



tobaccotaxation  
Economic Research Informing Tobacco Tax Policy

## Accelerating Progress on Effective Tobacco Tax Policies in Low- and Middle-Income Countries

# National Study - Albania

## Economics of Tobacco and Tobacco Taxation

### **Authors**

*Klodjan Rama, Aida Gjika, Dr. Edvin Zhllima, Drini Imami .*



DEVELOPMENT SOLUTIONS ASSOCIATES (DSA)

2018

## Contents

<b>Executive Summary</b>	<b>3</b>
<b>1. Introduction</b>	<b>5</b>
<b>2. Supply of tobacco products</b>	<b>7</b>
<b>3. Demand for tobacco products</b>	<b>11</b>
<b>4. Tobacco taxation and pricing policies</b>	<b>13</b>
<b>4.1. Policy framework for tobacco control</b>	<b>13</b>
4.1.1. <i>Tobacco control measures</i>	15
<b>4.2. Relevant legislation for tobacco control</b>	<b>15</b>
4.2.1 <i>Laws on tobacco control</i>	15
4.2.2. <i>Laws on tobacco excise</i>	17
4.2.2.1. <i>Tobacco tax structure</i>	21
4.2.2.2. <i>Tobacco tax revenues</i>	24
<b>5. Elasticity of tobacco products</b>	<b>27</b>
<b>5.1 Estimation of the price elasticity using the macro data</b>	<b>27</b>
<b>5.2. Estimation of the price elasticity using the micro data</b>	<b>28</b>
<b>6. Summary and recommendations</b>	<b>29</b>
<b>Annex 1: Policy Dialogue</b>	<b>31</b>
<b>Annex 2: Summary of Tobacco Control Measures</b>	<b>32</b>

## Executive Summary

Albania has one of the highest tobacco consumption prevalences in the region (WHO, 2016). According to the WHO, the number of tobacco smokers is 683,440, dominated by male consumers. The smoking prevalence by gender is 51.2% for males and 7.6% for females.

Smokers account for 29% of the adult population, with a mean number of cigarettes smoked per day per smoker at about 18.7 (as of 2012). This figure is lower as compared to 2005, when the mean number of cigarettes smoked per day per smoker was 20.7. Meanwhile, the per capita consumption of cigarette sticks is estimated at 1,116/year.

Tobacco consumption is a major problem for Albania with respect to underage tobacco consumption. According to the Tobacco Atlas, more than 1000 children of ages 10-14 use tobacco daily. The number of children under the age of 18 years that consume tobacco each day is even higher, around 15,000 children (WHO, 2014).

Thus, this national study focuses on analyzing the impact of tobacco taxation on tobacco consumption. More specifically, the objective of this study is to estimate the demand elasticities of tobacco consumption (i.e. the responsiveness of consumers in relation to price increases) that would then be used to advocate the enforcement of tobacco control measures by policy makers.

Albania's tobacco (cigarette) market relies primarily on the imports of cigarettes. Currently, there is no tobacco manufacturing industry that produces cigarettes for final consumers in Albania. Imported cigarettes account for more than 70% of domestic tobacco consumption. Tobacco (leaf) production is generally destined for exports and a small part of it is sold for roll-on tobacco in the domestic market.

Data suggests that tobacco control policies, especially taxes on tobacco products, not only have an impact on the imported quantities entering the domestic market, but also on consumption levels. For instance, tobacco consumption since 2007 has decreased by nearly 50%. That corresponds with the highest increase of excise tax in 2006, from 2500 ALL per 1,000 items to 4,000 ALL per 1000 items.

The empirical analysis conducted using the above macro level data suggests that the price elasticity of tobacco appears to be within the range suggested by the literature. More precisely, the price elasticity of demand ranges from -0.276 to -0.77 in the long-run, whereas in short-run the price elasticity varies from -0.07 to -0.107, with a fast adjustment process from short-run to long-run. These results imply that in the long-run, with an elasticity of -0.77, an increase in cigarette price of 10% would lead to a decrease in the quantity demanded by 7.7%. Similar results were obtained when employing household level data, with the price elasticity being around -0.57. This means that with an increase in the cigarette price by 10%, the quantity demanded would be reduced by 5.7.

In addition to price elasticity, the study takes into account the income elasticity, measured as household total expenditure. The results show an income elasticity of 0.24, meaning that if the level of incomes among consumers increases by 10%, the demanded quantity of cigarettes would increase by 2.4%.

The results of this study can also be informative for undertaking evidence-based tax policies related to tobacco taxation. Revising the existing tax policy in the context of a more dynamic increase in excises would lead to an increase in tax revenues and considerable savings in the health system. More specifically, increasing the excise tax to the minimum level of excise tax of 90 Euros per 1000 cigarettes as required by the EU, would increase budget revenues by 30 million Euros or 28%. This would be in line with budget revenues generated in 2017, excluding the additional budget revenues generated from the value added tax (VAT) tax that was at 20%.

Also, the process of application of fiscal (excise-based) and non-fiscal (promotional campaigns, penalties, etcetera) policies have to be based on a policy framework fully aligned with EU and other non-EU policy frameworks, such as WHO benchmarks, as well as harmonized with other countries of the region. The figures on overall cigarettes tax burden as well as on the budgetary trends provide optimal conditions for strengthening fiscal control instruments on tobacco in Albania. Furthermore, the tax burden on cigarettes and tobacco products in Albania is the lowest in the region. Therefore, any immediate and coordinated measure for pursuing increases in tobacco excises is feasible; it would be in line with the revenue-raising objectives of the governments; and it would also limit the space for cross-border transactions.

The process of excise increase is recommended to be based on ex-ante evaluation of demand and its characteristics by gradually increasing excises and monitoring the impact on price, quantity, and tax revenue ex-post. Additionally, the government is required to monitor consumers' behaviors in order to predict the policy outcomes. Evidence-based fiscal policy formulation has to be based on consistent data on consumption and fiscal performance.

## 1. Introduction

Albania is a small country located in the Western Balkans. It is surrounded by Montenegro and Kosovo to the north, Macedonia to the east, Greece to the south, and Adriatic and Ionian Seas to the west. It has a population of 2,870,324 inhabitants. For many years, Albania has had positive natural growth and its population had been among the youngest in Europe, with a median age of 35.6 years in 2017 (Eurostat). However, Albania's population and age structure has undergone considerable changes. Between 2001 and 2017, the total population decreased by 7%, while the median age increased drastically by 6.7 years from 28.9 years in 2007 to 35.6 years in 2017 (INSTAT, 2018; Eurostat, 2018). The main reasons for the population decline and changing age structure are attributed to recent migration to the EU, especially of the youth.

Until 1991, similar to other countries in Central and Eastern Europe, its economy was based on central planning. With the collapse of the communist regime, Albania adopted free-market principles opening its economy to regional and world markets. Albania emerged from the communist period as one of the poorest in Europe. Currently, according to the World Bank, it is classified as an upper-middle income country with a GDP per capita around 4,000 Euros (see Table 1). Albania's growth rates have been positive over the years, although there was a slower pace after the global financial crisis. In 2017, Albania's real growth rate was 3.6%, increasing to 4.3% during the second quarter of 2018 (INSTAT, 2018). However, despite considerable progress in economic development and positive growth rates, it is still one of the poorest countries in Europe with high unemployment levels, especially among the youth. According to the official statistics, unemployment rate during the second quarter of 2018 was 12.4% (one of the lowest in the last ten recent years) (INSTAT, 2018).

Table 1: Macroeconomic indicators

General info	Data
Region	SE Europe
Income Category (2017)	Upper-middle income
Population (2017)	2,870,324
Surface area (sq km) (2018)	28,748
Capital city (2018)	Tirana
<b>Macroeconomic indicators</b>	
Gross domestic product, in millions EUR (2017)	11,575.6
Gross domestic product, per capita, EUR (2017)	4,000
Gross domestic product, real growth, in % (2017)	3.6%
Inflation (2018)	2.2%
Unemployment according to the Survey (in %) (Q2 2018)	12.4%
Wages (average for the period, in EUR) (2017)	48.967 ALL 368 Euros
Employment level, average (thousands) (2017)	1,096

However, the employment and unemployment figures need to be interpreted with caution, since most rural inhabitants owning a certain amount of land and other agricultural goods are considered as employed. Together with the private non-agricultural sector, the agricultural sector has the largest share of employees at about 45% of the total employed population, or 456,523 out of 1,095,881 total workers. (INSTAT). Meanwhile, the average monthly gross wage of employees of different professions is 48.967 Albanian Lek (or about 368 Euros<sup>1</sup>).

As far as the tobacco industry is concerned, there is no tobacco manufacturing, though some tobacco production does exist in small amounts. Albania has a long tradition in tobacco production. The tobacco industry in Albania was established in 1920, producing cigarettes and other tobacco products for the domestic market. During the communist period, given the centralized planning of the economy, the production of raw tobacco was higher as compared to the post-communist period. With the collapse of communism, tobacco factories were either dismantled or left abandoned. Currently, there are six companies collecting and packaging tobacco, but not for final consumers. Tobacco production is focused on Oriental and semi-Oriental tobacco varieties, with an average annual production over the years around 2,000 metric tons, though it has declined in recent years. However, as it will be shown in the subsequent sections, this figure is insufficient to cover the demand from tobacco consumers in the country. Consequently, the demand for tobacco is met through imports.

According to Tobacco Atlas, more than 4,100 people are killed by tobacco-caused disease every year. Also, more than 1,000 children (10-14 years old) and 398,000 adults (15+ years old) continue to use tobacco each day. This costs an estimated amount of 270 million Euros to the Albanian economy every year, which includes direct costs related to healthcare expenditures and indirect costs related to lost productivity due to early mortality and morbidity (Tobacco Atlas). Hence, tobacco consumption is an important and highly concerning topic for Albanian society.

---

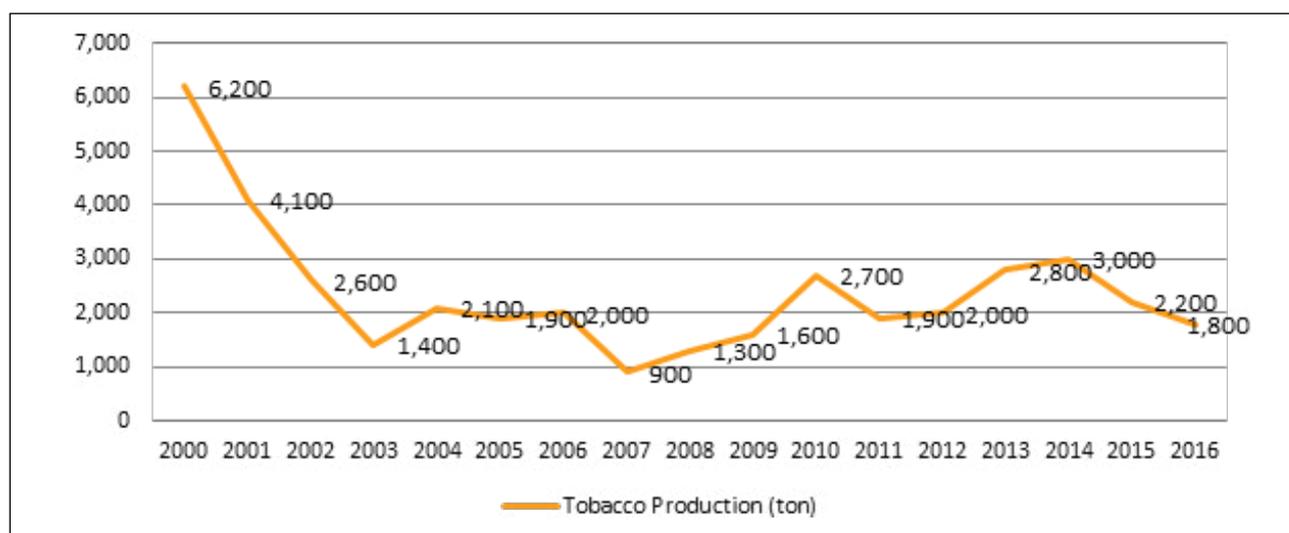
<sup>1</sup> The conversion refers to the exchange rate of Bank of Albania of 29 December 2017, 1 Euro = 132.95 ALL.

## 2. Supply of tobacco products

As mentioned above, Albania is a small tobacco producing country and does not have a manufacturing industry. Tobacco growing is only a small fraction of agriculture in Albania, with only 0.13% of agricultural land devoted to tobacco cultivation (Tobacco Atlas). Based on expert estimates, there are about 3,000-4,000 family farms, or approximately 12,000 workers involved in tobacco cultivation.<sup>2</sup> The cultivated area varies between 900 and 1,500 ha, whereas the production varies between 1,000-3,000 tons per year (except years 2000 and 2001). As shown in Figure 1, tobacco production has declined overall throughout the years, from 6,200 metric tons in 2000 to 1,800 tons in 2016.

Tobacco cultivation has been historically concentrated in two regions of Albania, namely Elbasan and Shkodra. In 2016, the share of area cultivated with tobacco in Elbasan and Shkodra regions was 47% and 40% of the total cultivated area, respectively. However, the potential area available for tobacco production is twice as much if demand increases. That means that the agricultural area that was previously under tobacco cultivation in major tobacco producing areas is not fully utilized. Currently, there is no state or donor-financed promoting (subsidizing) policy on tobacco production. As mentioned earlier, Albania has a tradition in tobacco production, and presently Oriental and semi-Oriental tobacco varieties are the main cultivated varieties. However, the National Tobacco and Cigarettes Agency has emphasized the need for promoting Virginia's tobacco cultivation. In this line, based on anecdotal evidence from the Ministry of Agriculture and Rural Development, the Italian government has in the past provided 500,000 Euro to fund a pilot project called "La Filiera Tabacchicola Albanese" in order to give a boost to cultivating this tobacco variety.

Figure 1: Tobacco Production in Albania



Source: Open Data Albania

The reduction in tobacco production is mainly the result of delays in payments for already commissioned production, and decreased tobacco prices offered by tobacco

<sup>2</sup> Personal communication with experts from the Ministry of Agriculture

collectors. Often the tobacco collectors have acted as monopsonists in relation to farmers.

In Albania, there are currently six licensed companies for activities like collecting and processing, three of which have collection and processing capacities up to 2,000 tons each year, and the other three are smaller (local). The overall value of yearly turnover is at least six million Euros per year (Table 2). However, the informality in the sector is high and the figures should be triangulated with other information.

Table 2: Collecting and processing companies active in Albania

Processing company name	2015	2016
Dumrea Tobacco	NA	81,314
IGLA shpk	5,738,980	6,150,033
SEKE Elbasan	NA	NA
SHELDIA-Group	91,978	105,752
Shelqeti Company and Besim Isufaj	NA	NA
Albania Tabak	NA	NA

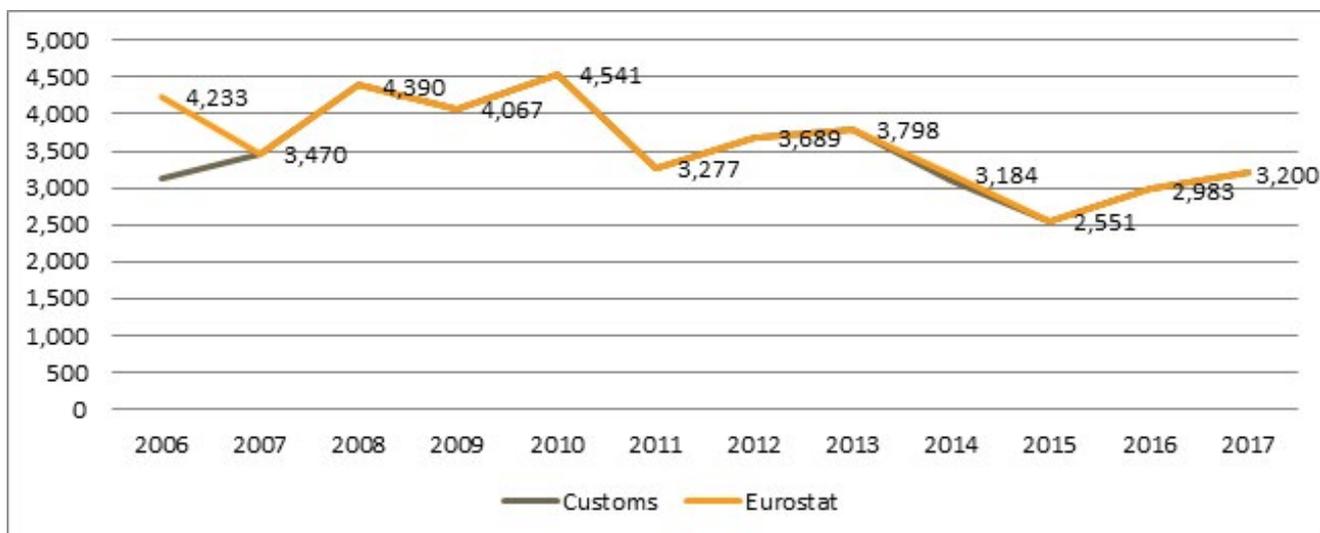
Source: QKR (2017)

Note: Values are in Euros

The main destination of the tobacco leafs produced in Albania is to foreign markets. The main export destinations of tobacco are Kosovo, Greece, and Libya. Imports have been mostly stable in terms of quantities, but have fluctuated in terms of value. The main suppliers of tobacco for Albania are countries such as Poland, Greece, Germany, Switzerland, and Bulgaria. As shown in Figure 2, the quantity of imported tobacco and cigarettes has been stable over the years, at around 3,000 tons on average, with significant discrepancies in years 2004 and 2005.<sup>3</sup> The highest quantity of imported tobacco products was marked in 2010. The first column shows the data provided by the Customs Office of Albania, the second column shows the Eurostat data of the European Commission. As shown in Figure 2, the data for 2004 and 2005 are diametrically in opposite directions. The Eurostat data have considerably large quantities, whereas the Customs Office of Albania report significantly low quantities. The data for other years follow similar trends.

<sup>3</sup> To compare and look for reliability of the data, which will be later used in the econometric models, three different data sources have been consulted, from Customs Office, Eurostat and UncomTrade data. However, data from Eurostat and UncomTrade are almost identical. Therefore, in order to avoid redundancy, we will report only data from Customs Office and Eurostat.

Figure 2: Import Quantities of Tobacco Products in Albania

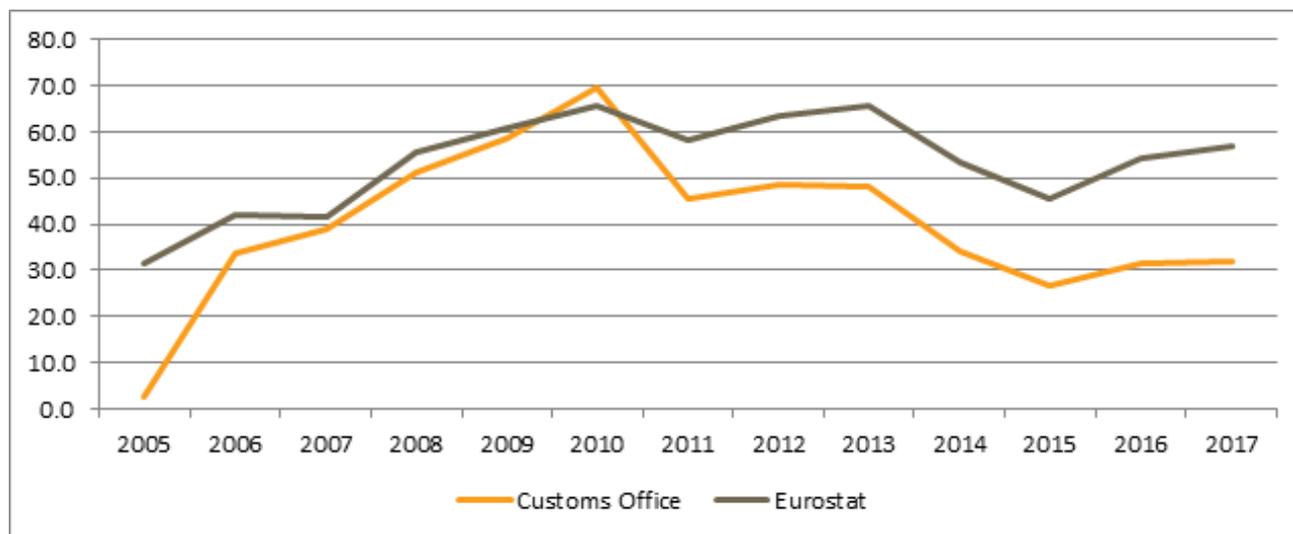


Source: Ministry of Finance and Eurostat

Note: Quantities are in Tons; Year 2004 and 2005 are omitted due to significant data discrepancies between two sources

The same procedure is followed related to the value of imported cigarettes and tobacco products.<sup>4</sup> Unlike the imported quantities, the imported values show larger variation over the years.

Figure 3: Imports Value of Tobacco Products in Albania



Source: Ministry of Finance and Eurostat

Note: Values are in million Euros; Year 2004 is omitted due to major data discrepancy

<sup>4</sup> Also in this case, data are collected from the Ministry of Finance, Eurostat and UncomTrade. Since Eurostat and UncomTrade data are almost identical, we will report again data from Customs Office and Eurostat.

These fluctuations over the years might be attributed to changes in excise taxes. Differently from the neighboring countries, Albania has been applying only a specific excise tax on tobacco and tobacco products, but not an ad valorem. As will be discussed in Section 4, the biggest increase in excise tax was implemented in 2006, when the rate increased from 2,500 ALL per 1,000 sticks in 2004 to 4,000 ALL per 1,000 sticks in 2006. However, it is difficult to clearly discern the effect of the excise tax on both quantities and values due to the abovementioned problem with the data for the years 2004 and 2005.

The tobacco import has an oligopolistic structure, as there are five large firms in the market (see Table 3). During 2016, about 1.2% more cigarettes were imported in Albania compared to the previous year.

Table 3: Annual reported turnover main importing companies (2015-2016)

Importing company	Revenues		Costs	
	2015	2016	2015	2016
Philip Morris	NA	NA	63,615,826	75,504,182
British American Tobacco	10,227,684	13,260,922	8,456,392	10,893,787
Marketing & Distribution*	84,991,473	79,534,846	71,895,026	68,644,583
Tobacco Holding Group	21,313,721	NA	19,798,087	NA
Agna Group	NA	NA	NA	NA

Source: QKR Albania

Note: Values are in Euro

\*Only a part of the product portfolio is tobacco

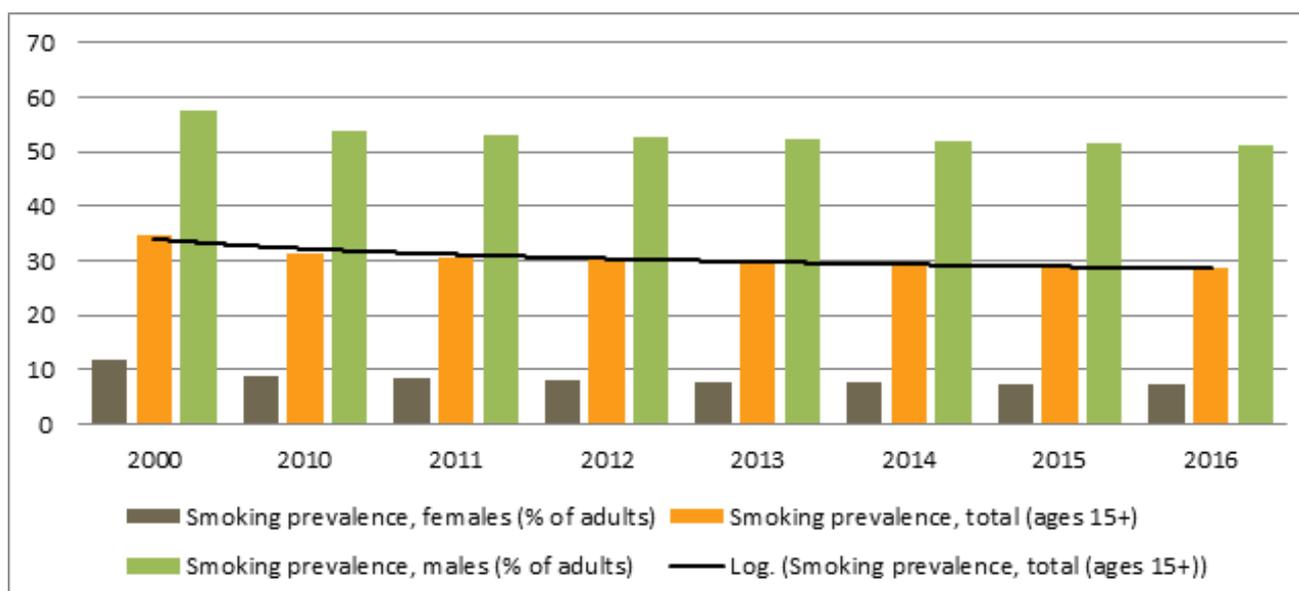
The largest importer of cigarettes in Albania is Philip Morris Albania, with 35.07% of the total imported quantity, followed by Agna Group with 30%. The reported overall yearly turnover from the sale of cigarettes is approximately 80 million Euros. Considering that revenues are publicly available at the National Business Center for only two companies, the annual turnover from cigarette and tobacco sales and consequently the net profits would be much higher.

### 3. Demand for tobacco products

Albania has one of the highest tobacco consumption prevalence in the region (WHO, 2016), with an estimated 683,440 smokers, most of them being males. The smoking prevalence by gender is 51.2% for males, and 7.6% for females. The share of female smokers appears rather low, despite the growing number of female smokers, especially among the younger population. However, it has to be noted that due to social norms, smoking among Albanian women has not been traditionally accepted, especially in rural and remote areas.

The percentage of smokers as a share of the adult population is 29.2%, with a mean number of cigarettes smoked per day per smoker about 18.7 cigarettes (as of 2012). This figure is lower compared to 2005, when the mean number of cigarettes smoked per day per smoker was 20.7 cigarettes. Meanwhile, the per capita consumption of cigarette sticks is 1,116 per year.

Figure 4: Smoking prevalence in the Republic of Albania



Source: World Bank

<http://databank.worldbank.org/data/reports.aspx?source=2&series=SH.PR.V.SMOK.FE&country=ALB#>

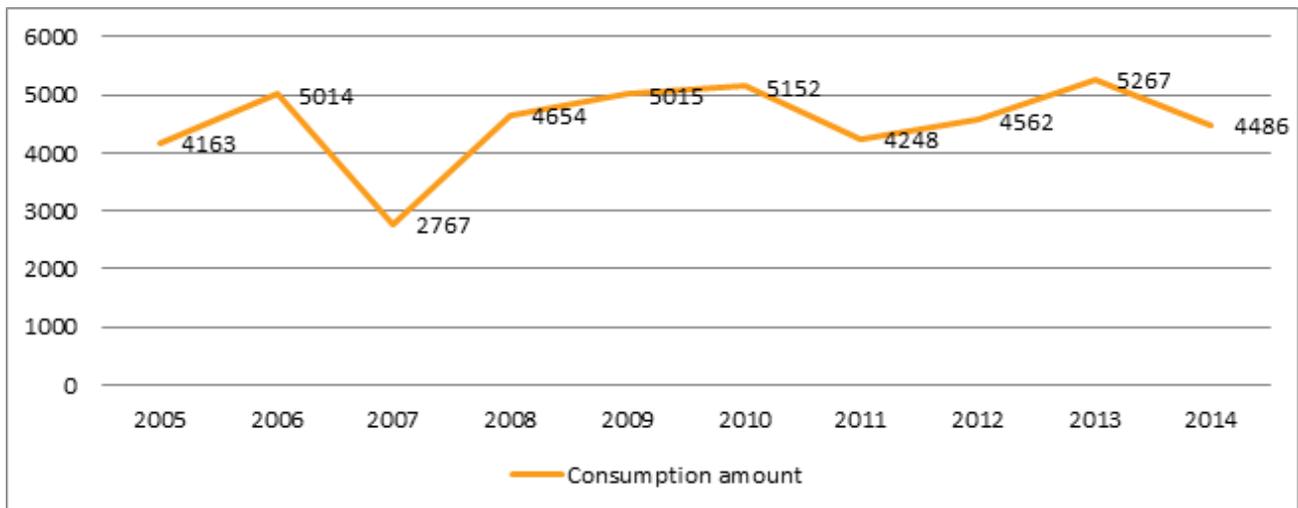
Additionally, tobacco consumption is a major problem in Albania with respect to underage tobacco consumption. According to Tobacco Atlas, more than 1,000 children ages 10-14 years use tobacco daily. The number of children under the age of 18 years that consume tobacco daily is even higher, at more than 15,000 (WHO, 2014). As far as the household expenditures are concerned, according to the Household Budget Survey of 2016, tobacco and alcohol together occupy 3.4% of total household expenditures (INSTAT, 2017).

Data on the production, import and export of tobacco during the recent years shows a fluctuation of consumption (see Figure 4). Tobacco consumption is calculated as the amount produced in the country plus imports and minus the quantity of exported tobacco.

As shown by the data, the tobacco consumption in 2007 has decreased by nearly 50%, which followed the highest increase of excise tax in 2006, from 2,500 ALL per 1,000 items to 4,000 ALL per 1,000 items.

Furthermore, a rough estimation of the amount of imported tobacco and cigarettes to overall domestic consumption suggests that the share of imported tobacco has declined to around 72% of domestic consumption.

Figure 5: Tobacco Consumption in Albania



Source: INSTAT and Open Data Albania

Still, it is not clear whether the declining estimated share of imports in domestic consumption is due to increased domestic production or increased illicit trade, as there are no reliable estimates on illicit trade in Albania.

## 4. Tobacco taxation and pricing policies

The main institutions, among many stakeholders, in charge of tobacco control in Albania are the National Agency of Tobacco and Cigarettes (NATC) and the Ministry of Health (MoH), with their related institutions such as Institute of Public Health. NATC is a national institution with the status of a legal and public entity financed by the state budget under the Ministry of Agriculture and Rural Development. NATC's objective is to promote, develop and control tobacco production, industrial processing and trade of tobacco and its products in Albania. It is also responsible for consumer health security through the qualitative assessment of tobacco products and the preservation of tobacco products brand from falsifications. The agency's task is to follow the implementation and monitoring of law no. 8691, date 16.11.2000, "On the Production and Marketing of Tobacco and Cigarettes " in all aspects of production, industrialization, marketing and trading of tobacco and its products. Currently, this agency deals with tobacco seed testing and analysis of cigarette products that enter Albania.

The MoH is responsible for drafting strategic policy documents, as well as promoting and enforcing legislation aimed at tobacco control. The inspectors from the ministry and the institute of public health monitor the enforcement of tobacco control policies in the field.

### 4.1. Policy framework for tobacco control

In response to the alarming trends in smoking prevalence, the Government of Albania (GoA) began to embrace several tobacco control policies. In 2000 it adopted a set of 'National Tobacco Control Provisions,' which consisted of a ban on tobacco advertising on television, radio, the printed media and billboards; public information campaigns on the dangers of tobacco use; health warnings and the disclosure of tobacco product ingredients; and restrictions on smoking in public places such as educational and healthcare facilities, government buildings and public transport.

In 2014, the government signed and ratified the Framework Convention for Tobacco Control (FCTC<sup>5</sup>) with Law no. 9474.

<sup>5</sup> The Framework Convention on Tobacco Control (FCTC) addresses the main aspects which are thought to influence the tobacco epidemic including price, taxation, advertising of tobacco products, packaging, labelling, education, public awareness, sales to minors, smoking in public places etc. (WHO 2003). Two important long-term goals of the treaty include the facilitation of smoking cessation and the promotion of smoking prevention; for instance, aspects such as price raises have been found to directly influence smoking cessation rates particularly among smokers of low socio-economic status (Farrelly et al., 2001). On the other hand, regulation of advertising campaigns including total bans from all mass media were suggested to play an important role in terms of smoking prevention, particularly among adolescents (eliminating the exposure/persuasion effects). Moreover, FCTC addresses also the issue of access to tobacco, by prohibiting sales to minors and also enforcing total or partial bans in all public places, workplaces, and public transportation (Wakefield et al. 2000). Finally, the obligation to include health warnings on all cigarette packages, does serve as a continuous reminder of all the negative health consequences for both present and future smokers (WHO, 2003). To summarize, the long-term goal of FCTC is that of reducing smoking rates and consequently the negative health effect related to this behaviour.

In 2006, Albania also increased cigarette taxes and banned all outdoor tobacco advertisements including billboards, prohibited smoking in all public places including restaurant and bars, and banned the sale of tobacco products to those under 18 years of age. At that time, the smoke-free regulations were among the strongest in Europe.

The government stepped up the fight against smoking by adopting a new law in November 2006 (Law no. 9636, dated 6.11.2006, "On the Protection of Health from Tobacco Products"), which is divided into two parts – a) measures to reduce the supply of tobacco and b) measures to reduce tobacco demand. This law fully prohibits all types of advertising, promotion and sponsorship of tobacco on radio, television, print media and, as appropriate, other media within a period of 5 years. The law also prohibits or restricts the sponsorship of tobacco from international events or activities. However, advertising on billboards and at selling places and other promotional activities occurred. This law was further amended in 2014 with Law No. 76/2014.

The law is expected to conduct a strong promotional campaign to convince more people about the damages of tobacco use. This was undertaken by the Albanian Public Radio Television (RTSH), which should carry a long program of 90 minutes to sensitize the damages that tobacco use brings to the health of the population. Based on the law, the RTSH published educational programs for the protection of health from tobacco products. Additionally, official websites of public institutions should publish in a visible place informative messages about the effects of smoking on health and the risks of tobacco products.

Another important measure was that of respecting the smoking areas and the classification of these environments (i.e. in which public spaces is smoking not allowed, and where the Inspectorate should exercise controls). The authority that runs this entire inspection process is the Institute of Health, which also cooperates with the Customs Inspectorate and Tax Inspectorate.

A further change was the administrative measures for administrative offenses and misconducts. An internal regulation requires that the ban on smoking in various facilities is clearly stated, defining the person who will be responsible for the violation. The law brings with it some administrative measures that will penalize the owner of the public environment, the public environment administrator and also the smoker with a fine.

Another initiative in the frame of tobacco control interventions was the establishment of Intersectional Committee for Health Protection against Tobacco Products (ICHPTP) at the MoH. ICHPTP is responsible for directing public health policies and strategies towards tobacco products to: a) identify and implement more effective programs promoting the prohibition on the use of tobacco in educational institutions, health care facilities and sport facilities; b) include diagnostics and treatment of tobacco addiction, provision of smoking and education programs, plans and strategies with the participation of health and social workers; c) establish programs in health and rehabilitation centers for the diagnosis, counseling, prevention and treatment of tobacco addiction; and d) cooperate with other parties to enable continuity of treatment for tobacco addiction, including provision of pharmaceutical products.

### *Tobacco control measures*

According to government figures, in the early months of 2018, 15,761 inspections of compliance to the non-smoking legislation were carried out by health inspectors. Also, 134 administrative measures were taken. According to the 2017 report of the WHO, Albania ranks among the top countries that have had the highest achievements in raising awareness and implementing anti-smoking legislation and the implementation of tobacco advertising penalties. The Albanian government, in the new fiscal bill, increased tobacco excise by 117 ALL per pack compared to 110 ALL per pack that was in the past as a measure to curb smoking.

There are some future steps proposed by the Albanian government to further improve the law that prohibits tobacco use in public areas. More concretely, the new legal initiatives are aimed at addressing the issue of other tobacco products that have so far not been covered, such as the use of electronic cigarettes or shisha. Also, an important step is to enforce the stamping of photo images on tobacco packages. The images of grave smoking-related diseases will be present in every pack of tobacco. Another proposal is that businesses (legal entities) that are fined more than three times for a short period of time should be closed down.

## **4.2. Relevant legislation for tobacco control**

This sub-section on relevant legislation for tobacco control in Albania is divided in two parts. The first part will describe the most relevant laws on tobacco control, while the second part focuses on the relevant legislation focusing on excise tax on tobacco products.

### *4.2.1 Laws on tobacco control*

*Law no. 8262, December 1997* - This law indicates that tobacco products that are produced, imported or distributed in Albania must have the fiscal stamp provided by the Ministry of Finance.

*Law no. 8691, November 2000* - This law defines clear rules for the production, standardization and marketing of raw and processed tobacco. Supervision and control of production and marketing of tobacco is carried out by the Ministry of Agriculture (via National Agency of Tobacco and Cigarettes), while The Ministry of Finance controls the fiscal part. Article 20 shows that it's forbidden to advertise any form of tobacco trading and its products in the print and electronic media. Also, the fines on administrative misconduct are foreseen in this law.

*Law no. 8717, December 2000* – This law requires the inspection and control of tobacco products: when authorized state bodies discover that imported, stored or distributed tobacco do not have the mandated fiscal stamp, they can immediately confiscate the tobacco and close the business.

*Law no. 9636, dated 6.11.2006, "On the Protection of Health from Tobacco Products"*- This law is divided into two parts - measures to reduce the supply of tobacco (illegal sales, minors) and measures to reduce tobacco demand. This law fully prohibits all types of advertising, promotion and sponsorship of tobacco on radio, television, printed media and, as appropriate, other media such as the internet within a period of five years; prohibit or restrict the sponsorship of tobacco from international events and/or activities.

*Law no. 9854, December 2007*- This law indicates that any person who produces or imports tobacco products in the territory of the Republic of Albania, which is known to be subject to excise duty, to keep or process it on a plot, building or other environment is required to get authorization from the tax authorities.

*Law no. 10286, June 2010* - This law indicates violations for the storage, transportation or sale of goods of excise duty without a fiscal stamp (in our case tobacco) and respective fines.

*Law no. 10404, March 2011*- This law states that all producers and importers of tobacco (product subject to excise duty) pay the concessionaire the price determined for each individual fiscal stamp produced and distributed by the concessionaire. The price for tobacco fiscal stamp (Excise stamp) was 20 Euros; this price is for 1,000 sticks and excludes VAT and other taxes.

*Law no. 65/2013 February 2013* - This law sets the fines for each administrative offense or misconduct (non-implementation of tobacco law). The following violations committed by a natural or legal person are an administrative offense and are punishable by a fine as follows:

- The sale of raw tobacco by subjects contrary to Article 12 of this law shall be punished with a fine ranging from 20 thousand to one million ALL, with the seizure or confiscation of the quantity of tobacco and/or with the proposal addressed to the Minister for removal of the relevant license.
- The production of tobacco products in contravention of the requirements of Article 14 of this law shall be punished with a fine of 10,000 to 300,000 ALL and with the seizure or confiscation of machinery, equipment, raw materials, auxiliary materials and production.
- The trading of tobacco products in contravention of the requirements of Article 19 of this law shall be fined from 5,000 to 20,000 ALL and the seizure or confiscation of tobacco products.
- Advertising of tobacco trade, contrary to the requirements set out in Article 20 of this law, is punishable with a fine of up to 200,000 to one million ALL and the removal of advertisements. The fine, in application of this article, is the main punishment. Other punishments could include seizure or confiscation of the quantity; removal of the relevant license, machinery, equipment, raw material, auxiliary materials and ready-made products; and seizure of tobacco products and/or removal of the respective permit.

*Law no. 76/2014 July 2014* – This law includes some additions and amendments to law no. 9636, dated 6.11.2006, “On the Protection of Health from Tobacco Products”. Below are listed some of the amendments.

- RTSH should publish educational programs for the protection of health from tobacco products, in accordance with the law on audio-visual media in the Republic of Albania.
- Official websites of public institutions should publish, in a visible place, informative messages about the effects of smoking on health and the risks from tobacco products.
- Smoking is prohibited in: a) working environments; b) health institutions, with the exception of mental health institutions (only for patients); c) educational institutions, including kindergartens; d) public transport means, including taxis; e) closed commercial premises, bars, restaurants, discotheques and nightclubs; f) Closed cultural and sports venues; g) common facilities, in apartments with compulsory joint ownership; h) other public indoor environments.
- An internal regulation is issued at the premises or institutions, stating the ban on smoking in these facilities and clearly defining the person who will be responsible for the violation. This law also indicates the fines for administrative misconducts.

#### 4.2.2. Laws on tobacco excise

*Law no. 8976, December 2002* - This law regulates the legal issues related with the setting of excises, conditions, procedures, rights and obligations to which the excise subjects are subject, as well as issues related to the rules for collecting and administering revenues from tax bodies on goods subject to excise duty. Table 4 below shows Excise Tax for each tobacco category (HS code) according to this law.

Table 4: Excise Tax for each tobacco category (HS code), Law no. 8976, December 2002

Category	Excise Tax
Cigars and cigarillos containing tobacco	2240 ALL/kilogram
Cigarettes containing tobacco	2000 ALL/1000items (20 ALL/ pack)
Cigars, cigarillos and cigarettes of tobacco substitutes	2240 ALL/kilogram
Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences	1500 ALL/kilogram

*Law no. 9041, March 2003* - The excise tax for “Cigarettes containing tobacco” changes from 2,000 to 2,500 ALL per 1,000 items.

*Law no.9163, December 2003* - This law returns the value of the above mentioned category as it was before to 2,000 ALL per 1,000 items, or 20 ALL per pack.

*Law no.9269, July 2004* - This law changes again the value of the above mentioned category to 2,500 ALL per 1,000 items, or 25 ALL per pack.

*Law no. 9598, July 2006* - This law changes the value of the tobacco excise for "Cigarettes containing tobacco" category. In 2004 the excise tax was 2,500 and in 2006 became 4,000 ALL per 1,000 items, or 40 ALL per pack.

*Law no. 10147, September 2009*- There are some Tobacco excise tax (increased) changes shown in the table below (Table 5).

Table 5: Excise Tax for each tobacco category according to Law no. 10147, September 2009

Category	Excise Tax
Cigars and cigarillos containing tobacco	2,500 ALL/kilogram (+260 compared to law in 2000)
Cigarettes containing tobacco	5,000 ALL/1,000 items (50 ALL/pack) (+10 according to previous law)
Cigars, cigarillos and cigarettes of tobacco substitutes	2,240 ALL/kilogram (has not changed)
Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences	1,500 ALL/kilogram (has not changed)

*Law no. 10365, December 2010* - This law changes the value of the tobacco excise for "Cigarettes containing tobacco." This law increases the excise tax for cigarettes containing tobacco from 5,000 ALL/1,000 sticks to 7,000 ALL per 1,000 sticks, or 70 ALL per pack.

*Law no. 61/2012, May 2012* – This amends Law no. 10147, September 2009, by decreasing the excise tax for the category of Cigarettes containing tobacco from 5,000 to 3,500 ALL per 1,000 items (Table 6).

Table 6: Excise Tax for each tobacco category according to Law no. 61/2012, May 2012

Category	Excise Tax
Cigars and cigarillos containing tobacco	2,500 ALL/kg
Cigarettes containing tobacco	3,500 ALL/1000 items
Cigars, cigarillos and cigarettes of tobacco substitutes	2,240 ALL/kg
Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences	1500 ALL/kg

Article 80 of this law indicates certain exclusions from excise tax, which are mentioned below:

1. No excise duty is paid on tobacco products that are intended for scientific purposes and quality control. Discounts paid on tobacco products that are intended for scientific purposes and quality controls are reimbursable.

2. The use of tobacco products for the foregoing purposes shall be subject to the procedure for granting an authorization from the customs authorities.

3. Tobacco produced (minced/raw or processed) by private individuals and consumed by producers themselves, by family members, for personal use, that it is not object of any sales activity and the quantity of production is not greater than 25 kg per year should not be taxed.

*Law no. 180/2013, December 2013*- Except for excise tax rate changes, this law includes fines and punishments for clandestine/informal production of tobacco and its products (production in undeclared and unauthorized way). This law also includes penalties and fines in the case of avoidance of verification and payment of excise duty on tobacco and its products.

Table 7 shows that only two categories have changed compared to the previous law (Law no. 61/2012, May 2012). The excise tax for "Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences" has changed from 1,500 to 3,000 ALL per kg. Also, the category of "Cigarettes containing tobacco" has an increment for about +1,000 ALL per 1,000 items.

Table 7: Excise Tax for each tobacco category according to Law no. 180/2013, December 2013

Category	Excise Tax
1. Cigars and cigarillos containing tobacco	2 500 ALL/kg
2. Cigarettes containing tobacco	4 500 ALL/1000 item
3. Cigars, cigarillos and cigarettes of tobacco substitutes	2 240 ALL/kg
4. Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences	3 000 ALL/kg

*Law no. 126/2016 December 2016* - As Table 8 shows, compared to the previous law in 2013, each category has an increased excise tax.

Table 8: Excise Tax for each tobacco category according to Law no. 126/2016 December 2016

Category	Excise Tax
Cigars and cigarillos containing tobacco	4400 ALL/kg
Cigarettes containing tobacco	5500 ALL/1000 items
Cigars, cigarillos and cigarettes of tobacco substitutes	4400 ALL/kg
Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences	4400 ALL/kg
Tobacco manufactured with tobacco leaves cultivated in Albania	2500 ALL/kg

*Law no. 108/2017, November 2017* - As Table 9 shows, a new category, "Liquid nicotine for filling electronic cigarettes, used to create a fumigation process" is added. The excise tax for Cigarettes containing tobacco is also changed (increased up to 5,850 ALL per 1,000 items).

Table 9: Excise Tax for each tobacco category according to Law no. 108/2017, November 2017

<b>Category</b>	<b>Excise Tax</b>
Cigars and cigarillos containing tobacco	4400 ALL/kg
Cigarettes containing tobacco	5850 ALL/1000 items
Cigars, cigarillos and cigarettes of tobacco substitutes	4400 ALL/kg
Other manufactured tobacco and tobacco substitutes, tobacco homogenized, tobacco extracts and essences	4400 ALL/kg
Tobacco manufactured with tobacco leaves cultivated in Albania	2500 ALL/kg
Liquid nicotine for filling electronic cigarettes, used to create a fumigation process.	10 All/ml

Table 10: The Nomenclature with Custom Tariff for Tobacco and manufactured tobacco substitutes

HS Code	Category	Tariff (%)	Unit
1	2	3	4
2401	Unmanufactured tobacco; tobacco refuse:		
2401 10	- Tobacco, not stemmed/stripped:		
2401 10 35	- - Light air-cured tobacco	2	—
2401 10 60	- - Sun-cured Oriental type tobacco	15	—
2401 10 70	- - Dark air-cured tobacco	2	—
2401 10 85	- - Flue-cured tobacco	2	—
2401 10 95	- -Other	2	—
2401 20	- Tobacco, partly or wholly stemmed/ stripped:		
2401 20 35	- - Light air-cured tobacco	2	—
2401 20 60	- - Sun-cured Oriental type tobacco	15	—
2401 20 70	- - Dark air-cured tobacco	2	—
2401 20 85	- - Flue-cured tobacco	2	—
2401 20 95	- - Other	2	—
2401 30 00	- Tobacco refuse	2	—

2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:		
2402 10 00	- Cigars, cheroots and cigarillos, containing tobacco	10	1 000 p/st
2402 20	- Cigarettes containing tobacco:		
2402 20 10	- - Containing cloves	10	1 000 p/st
2402 20 90	- - Other	10	1 000 p/st
2402 90 00	- Other	10	—
2403	Other manufactured tobacco and manufactured tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences.		
2403.10	- Smoking tobacco, whether or not containing tobacco substitutes in any proportion		
2403 11 00	- - Water-pipe tobacco <sup>6</sup>	2	—
2403 19	- - Other:		
2403 19 10	- -In immediate packing of a net content not exceeding 500 g	15	—
2403 19 90	- - - Other	2	—
	- Other:		
2403 91 00	- - "Homogenized" or "reconstituted" tobacco	10	—
2403 99	- -Other:		
2403 99 10	- - - Chewing tobacco and snuff	15	—
2403 99 90	- - - Other	15	—

An overall overview of changes on excise tax of tobacco and manufactured tobacco substitutes over the years according to each law is in Annex 1.

#### 4.2.2.1. Tobacco tax structure

This sub-subsection provides a description of the tobacco tax structure in Albania. As shown in Table 11, Albania (together with Kosovo) applies only the specific excise tax on tobacco. Compared to other Western Balkan countries, Albania has the lowest tax burden on cigarettes for year 2017, since no Ad-Valorem tax is applied.

<sup>6</sup> "Water pipe tobacco" means tobacco intended for smoking in a water pipe which consists of a mixture of tobacco and glycerol, whether or not containing aromatic oils and extracts, molasses or sugar, and whether or not flavored with fruit. However, tobacco-free products intended for smoking in a water pipe are excluded from this subheading.

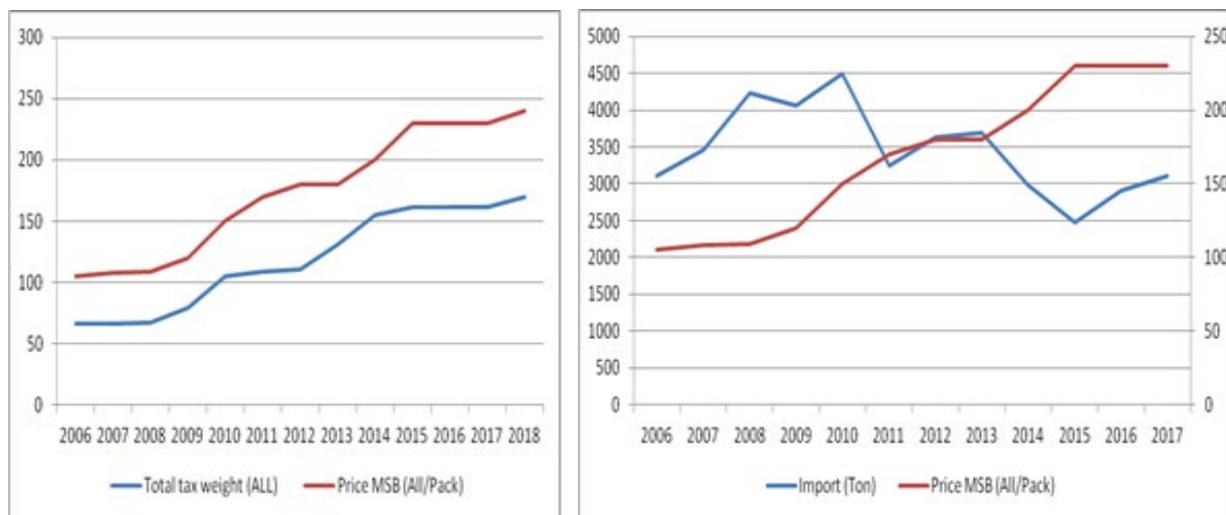
Table 11: Tax burden in the retail price of most sold brand of cigarettes in the Western Balkans countries in 2017 (%)

Tax on the most sold brand					
Countries	Price in Euro	% of tax on sale price	% of specific excise	Ad valorem tax	Total Excise
Albania	1.50	66%	48%	0%	48%
Montenegro	1.56	75%	26%	33%	59%
Macedonia	1.00	71%	47%	9%	56%
Serbia	1.64	78%	28%	33%	61%
Kosovo	1.60	69%	54%	0%	54%
Greece	3.69	81%	41%	20%	61%
Bulgaria	2.31	83%	29%	38%	67%
Romania	3.30	72%	41%	14%	55%
Croatia	2.96	77%	19%	38%	57%
Bosnia Herzegovina	2.12	84%	27%	42%	69%

Source: Ministry of Finance

The total tax burden on the price of a pack of cigarettes is 66%. This includes the specific excise tax, VAT and customs duties. The specific excise tax on cigarettes is 48%, which is lower than the WHO benchmark of 70% on the percentage of excise tax on Retail Price. The current level of excise tax per 1,000 cigarettes is 44 Euros. This level is far below the minimum excise tax of 90 Euros per 1,000 cigarettes required by the EU regulation. However, the Albanian government has pledged to increase the excise tax to 48.9 Euros per 1,000 cigarettes by 2021, which is an increase of only 11%. The increase in excise tax may need to be harmonized with other countries of the region so that incentives for cross-border transactions are discouraged.

Figure 6: Tax and prices trends on tobacco in Albania



Source: Authors' calculations as per data obtained from Ministry of Finance and INSTAT

Currently, the most sold brands in Albania are Karelia Slims and Winston, which are imported by Agna Group and Japan Tobacco International Tirana. A full list of cigarette prices for different brands and their changes over the years is presented in Table 12.

Table 12: Prices of tobacco brands in Albania

Company	Brand Name	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
AGNA Group	Karelia Slims	120	150	170	180	180	200	230	230	230	240
	George Karelias	170	200	230	230	230	250	280	280	280	280
	American Legend	100	120	140	140	140	170	190	190	190	200
	OME		170	200	200	200	200	230	230	230	240
British American Tobacco (BAT)	Rothman Leggera	161	170	180	180	200	200	230	230	230	240
	Kent HD	180	200	230	230	250	270	300	300	300	320
	Lucky Strike Red	133	170	180	180	200	210	230	230	230	230
	Lucky Strike Blue	133				180	190	220	220	230	250
	Dunhill FC	179						320	320	320	330
	Eva Slims			140		130			200	210	220
JTI Tirana	Winston	117				180		230	230	230	240
	Camel	135				200		250	250	250	260

Marketing & Distribution	Davidoff Classic	133		230		250	270	240	240	240	250
	West			150		200	200				
	LD Blue			120		150	150				
Philip Morris Albania	Marlboro Flavour Plus	162	220	250	250	270	300	300	300	300	320
	Marlboro (Red FWD)	162	200	230	230	250	270	280	300	300	320
	Marlboro Gold	162	200	230	230	250	270	280	300	300	320
	Marlboro Touch				230	250	250	260	280	280	300
	Philip Morris Supreme		150	180	180	200	220	230	250	250	260
	L&M KS RCB	90	120	150	150	170	190	200	220	220	220
	Merit Orange	133	180	210	210	230	250		220	220	230
	Assoss	89	120	150	150	170	190	200	200	200	200

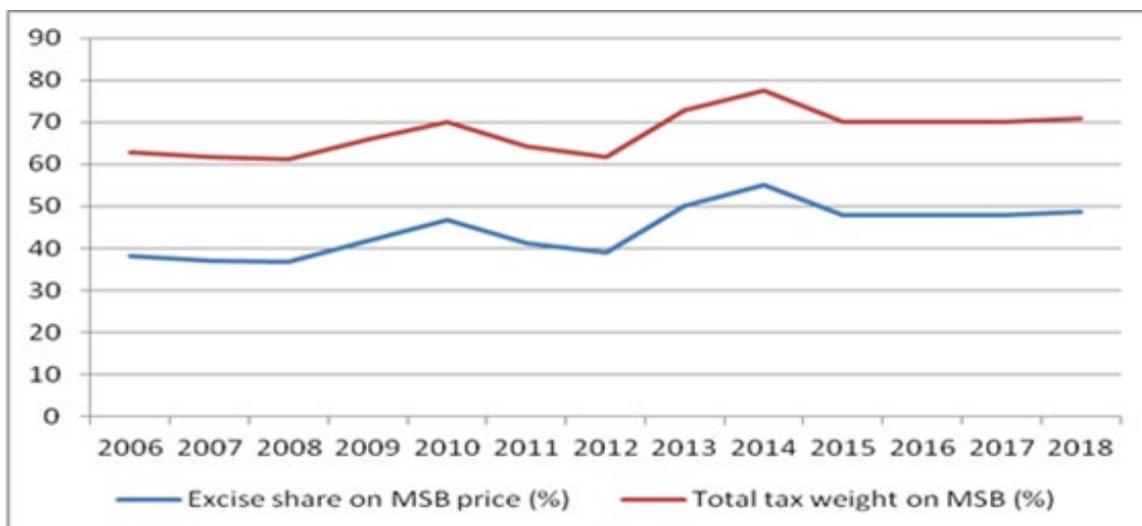
Source: INSTAT

#### 4.2.2.2. Tobacco tax revenues

The revenues that tobacco taxation brings into the state budget have increased over the recent years, with the exception of 2015, when consumption of cigarettes and excise tax collection recorded a decline relative to the previous year. The fall in revenues from tobacco products can be explained by a decline in import quantities in 2015 (see Figure 2 Section 3). As shown in Table 13, the share of tobacco-related revenues in the country's GDP was 1.4% in 2017, relative to total revenue to GDP of 28%, whereas the share of tobacco revenues in relation to the total budget revenues is 5.1%.

The largest share of revenues come from the excise taxes. The contribution of excise tax in GDP in Albania was about 1.1%, while its contribution in budget revenues was 3.8% in 2017. As can be noticed, the shares to GDP have been fairly stable over the recent years, but with an upward trend. During this period, there have been no significant increases in the tax burden on cigarettes.

Figure 7: Structure of tax burden on cigarettes (in %) for 2006-2017



Source: Authors' calculation as per data obtained from Ministry of Finance

Due to the addictive nature of tobacco products, with an increase in excise taxes, revenues are likely to increase, despite a potential decline in consumed quantities.

Table 13: Budget revenues from tobacco taxes

Product	Customs duties			
	2014	2015	2016	2017
Cigarettes	680,626	595,165	691,219	690,467
Imported tobacco	41,831	20,519	28,667	33,890
Domestic tobacco	-	-	-	-
Total	722,456	615,684	719,886	724,356
GDP 000 ALL	1,395,304,632	1,427,799,043	1,472,791,265	1,555,202,459
Total revenues (000 ALL)	366,721,000	379,206,000	407,021,000	442,900,667
<b>% /GDP</b>	<b>0.05%</b>	<b>0.04%</b>	<b>0.05%</b>	<b>0.05%</b>
<b>% /revenues</b>	<b>0.20%</b>	<b>0.16%</b>	<b>0.18%</b>	<b>0.16%</b>
Excises				
Cigarettes	12,752,221	12,809,992	15,095,005	16,278,226
Imported tobacco	361,693	296,674	328,471	360,949
Domestic tobacco	7,387	10,046	4,551	30,552
Total	13,121,302	13,116,713	15,428,026	16,669,726
<b>%/GDP</b>	<b>0.94%</b>	<b>0.92%</b>	<b>1.05%</b>	<b>1.07%</b>
<b>% total/ revenues</b>	<b>3.58%</b>	<b>3.46%</b>	<b>3.79%</b>	<b>3.76%</b>

<b>VAT</b>				
Cigarettes	4,135,584	3,895,213	4,642,768	4,857,880
Imported tobacco	137,351	92,647	109,772	124,703
Domestic tobacco	-	-	-	-
Total	4,272,935	3,987,860	4,752,540	4,982,583
<b>% total/GDP</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>
<b>%/revenues</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.1%</b>
<b>Total</b>				
Cigarettes	17,568,431	17,300,370	20,428,992	21,826,572
Imported tobacco	540,875	409,840	466,910	519,542
Domestic tobacco	7,387	10,046	4,551	30,552
Total	18,116,693	17,720,256	20,900,453	22,376,666
<b>% /GDP</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.4%</b>	<b>1.4%</b>
<b>%/ revenues</b>	<b>4.9%</b>	<b>4.7%</b>	<b>5.1%</b>	<b>5.1%</b>

Source: Ministry of Finance and own calculations

## 5. Elasticity of tobacco products

Despite the importance of estimating the elasticity of tobacco products in Albania, there are a limited number of studies focused on this country in general. Further, there is a lack of empirical research estimating the determinants of tobacco demand, despite the high smoking prevalence. Given the changes in tobacco control measures adopted in Albania during the recent years and the scarcity of empirical study in this field, this study aims to estimate the demand for cigarettes using two empirical approaches (a) estimating the determinants of tobacco demand using macro data and (b) estimating the determinants of tobacco demand using micro data at household level, as explained in Section 5.1 and 5.2 respectively.

### 5.1 Estimation of the price elasticity using the macro data

The first empirical approach consists of estimating the demand for cigarettes (price elasticity and income elasticity) using macro data. More precisely, the basic analytical framework used in estimating elasticities is the conventional model in a linear functional form suggested by Ross and Al-Sadat (2007), which regresses the aggregate consumption of cigarettes per capita on a list of demand characteristics including tobacco price, income, a variable capturing tobacco control policy, a list of control variables such as male to female ratio, and enrolment in tertiary education. Aggregate annual data from 2006-2017 are used in this time-series analysis.

To empirically estimate the elasticities and other determinants of tobacco demand, a rigorous empirical procedure was followed. This procedure analyzes the univariate characteristics of individual series, testing the stationarity of individual series and using the Engle-Granger and Johansen techniques to identify whether the series are cointegrated.

Using the Error Correction Model (ECM) on annual data, as suggested by the above procedure, the estimated results suggested that price elasticity for Albania is within the expected range based on the literature, a coefficient lower than one in absolute terms. More precisely, the price elasticity of demand ranges from -0.276 to -0.77 in the long-run, whereas in the short-run, the price elasticity varies from -0.007 to -0.107, with a fast adjustment process from short-run to long-run. These estimates are robust to using the price of the most popular brand (Carellia Slims) and real tobacco CPI as proxies for the retail price. In terms of income elasticity, the results showed no statistical significance.

Other control variables were tested for their impacts on tobacco demand, such as, changes in tobacco control measures, male to female ratio and enrollment in tertiary education. However, the analysis suggests that they do not seem to be important factors of tobacco demand in terms of statistical significance.

## 5.2. Estimation of the price elasticity using the micro data

Because of the limitations of a time-series analysis and the limited number of observations which jeopardize the estimates (Deaton, 1997), this report uses an alternative approach to estimate the price and income elasticity.

More precisely, we follow Deaton's (1988) demand model, which in the case of Albania is a cross-sectional household survey data used to estimate the price and income elasticity for cigarette demand. In addition, this report estimates an Almost Ideal Demand System (AIDS), which allows to disentangle quality choice from exogenous price variations through the use of unit values from cigarette consumption. Whilst the empirical literature generally uses Household Budget Survey (HBS) to estimate tobacco demand, this study opts for the Living Standard Measurement Survey (LSMS) in 2012 due to the lack of information on the quantity of cigarette consumed in the HBS.

In addition to the estimation of price elasticity and income elasticity, this study evaluates other determinants of tobacco demand, such as: adult population, male to female ratio and spatial differences captured by the prefecture dummy variable. Following a three-stage procedure, the results suggest that the estimated price elasticity is around -0.57. The price elasticity appears to be within the range of estimated elasticities in developing countries and is in line with the estimated elasticities from the model using aggregate data. In terms of the control variables, it seems that the total expenditure, household size, male to female ratio and adult ratio are important determinants of tobacco demand in Albania. The total expenditures which capture the income elasticity have a value of 0.24.

These results imply that if, on the one hand, the price of cigarettes increases by 10%, the quantity demanded by the consumers would decrease by 5.7%. On the other hand, if the incomes of consumers would increase by 10%, the quantity demanded would increase by 2.4%.

The impact on budget revenues from a 10% increase of cigarette prices would be positive with around 7 million Euros. Should the government of Albania increase the excise tax level to 90 Euro per 1,000 cigarettes as required by EU regulations, the retail price per pack is expected to increase by 54.7%. That means that for an elasticity of demand -0.57, the demanded quantity of cigarettes is expected to decrease by about 32%. In the context of budget revenues from the excise tax, considering year 2017 as reference year and supposing a similar fiscal performance, the budget revenues from excise tax would increase by about 30 million Euros, excluding also the positive effect on VAT tax.

## 6. Summary and recommendations

This national study focuses on analyzing the impact of tobacco taxation on tobacco consumption and on government revenues. Tobacco consumption in Albania has been frequently cited as one of the highest health concerns of the population, especially for male and youth cohorts. Albania has one of the highest prevalence in tobacco consumption in the region, with 683,440 tobacco smokers, dominated by male consumers with 51.2% and 7.6% for females.

The policy approach followed for controlling tobacco consumption in Albania has been underlined by a combination of fiscal and non-fiscal instruments. Legal revisions and institutional changes for restriction of tobacco promotion, control of tobacco consumption in public areas and awareness campaigns against tobacco consumption have been applied during the last ten years. However, legal enforcement has been partially effective. Fiscal instruments have not been following strategic policies for tobacco control, but rather have been led by budgetary strategic decisions. Moreover, the rationale on the increase of excises has been based on fiscal rather than health concerns. Yet, considering the low level of tax burden on cigarettes as compared to other Western Balkan and EU countries, there is still justified room to further intervene with fiscal instruments on cigarettes and other tobacco products. Such interventions should, however, not be done in isolation from other countries in the region. A harmonization of tax and other tobacco control policies would limit and discourage incentives for regional illicit trade and cross-border transactions.

The increases in tobacco taxation would provide multiple benefits for policy makers – increase in budget revenues as well as reduction in tobacco consumption – with positive health benefits for society.

The analysis of macro level and household level data show that taxes on tobacco products have an impact on: imported quantities entering the domestic market, on consumption levels, as well as budget revenues. The analysis of macro level data conducted in this study explored the sensitivity of tobacco consumption to price and income changes over the time span 2006 to 2017 in Albania. The estimated results suggested that price elasticity for Albania is within the expected range in the literature, a coefficient lower than one in absolute terms. More precisely, the price elasticity of demand is -0.77 in the long-run, whereas in short-run the price elasticity is -0.07, with a fast adjustment process from short-run to long-run. Also, the household level data showed an inelastic demand for cigarettes, with a price elasticity of -0.57. Meanwhile, the income elasticity of consumers measured captured by total expenditures is 0.24.

For tobacco control purposes, these figures suggest that if cigarettes prices are increased by 10%, the consumption of cigarettes would decrease by 5.7%. On the other hand, an increase in consumer incomes of 10% would be associated with an increase in cigarette consumption of 2.4%. Given the inelastic nature of cigarettes and tobacco products – i.e. the percentage decrease in the quantity of demanded cigarettes will be less than the percentage increase in the cigarette price – the benefits to budget revenues would be considerable. For instance, referring to imported quantities of cigarettes for 2017, a tax increase of 10% would increase budget revenues by about 9%, or about 7 million Euros.

Considering Albania's aspirations to join the EU, the legal and policy framework needs to be aligned with their regulations. In the case of tobacco control policies, the minimum excise tax level in the EU is 90 Euro per 1,000 cigarettes. That means that if Albania is to meet this requirement, the retail price per pack is expected to increase by 54.7%. Considering the elasticity of demand -0.57, the demanded quantity of cigarettes is expected to decrease by about 32%. In the context of budget revenues from the excise tax, considering 2017 as reference year and assuming a similar fiscal performance, the budget revenues from excise tax would increase by about 30 million Euros, excluding also the positive effect on VAT tax.

Nevertheless, these fiscal measures should be combined with other non-fiscal control policies, such as promotional campaigns, penalties, or banning of advertisements, to name a few. The policy alignment with EU regulations should be based on ad-hoc policy formation, implementation and monitoring. A core element for creating a multi-stakeholder group is the cooperation between Ministry of Finance and Economy and Ministry of Health and Social Affairs. An inter-sector strategy, followed by a sound action plan, needs to be drafted and implemented. The government has already drafted a national health strategy, which primarily foresees awareness initiatives against tobacco consumption, with little regard to fiscal incentives.

## Annex 1: Policy Dialogue

Another important component of the national study is the policy dialogue. The main objective of the policy dialogue in Albania is to bring together the major stakeholders of the tobacco sector from consumers to policy makers. This will lead to well-informed policies on tobacco taxation and control, especially if the policies are based on the evidence in this study. Policy dialogues serve as a tool and platform for different actors and stakeholders to share their ideas and perspectives on the issue, as well as giving people a voice on decisions that impact their lives.

The main actors involved in the policy dialogue are the Members of Parliament, Ministry of Finance and Economy, Ministry of Agriculture and Rural Development (MARD), Academia (e.g. AUT), Civil Society and the media. Although interventions in the tobacco sector are not easy due to potential conflicting interests between the interested stakeholders, a partnership strategy should nevertheless be considered at the national level as well as the local level for achieving a constructive dialogue for reducing tobacco plantation and increasing tobacco excises. At the central level, the project is expected to build partnerships with stakeholders supporting fiscal reforms and agriculture support policies, which refer to Ministry of Finance and Economy and the Ministry of Agriculture and Rural Development. The actions should be carried out in close partnership with main donors focused on health and education, as well as in close consultation with civil society, academia and service providers. Civil society and associations should be partnering entities on interventions in agricultural activities intervention, capacity building and grant intervention. Non-agriculture NGOs and hybrid associations should be informed and consulted. Service Providers (SP) have to be involved during the intervention phases for providing capacity building.

The more distant but of high importance partners are the media, consumers, academia, local government and other entities. The distant stakeholders should be involved in different meetings focused on raising awareness on negative impacts of tobacco consumption, advocating for the increase of excise tax, organization of campaigns against tobacco use, as well as the support of activities for reducing the production of tobacco through various investments in communities or with grants intervention. The media should be involved closely for improving and making a positive effect on consumers and the business community. Media (and indirectly consumers) should be informed in the preliminary phase in order to increase beneficiary awareness and raise partner interests.

The main output, among others, expected from the policy dialogue in Albania is the wide dissemination of research results through the accompanying policy brief and improvement of the policy brief itself with the remarks and recommendations of the involved stakeholders.

**Finally, the ultimate outcome of the policy dialogue will be the change in the policies and legislation related to tobacco control, as well as to provide a positive example of well-informed, inclusive and evidence-based decision making.**

## Annex 2: Summary of Tobacco Control Measures

HS Code and Category	Tax Rate													VAT 2018
	Excise													
	Law no. 8976 December 2002	Law no. 9041 March 2003	Law no. 9163 December 2003	Law no. 9269 July 2004	Law no. 9598 July 2006	Law no. 10147 September 2009	Law no. 10365 December 2010	Law no. 61/2012 May 2012	Law no. 180/2013 December 2013	Law no. 61/2012 November 2014	Law no. 126/2016 December 2016	Law no. 107/2017 November 2017	Custom Duties 2018	
24 02 10 00 Cigars, cheroots and cigarillos containing tobacco	2 240 All/kg	2 500 All/kg	2 500 All/kg	2 500 All/kg	2 500 All/kg	2 500 All/kg	4 400 All/kg	4 400 All/kg	10% for 1000 items	20%				
24 02 20 Cigarettes containing tobacco	2000 All/1000 Items (20 All/Pack)	2500 All/1000items (25 All/ Pack)	2000 All/1000items (20 All/ Pack)	2500 All/1000items (25 All/ Pack)	4000 All/1000 items (40 All/Pack)	5000 All/1000 items (50 All/Pack)	7000 All/1000 items (70 All/Pack)	3,500 All/1,000 items	4 500 All/1000 items	5 500 All/1000 items	5 500 All/1000 items	5 850 All/1000 items	10% for 1000 items	20%
24 02 90 Cigars and cigarillos manufactured with tobacco substitutes	2 240 All/kg	2 240 All/kg	2 240 All/kg	2 240 All/kg	4 400 All/kg	4 400 All/kg	10% for 1000 items	20%						
24 03 Other manufactured tobacco and manufactured tobacco substitutes, homogenised or reconstituted tobacco, tobacco extracts and essences	1 500 All/kg	1,500 All /kg	3 000 All/kg	4 400 All/kg	4 400 All/kg	4 400 All/kg	Varies from 2% to 15% (Within country 0%)	20%						
2403 Tobacco manufactured with tobacco leaves cultivated in Albania											2 500 All/kg	2 500 All/kg		20%
T401 Liquid nicotine for filling electronic cigarettes, used to create a fumigation process.												10 All/ml	Doesn't apply	20%

**Acknowledgement**

*The Development Solutions Associates (DSA) is funded by the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in Albania. UIC is a core partner of the Bloomberg Philanthropies' Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies.*