regarding large-scale smuggling operations. The seizure of illegal cigarettes at the border: the number of seizures was 63 in 2015 (2.2 mil cigarettes seized) and 70 in 2016 (2.9 mil cigarettes seized). The number of seizures increased to 163 in first 8 months of 2017 (expected full year seizures will likely total 245 if the current trends continue), but the total volume of illegal cigarettes is slightly lower compared to 2016 - 1.6 mil cigarettes seized in 8 months. This means that possibly 2.4 mil cigarettes will be seized in 2017. This signals a shift from large-scale to smaller scale smuggling.

2.9 mil cigarettes seized in 2016 translates to 145 000 packs, about 0.03% of the legal market in 2016.

The seizure of illegal cigarettes at markets inside Georgia: 2 cases in 2015; 6 cases in 2016; 106 cases in the first 8 months of 2017. All these cases are worth less than GEL 2000 (about 1000 cigarettes). Cases above that value are processed and reported in the special investigative department and are not reported here.

Penalties for selling illegal cigarettes – 1st offence, the penalty is GEL 1000 – 2000; 2nd offence within the same year, the penalty is GEL 10,000.

About 2% of the imported excisable goods is being inspected. Cigarette excise tax revenue is increasing, while the legal consumption is declining (a decline by about 5% from 2015 to 2016). Given the expected low tax evasion, this decline is likely real.

Given the substantial tax increases in recent years (50% increase for filtered, and 100% for non-filtered), and the two-tiered tax system favoring non-filtered cigarettes, the data shows a switch from consumption of filtered to consumption of non-filtered cigarettes.

E-cigarettes will be taxed as of 2018 based on volume of the liquid. The tax rate published on the MoF website: GEL 1.70 per 20 cartridges, similar to a pack of 20 filtered cigarettes.

New products such as heat-not-burn (IQOS by PMI and Ploom by BAT) are not taxed yet.

The MoF is very interested in the results of the study (are there any illicit cigarettes?; current estimates are about 2% of the total market) and in the prevalence of tax avoidance (non-filtered cigarettes and RYO). They are also seeking a recommendation on how to tax the new products (e-cigs, heat-not-burn).

**Meeting with WHO representative in Georgia.**

WHO is very supportive of the study and will help with the results dissemination. Mr. Ivanusha recognizes the possible impact of this study in the entire WHO Euro region.

**Meeting with the Director of Institute of Social Studies and Analyses to discuss the methodology of data collection.**

We discussed the sampling methodology. The verbal description sounded like systematic random sampling with the probability proportional to size, but it will be verified once the methodology description is sent to Hana in English. The sample will be representative of the selected administrative districts. We decided to add a direct question about income as it seems to be performing well in Georgia. The data collection will generate at least 3000 observations and will be completed in 2 weeks,
starting end of September. The next data collection is planned for 2 months after the tax increase (beginning of March). We discussed the possibility of a panel study, and it seems that it will not add extra cost, since the addresses and the person’s name will be already known.

Meeting with the Head of NCD Department of the National Center for Diseases Control and Public Health of the MoH.
We explained the goal of the project. Interest was expressed in reviewing the questionnaire and I was given a copy of Tobacco Products – Taxation Policy, a new publication about the situation in Georgia published in collaboration with the National Center for Diseases Control and Public Health, the Ministry of Labour, Health and Social Affairs of Georgia, and the Union. Unfortunately, I have already spotted several inconsistencies and omissions in the report.

I spent numerous hours at the FCTC Implementation and Monitoring Center where I worked with the local study PI on developing the local specific questionnaire and discuss sampling methodology. We also discussed opportunity for further collaboration and funding.