



tobaccotaxation

Economic Research Informing Tobacco Tax Policy

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

National Study - KOSOVO

Economics of Tobacco and Tobacco Taxation

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List of abbreviations and acronyms

CPC Center for Political Courage

CPI Consumer Price Index

EU European Union

GDP Gross Domestic Product

GNI Gross National Income

GYTS Global Youth Tobacco Study

IES Institute of Economic Sciences

KAS Kosovo Agency of Statistics

MAFRD Ministry of Agriculture, Forestry and Rural Development of Kosovo

UNMIK United Nation Interim Mission in Kosovo

WB Western Balkans

WHO World Health Organization

Executive Summary

Kosovo had a rather large tobacco industry from the 1960s until the early 1990s, when it had a major impact on its economy. The tobacco factory "Industria e Duhanit Gjilan-IDGJ" was one of the largest in the former Yugoslavia. Its economic impact was mainly felt in the Anamorava region, particularly in the city of Gjilan, where the tobacco industry had 800 employees, created 50,000 seasonal jobs and engaged over 10,000 farmers.

However, the tobacco industry in Kosovo was short-lived. From the late 1990s and beginning of 2000, Kosovo ceased manufacturing any of tobacco products. This meant that all tobacco products in Kosovo have since been imported, and local farming is minimal or irrelevant for the national tobacco market.

Kosovo is considered to be a country with a high smoking prevalence, even though the Kosovo Agency of Statistics (KAS) estimates that it is only at the level of 16% of population above 16 years old. Alternative estimates from other studies show that smoking prevalence is as high as 28% (see page 15). A more realistic view may come from Kosovo Customs data on the volume (up 4.5 tons in kg of tobacco products per year) and value (up to €60 million per year) of the imported tobacco products.

Kosovo's government has adopted modern laws pertaining to tobacco control. The laws follow World Health Organization (WHO) and European Union (EU) regulations and directives. The main institutions in charge of tobacco-related policymaking and implementation in Kosovo are the Ministry of Health and Ministry of Finance.

Imported tobacco products are subject to three kinds of taxes: excise tax; value added tax (18%); and customs duty (10%). The 10% customs duty is applied to goods imported from all countries, except Montenegro and Serbia, that do not pay any taxes, and Albania which only pays 1% tax. Tobacco taxes alone contribute 8% to the government's budget revenues and account for 2% of the Gross Domestic Product (GDP).

Increasing taxes on tobacco products has proven to be a very efficient way to reduce tobacco consumption and increase government budget revenues. In this case, Kosovo's Prime Minister decided in 2016 to reform the existing excise rates on tobacco, which provides that excise per unit (1,000 cigarettes) shall be increased each year by €2 until 2019. When this decision was enforced in 2016, the excise on tobacco was €41 per unit; in 2017 it has been raised to €43 per unit; in 2018 it is €45 per unit; and in 2019 it will be €47 per unit. This is still far below both the EU directives and average excise value in the countries in the region. It is unclear though what will happen after 2019, when this decision ceases.

Analyzing the proportion of the taxes on the retail price for a cigarette pack, reports show that the pre-tax price is 43% of the retail price for the most expensive brand, and 25% for the cheapest one. The excise tax accounts for 54% of the retail price of the cheapest brand, and 44% and 34% for the most sold brand and the most expensive

brand, respectively.¹ By comparing the pre-tax price versus the retail price after the taxes the excise tax does not exceed more than 60% of the total price for any of the packs. That is very important to recognize, considering that the WHO framework recommends that the excise should constitute 70% of the total price of a cigarette pack.

Kosovo, like other countries of the Western Balkans, is in the process of reforming policies to join the EU. However, if the gradual increase in excise tax continued at current pace, Kosovo would need around 22 years to reach the minimum rate per unit (1,000 cigarettes). EU Commission directives determine that the minimum rate for tobacco excise duty must be at least €90 per unit.² High income countries have increased excise tax rates significantly in comparison to Kosovo. For instance, the UK levies £260.62 per 1,000 cigarettes, and Germany £115.01.³ Additionally, the increase in taxes should be done systematically and adjusted to inflation. The generated funds from taxes may be further invested in preventative and public health programs⁴.

The analysis in this report presents the elasticity estimates obtained by using time-series and household expenditure data. The results from time-series analyses suggest a long-run estimate of elasticity of -0.68, which means that if the government imposed new (or higher) tobacco excise taxes, which would increase the cigarette price by 10%, the demand would decrease by 6.8%. The analysis using the household expenditure data obtained a lower elasticity estimate of -0.29, which is not unusual. The micro level analyses also show that the budget share spent on cigarettes is increased in larger households (with higher number of members), in households with higher shares of men and adults, but lower in households where mean and maximum education are higher.

¹ Authors' calculation: estimated data from Harmonized Price Indices, Kosovo Agency of Statistics, and existing tobacco taxation.

² European Commission, at: https://ec.europa.eu/taxation_customs/business/excise-duties-alcohol-tobacco-energy/excise-duties-tobacco_en

³ Tobacco Manufacturers' Association: Tobacco taxation in the UK, at: http://www.the-tma.org.uk/wp-content/uploads/2017/02/TMA-Taxation_Briefing_final.pdf

⁴ World Health Organization: The world health report: Health systems financing: the path to universal coverage, Chapter 2, More money for health, 2010, p. 30 at: http://apps.who.int/iris/bitstream/handle/10665/44371/9789241564021_eng.pdf;jsessionid=71CFDFC7C4C7701C3C944908A30BBC5C?sequence=1

1. Introduction

The research project, "Accelerating Progress on Effective Tobacco Tax Policies in Low- and Middle-Income Countries," funded by the University of Illinois at Chicago, which is one of the core partners of *Bloomberg Initiative to Reduce Tobacco*, and who contracted the Institute of Economic Studies in Belgrade to coordinate the project, has included Kosovo as one out of the seven Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia) where the research is taking place. The aim of this project is to foster research on tobacco taxation policy and tobacco controlling laws and policies.

According to the World Bank Atlas method for country classification, there are four categories of countries: low-income economies; lower middle-income economies; upper middle-income economies and high-income economies as defined according to the Gross National Income (GNI) per capita. As of 2016, Kosovo`s GNI per capita was 3,340 making Kosovo a lower middle-income economy⁵ with a high level of tobacco consumption. Data from Kosovo Customs show that the volume of tobacco products imported into Kosovo every year keeps increasing, which indicates that tobacco consumption is also increasing.

Strong tobacco control policies have been proven as one of the most efficient ways to date to deter people from smoking. Specifically, significant tax increases in cigarettes and other tobacco products is the most cost-effective policy for reducing deaths from different diseases and economic consequences of tobacco use. Such policies are in place in most countries with high-HDI (Human Development Index) and high income where the number of smokers is decreasing, while in the rest of the world, mainly in low-and middle-income countries, the number of smokers and smoking-related deaths is increasing.

This research project carried out by the Kosovo based think tank Center for Political Courage (CPC) includes macro- and micro-level analyses. The macro analysis relies primarily on secondary research. It examines the history of the tobacco industry, the current state of tobacco-related policy, and the legal framework in Kosovo. The micro-level analysis for demand elasticity as well as price and income elasticity relies on data from the Kosovo Statistics Agency, Household Budget Survey, and the Kosovo Customs-Duty Office.

Thus, the aim is to identify gaps in tobacco-related policy and regulations. The results from these analyses are aimed at influencing policy makers in setting new tobacco products taxes and other regulations in the future.

⁵ Index Mundi, at: <https://www.indexmundi.com/facts/kosovo/gni-per-capita>

1.1 Country Profile

The Republic of Kosovo is a relatively small country located in the Western Balkans region with an estimated territory of 10,905.25 km². It is situated in South-Eastern Europe bordering Albania to the southwest, Montenegro to northwest, Serbia to northeast and Macedonia to the south.⁶ It is composed of 38 municipalities and 1,469 settlements. As of 2017, the total resident population was 1,798,506 people, with 61.7% of the population living in the rural areas and the remaining 38.3% living in urban settlements. Kosovo has one of the youngest population in the world with an average age of 30.2, which is very often considered as one of its most important assets.⁷

According to the latest data provided by KAS, GDP for 2017 was €6,282.2, GDP per capita for 2016 was €3,356, while real GDP growth in 2017 was 3.7%, all according to first estimates on a quarterly basis.⁸

The unemployment rate in Kosovo remains quite high with over 156,583 people unemployed, or 30.5% as of 2017, compared to 27.5% in 2016. The average monthly net salary in the public sector for 2017 was €452.⁹ General poverty continues to be quite high and as estimated in 2011 it was 29.7% while extreme poverty is 10.2%.¹⁰

Table 1: Latest data on general and macroeconomic indicators for Kosovo

General info	Data
Region (2018)	SE Europe
Income Category(2018)	lower middle income
Population (2017)	1,798,506
Surface area (sq. km) (2014)	10,905.25
Capital city (2018)	Prishtina
Macroeconomic indicators	
Gross domestic product, (2017 in millions EUR)	6,282.2
Gross domestic product, per capita, (2017 in EUR)	3,356
Gross domestic product, real growth, (2017 in %)	3.7%
Inflation (2017)	1.5%
Unemployment according to LFS (2017 in %)	30.5%
Net wages (2017 in EUR)	452
Employment level, average (2017 in 000)	156

Source: KAS, Vjetari Statistikor i Republikës së Kosovës.¹¹

⁶ Kosovo Agency of Statistics: Statistical Yearbook, 2008, p. 8, at: <http://ask.rks-gov.net/media/4149/vjetari-statistikor-2018-final.pdf>

⁷ Ibid, p. 12.

⁸ Ibid, p. 17.

⁹ Ibid, p. 15.

¹⁰ Ibid, p. 111.

¹¹ Kosovo Agency of Statistics: Vjetari Statistikor i Republikës së Kosovës, 2018, at: <http://ask.rks-gov.net/media/4356/vjetari-statistikor-shtator-2018-final.pdf>

1.2 The Tobacco Market

The Tobacco Industry in Kosovo dates back to the late 1940s and early 1950s, when the first factory for tobacco processing and tobacco leaf production was founded in Gjilan. Prior to this period, farmers had cultivated tobacco in the form of natural production mostly in the Anamorava and Dukagjini regions. While the collection of tobacco had been carried out in simple ways, all farmers had sold their products in Bujanoc Cumulative Station. The first station for collecting tobacco in Gjilan was established in 1945, followed by additional stations in other cities, such as Gjakova, Prizren and Mitrovica in 1948.¹²

The factory began operating in the 1960s aiming at finalizing tobacco products, specifically in 1963 when the "IDGJ Tobacco Industry Gjilane" was established as a result of an integration of all other tobacco collection units around Kosovo. Due to economic and political circumstances, the factory stopped functioning in the 1990s. According to an official document issued by the Kosovo Privatization Agency¹³, the tobacco factory in Gjilan counted up to 800 regular employees, created 50,000 seasonal jobs, and engaged over 10,000 farmers in tobacco planting. Considering the relatively small population and territory of Kosovo, especially for the Region of Anamorava, the tobacco industry was of crucial economic importance. This factory reached its highest peak in the 1980s when it started the production of the well-known brand of cigarettes, Dunhill, after a contract with "Rothmans International".¹⁴

Available data showing the size of the areas planted with tobacco before 2000, which was collected and then sold for processing to the factory, reveal some interesting findings. For instance, in 1981, there were 3,819 hectares (ha) planted with tobacco, while in 1986 the area of land planted with tobacco increased to 4,822ha (the highest ever recorded). This soon changed in 1991 and 1996, when a rapid decline in tobacco farming was registered as the number of tobacco planted areas decreased to 2,042ha and 1,329ha respectively.¹⁵

The tobacco factory in Gjilan was finally privatized in 2012 by the Premium Tobacco Group. Similar to the privatization of other public enterprises, it was followed by controversy and debate among the public. However, the factory never started the production of any tobacco products. According to information provided on the factory's website, the aim is to revive the tobacco industry and to encourage and stimulate farmers from the Anamorava and Dukagjini region to start the cultivation of tobacco in much bigger capacities. Additionally, the local government in Gjilan foresaw development of the tobacco industry in its strategy, but it has not started with the allocation of subsidies to possible tobacco farmers, despite its public promises.¹⁶

There is an ongoing debate about the revitalization of the tobacco industry in Kosovo, but as of now, the production of tobacco products remains nonexistent, while the cultivation is in very small quantities.

¹² Kosovo Trust Agency: IDGJ Tobacco Factory, at: <http://www.kta-kosovo.org/soediv/ab-Tobacco.pdf>

¹³ Ibid.

¹⁴ Premium Tobacco Group, at: <http://www.ptgks.com/about-us.html>

¹⁵ Kosovo Agency of Statistics: Statistics on Agriculture, 2001, at: <http://ask.rks-gov.net/media/3141/statistikat-e-bujqesise-2001.pdf>

¹⁶ Koha.net, at: <https://www.koha.net/kosove/105050/deshton-edhe-sivjet-subvencionimi-i-kultivuesve-te-duhanit/>

2. Supply of Tobacco Products

Since there is no local tobacco manufacturing, tobacco products in Kosovo are mainly imported. The tobacco industry was completely inactive after the 1990s, leaving thousands of farmers and employees jobless. Currently, it is not possible to determine the number of employees in the tobacco industry in Kosovo, since tobacco importers are mainly local private enterprises or multinational companies operating in the country. Additionally, they do not provide any information regarding the number of employees for research purposes to individual researchers or think tanks, while Kosovo state institutions do not possess such data either.

Unlike its neighboring countries in the Western Balkans, after the war and the deployment of the international community, Kosovo went from being one of the biggest exporters of tobacco products in former Yugoslavia, to a country with zero production. Some of the causes of this situation are also social and related to post-war circumstances and socio-economic conditions, including migration among youth, lack of subsidies, and the dysfunctionality of the tobacco factory.

2.1 Tobacco Farming

Results from the Statistics on Agriculture show there was 1,322ha used for growing tobacco in 1994. This represents only half of the land that was used during the 1980s. In contrast to that, an official report of 2004 by the Provisional Kosovo Self-Government Institutions estimated the cultivation of tobacco on only approximately 150ha. It stated both lack of production by the State Enterprises and the lack of subsidies from the Government as the main reasons for the limited cultivation of tobacco.¹⁷

The most recent Agriculture Census of 2014 shows some even more interesting data. The number of agricultural holdings was estimated to be only 14 in an area of less than 8 ha.¹⁸ This small amount of tobacco is cultivated in two cities: Gjilan (71% or 5ha of land) and Ferizaj (29% or 2ha of land).¹⁹ Tobacco accounts for only 1.2% of all the industrial crops cultivated in Kosovo, including sunflower, aromatic and medicinal plants.²⁰

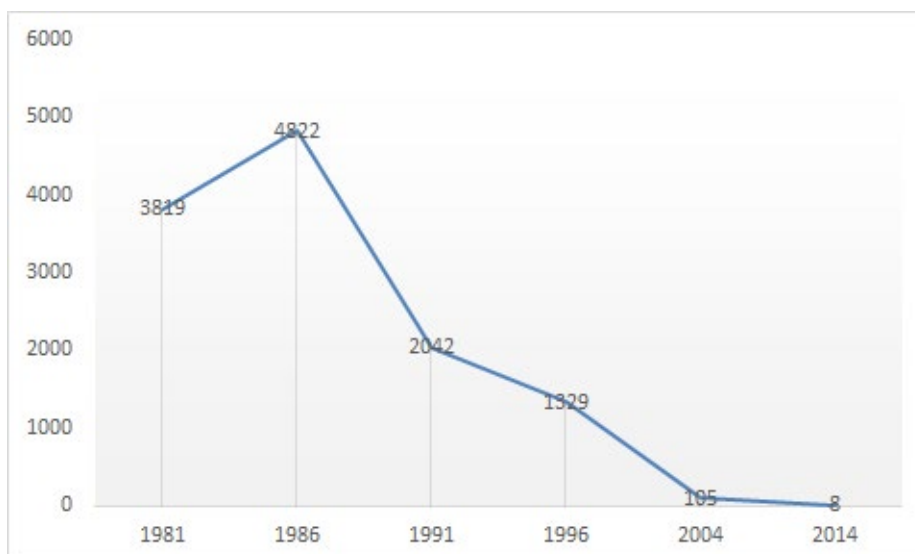
¹⁷ Ministry of Agriculture, Forestry and Rural Development: Raporti Sektorial, Raporti i zhvillimit hapësinor për sektorin e bujqësisë, Pristina, 2004, p. 7, at: http://ammk-rks.net/repository/docs/Bujqesia,_pylltaria_dhe_zhvillimi_rural.pdf

¹⁸ Kosovo Agency of Statistics: Agriculture Census, 2014, p. 89, at: http://www.mbpzhr-ks.net/repository/docs/REGJISTRIMI_I_BUJQESISE_NE_REPUBLIKEN_E_KOSOVES_2014__Rezultatet_Perfundimtare.pdf

¹⁹ Ministry of Agriculture, Forestry and Rural Development: Green Report 2015, pg. 56, at: http://www.mbpzhr-ks.net/repository/docs/Green_Report_Kosovo_2015_Eng_final.pdf

²⁰ Ibid.

Fig.1: Harvested area with tobacco throughout years in Kosovo



Source: Data generated by the project team from various online reports of Ministry of Agriculture and KAS.

The annual Green Reports drafted by the Ministry of Agriculture since 2014 do not provide any change in data regarding the amount of land used for growing tobacco, meaning there is no major change from 2014 onward. However, according to the latest report of 2017, there are two active companies in the farming of tobacco products with around €87,000 worth of annual turn-over, but strangely with only one employee.²¹

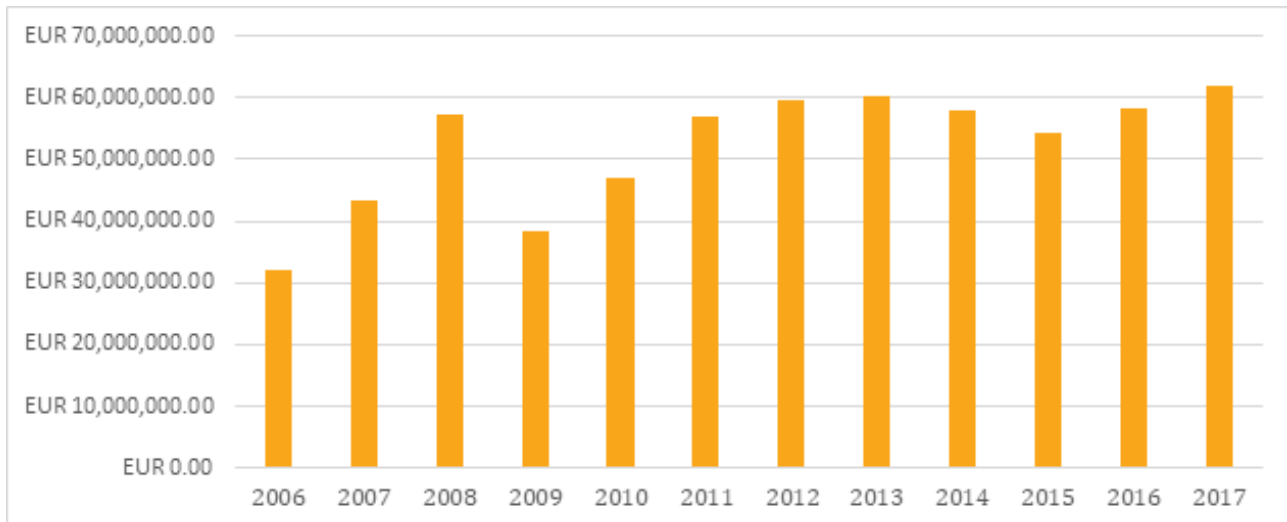
2.2 Foreign Trade of Tobacco Products

The amount of imports and exports before 2005 is not precisely measured and consequently not reliable according to the Kosovo Customs. However, it is believed that Kosovo imported approximately around 3,000 tons of tobacco per year during that period.²² Tobacco remains one of the highest imported items from the Central European Free Trade Agreement (CEFTA) and EU countries, followed by beverages, cereals and milk products according to the Green Reports for 2014, 2015, 2016 and 2017.

²¹ Ministry of Agriculture, Forestry and Rural Development: Green Report, 2017, pp. 38-9, at: http://www.mbpzhr-ks.net/repository/docs/Raporti_i_Gjelber_2017_Eng_Final.pdf

²² This approximate number was estimated by the Kosovo Customs via emails that we exchanged as well as the meeting we had.

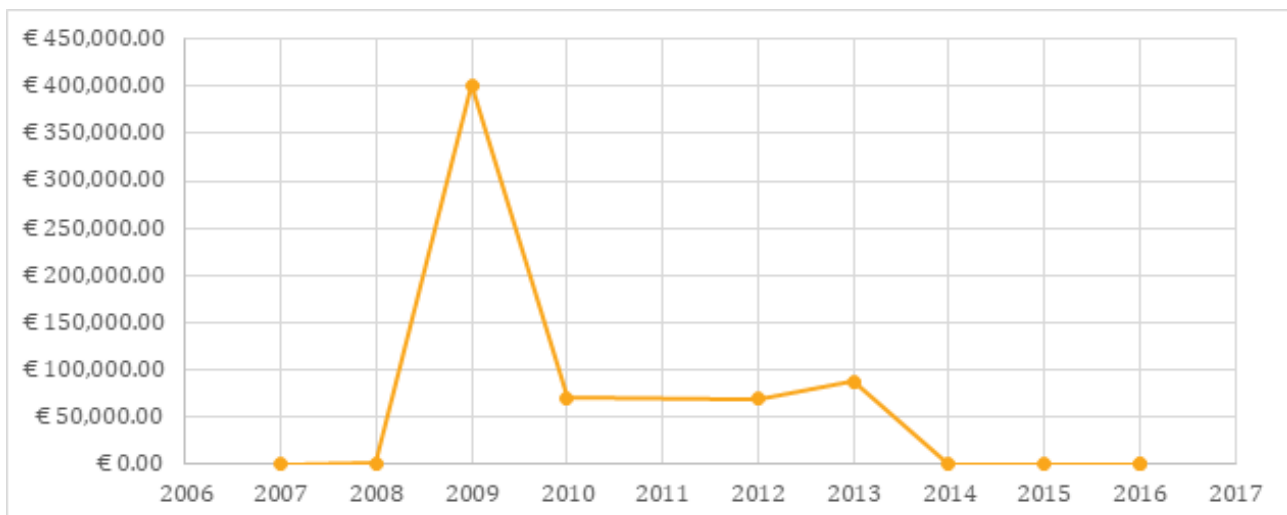
Fig.2: Value of tobacco imports in Kosovo 2006 – 2017 in euros



Source: Based on data received from the Kosovo Customs on April, 2018

As can be seen from Figure 2, the value of the imports has fluctuated over time, and reached the highest peak in 2017. However, in 2008, 2011, 2012 and 2013, the value of the imported tobacco products nearly remained the same, between 57 and 62 million Euros.

Fig.3: Value of tobacco exports from Kosovo 2007 – 2016 in euros



Source: Data is generated from the Green Reports of 2014 and 2017, Ministry of Agriculture, Forestry and Rural Development²³ In the same year, it is estimated that the imports of tobacco and its substitutes from EU countries accounted for 21% of all general imports.²⁴

²³ Ministry of Agriculture, Forestry and Rural Development: Green Report, 2015, p. 106, at: http://www.mbpzhr-ks.net/repository/docs/Green_Report_Kosovo_2015_Eng_final.pdf

²⁴Ibid, p. 101.

The data provided by the Customs of Kosovo also show in detail the tobacco products imported and exported to/from Kosovo specified in quantity, value and structure of taxes. Between 2007 and 2013, there is data registering exports of tobacco products (see Figure 3); however, it is impossible to find any reliable source of information that would shed light on these issues. Interviews with government officials suggest that Kosovo actually never had enough capacity to export tobacco products, and that tobacco cultivated in Kosovo was mainly sold raw in domestic market probably at a cheaper price.²⁵

The data on smoking prevalence provided by the KAS is only available from 2012 to 2016, and it includes the gender variable. These data show that smoking prevalence in Kosovo is much higher among men with an average of 25%, as compared to women with an average of only 7%. The overall smoking prevalence in Kosovo is around 16%.

Table 2: Smoking prevalence rates 2012–2017

	2012	2013	2014	2015	2016	2017
Men	25	23	23	25	24	24
Women	7	5	6	7	7	8
Overall	16	13	14	16	16	16

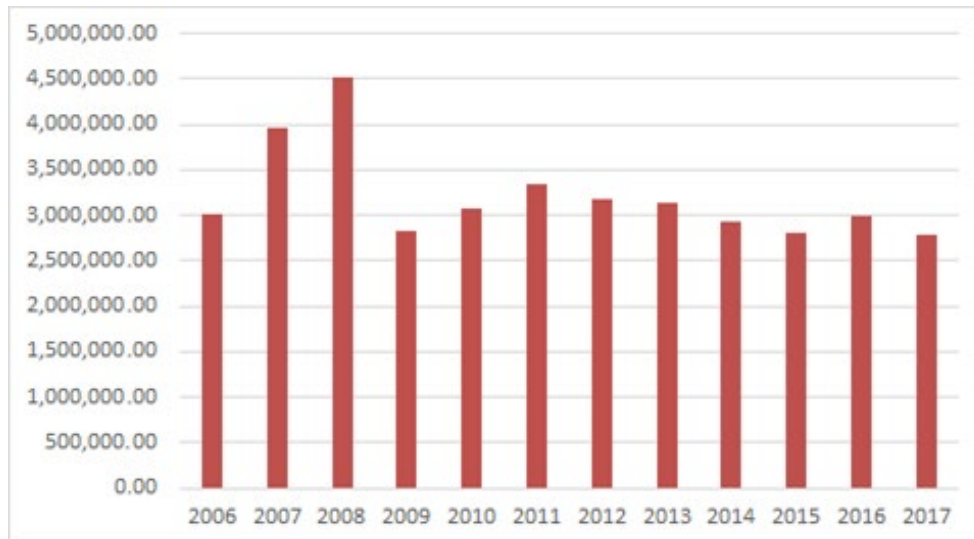
Ministry of Agriculture, Forestry and Rural Development: Green Report, 2014, at: http://www.mbpzhr-ks.net/repository/docs/56917_161214_GR_2014_ENG_Final_Printed_Version.pdf; Ministry of Agriculture, Forestry and Rural Development: Green Report, 2017, at: http://www.mbpzhr-ks.net/repository/docs/Raporti_i_Gjelber_2017_Eng_Final.pdf²⁶ In the 2017 Green Report, tobacco and its substitutes accounted for 9% of the overall imports in Kosovo, valued at €58 million.²⁷

²⁵ Kosovo Agency of Statistics: Results from the Household Budget Survey, 2017, p. 12, at: <http://ask.rks-gov.net/media/4094/abef-2017.pdf>

²⁶ Ministry of Agriculture, Forestry and Rural Development: Green Report, 2017, p. 96, at: http://www.mbpzhr-ks.net/repository/docs/Raporti_i_Gjelber_2017_Eng_Final.pdf

²⁷ Interview with two Public Servants from the Ministry of Agriculture, Forestry and Rural Development of Kosovo, Pristina, 3 August 2018.

Fig.4: Quantity of tobacco product imported in net kg in Kosovo 2006 –2017

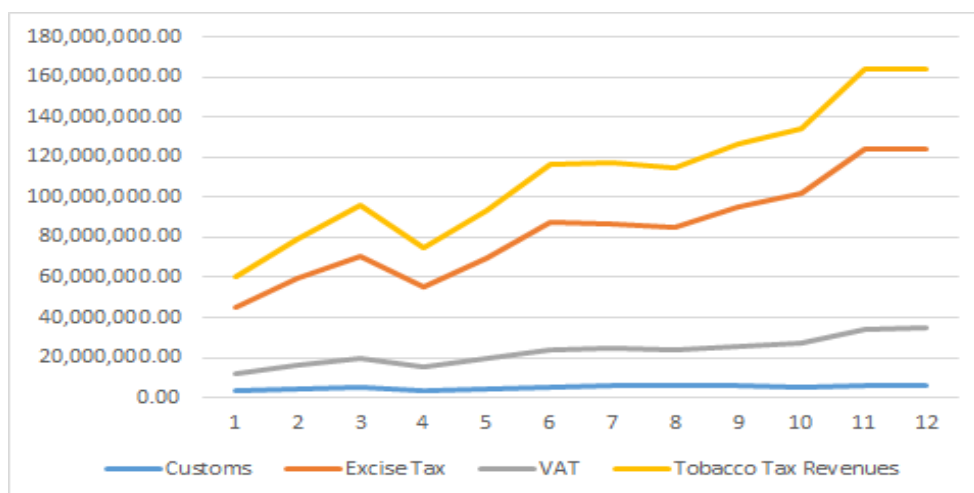


Source: Based on data received from the Kosovo Customs on April, 2018

The quantity of imported tobacco products to Kosovo has remained more or less the same with the exception of 2008, when the highest quantity of tobacco ever imported was recorded (Figure 4).

Tobacco tax revenues are shown in Figure 5 and are dispersed by the tax structure consisting of the customs duty, excise tax and VAT. Their sum provides the overall tax revenue shown by the yellow line. Excise tax accounts for the largest share of tobacco tax revenues.

Fig.5: Tax Revenues from tobacco products 2006– 2017

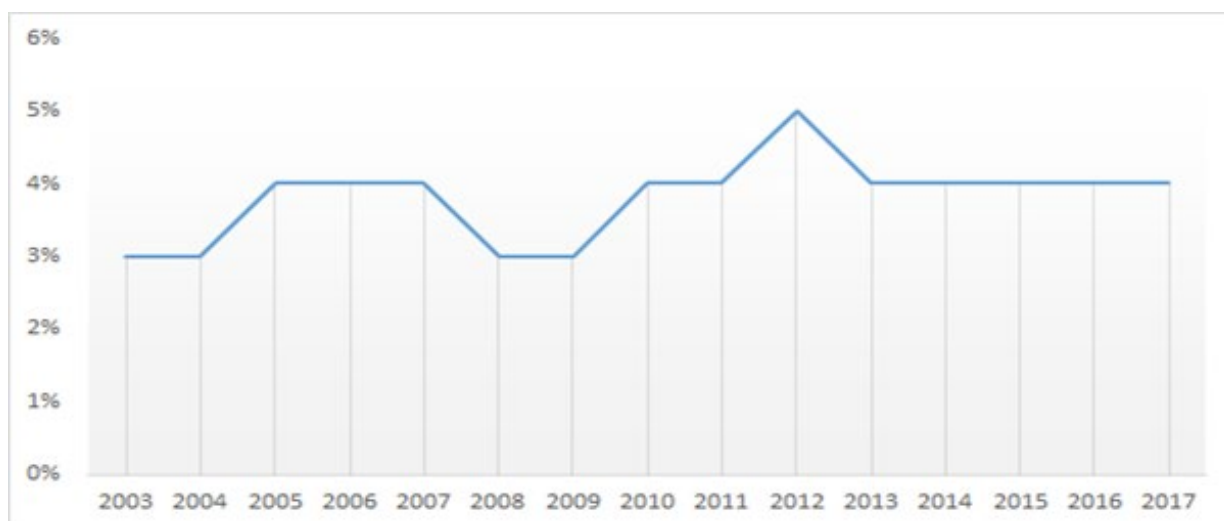


Source: Based on data received from the Kosovo Customs on April, 2018

3. Demands for Tobacco Products

The value and quantity of tobacco product imports has not changed significantly throughout the years, despite the tax and price increases. This indicates that the demand for tobacco products has not dropped either, leading to an increase in budget revenues. The consumption rate for alcohol and tobacco from 2003 to 2017 (Figure 6), shows expenditures for those two items between from 3 to 4% of the household budget.

Fig.6: Consumption rate according to consumption groups for alcohol and tobacco 2003– 2017



Source: KAS data / Results extracted from the Household Budget Survey

If this 4% expenditure of the household budget is converted into monetary value, it translates to around €344 per year, per household.²⁸ shows quite a different overview regarding smoking prevalence among the adult population. Adopting the WHO STEPS instrument, the survey was conducted in 2011, collecting data from seven different regions of Kosovo. The study contains inter alia information on smoking prevalence among men and women of different age groups, and the number of cigarettes smoked per day. The sample size consists of 6,400 men and women. Contrary to the KAS smoking prevalence estimate of 16%, the study concludes that the percentage of smokers in Kosovo is as high as 28.4% among adults aged 15 to 64.²⁹

²⁸ Sanije Gashi, et al.: Smoking behaviours in Kosova: Results of Steps Survey, 2016, at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5504541/>

²⁹ Ibid.

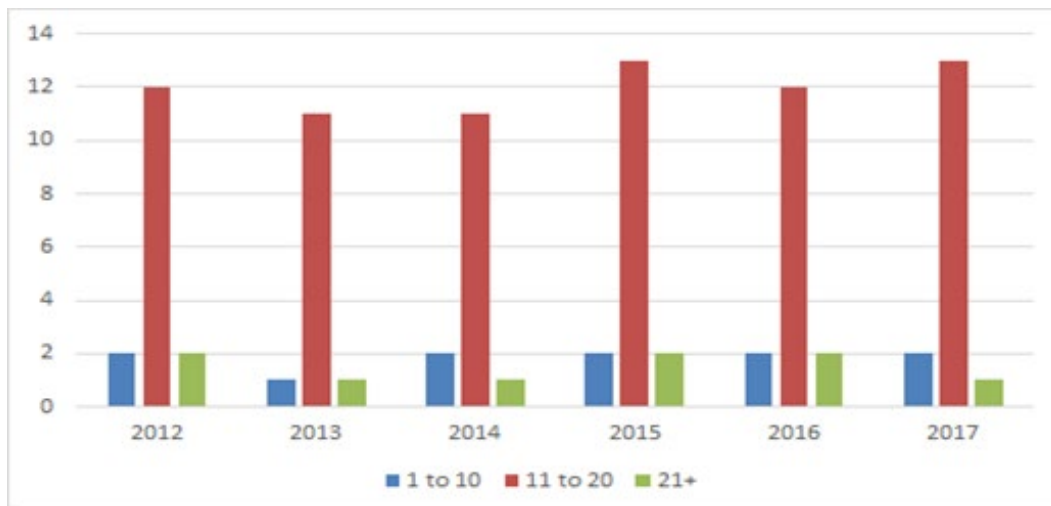
Table 3: Smoking prevalence in Kosovo using STEPs survey conducted in 2011

Age	Female (%)	Male (%)	For both sexes (%)
15 - 24	11.6	20.7	16.0
25 - 34	21.6	42.3	31.9
35 - 44	25.2	48.8	36.9
45 - 54	22.9	40.7	31.9
55 - 64	17.9	34.5	26.1
Total 15-64	19.7	37.4	28.4
Total 25-64	21.9	41.6	31.7

Source: KAS, data extracted from the Household Budget Survey

In addition to the smoking prevalence, there is also data on the percentage of smokers based on the number of cigarettes consumed per day. Data shown in Figure 8 reveal that the highest percentage of active smokers, smoke on average, 11 to 20 cigarettes a day. The trend appears not to change much between 2012 and 2017.

Fig.7: Smoking prevalence in terms of the number of cigarettes consumed (1 to 10, 11 to 20, 21+)



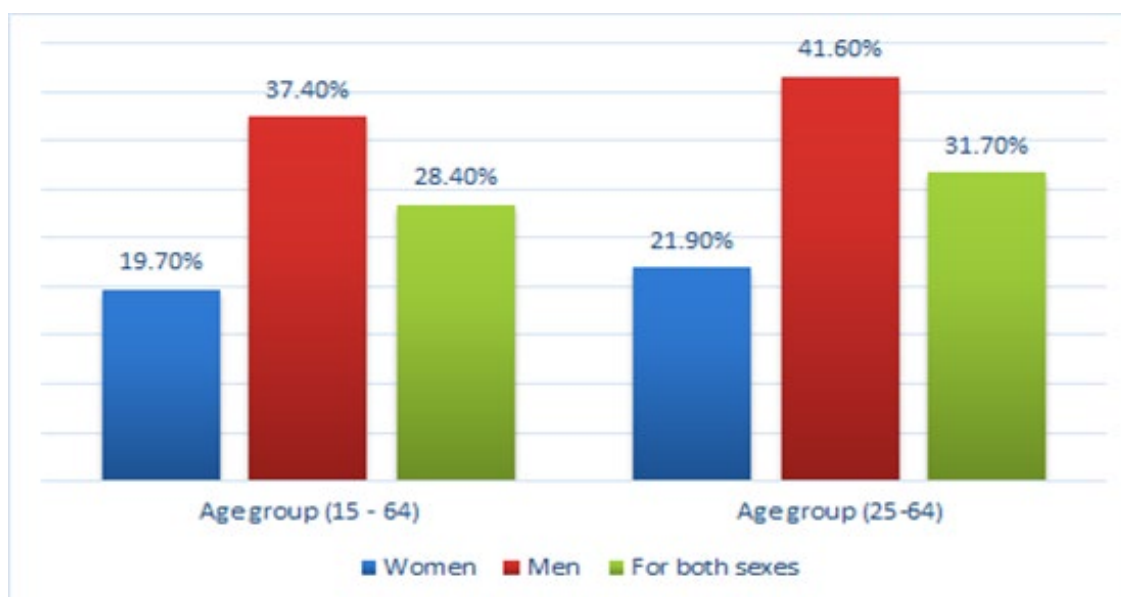
Source: KAS, Household Budget Survey Results

Whether these data provided by the KAS are reliable and credible is questionable. For example, a scientific article on smoking behaviors in Kosovo conducted by Gashi et al (2017)³⁰

³⁰ Ibid.

In addition, the prevalence of smoking is almost two times higher among men (37.4%) than among women (19.7%). Once again, it contradicts the estimates from KAS where smoking prevalence for men is 25%, while for women it is around 7%. Nevertheless, based on this data, Kosovo has very high smoking prevalence compared to other Eastern European countries, but lower than Bosnia and Herzegovina and Albania.³¹

Fig 8: Smoking prevalence differences between genders and age groups



Source: Data generated from the Survey "Smoking behaviors in Kosovo"³²;

In addition to Gashi et al. research (2017), two more studies evaluated smoking prevalence in Kosovo: The first, conducted by Ramadani (2005), focused on smoking prevalence among youth between 13 and 15 years old. This study was conducted twice in Kosovo, for the first time in 2004 and the most recent one in 2016 by Ramadani and Berisha (2016), Institute of Public Health of Kosovo with guidance by the WHO³³; The second study is conducted by WHO (2010), focused on smoking prevalence among pregnant women in Kosovo.³⁴ Thus, this study analyses the situation before the 2013 Law on Tobacco Control³⁵ entered into force and it serves as a valid indicator on smoking demand.

The main findings of the Global Youth Tobacco Study (GYTS) for Kosovo are quite concerning. The results suggest that 8.8% of youth are active smokers³⁶, 11.7% of boys and 5.6% of girls. Findings regarding passive smoking among youth are also very

³¹ Ibid.

³² Naser Ramadani: Hulumtimi Gjithëpërfshirës i Duhanpirjes te të rinjtë në Kosovë, 2005; Naser Ramadani & Merita Berisha: Hulumtimi Gjithëpërfshirës i Duhanpirjes te të rinjtë në Kosovë, 2006.

³³ Naser Ramadani: Hulumtimi Gjithëpërfshirës i Duhanpirjes te të rinjtë në Kosovë, 2005; Naser Ramadani & Merita Berisha: Hulumtimi Gjithëpërfshirës i Duhanpirjes te të rinjtë në Kosovë, 2006.

³⁴ WHO Regional Office for Europe: Përdorimi i duhanit dhe substancave tjera psiko-aktive tek shtatzënat në Kosovë, 2010.

³⁵ LAW No. 04/L-156 On Tobacco Control, at: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=8665>

³⁶ Have been smoking regularly in the last 30 days. This definition is adopted from the WHO.

concerning. The study shows that 47.8% of them are exposed to smoking inside their houses, another 43.8% are exposed to smoking inside closed public areas, followed by 43.3% who are exposed to smoking in open public spaces. Even though the majority of the pupils have noticed anti-smoking messages in the media (69.9%) and have learned about its negative impact in school (62.8%, which is not very high), 23.2% of them think smoking can make them feel more comfortable in social gatherings. However, the majority of them (94%) are proponents of prohibiting smoking in closed public areas, and another 82.7% of them support no smoking in open areas and in nature either. Of the active smokers, around 70% claim that they have never been declined by the sellers to purchase cigarettes for being underage (70% for boys and 61% for girls). This is an indicator that the law is not being fully enforced.³⁷ Moreover, a high percentage of smoking prevalence among pregnant women is confirmed by the survey conducted in 2010, as 20.9% of pregnant women are active consumers.³⁸

³⁷ National Institute of Public Health of Kosovo: Global Youth Tobacco Study, GYTS KOSOVA 2016.

³⁸ WHO Regional Office for Europe: Përdorimi i duhanit dhe substancave tjera psiko-aktive tek shtatzënat në Kosovë, 2010, p. 2.

4. Tobacco Taxation and Pricing Policies

4.1 Institutional Setting for Tobacco Control

The main institutions for drafting and implementing policies related to tobacco are the Ministry of Health and Ministry of Finances. The Ministry of Health produces and drafts policies related to tobacco control with the aim of public health protection, while the Ministry of Finances focuses on tax policies and other regulations. However, the main body for proposing policy amendments and also monitoring the implementation of the Law on Tobacco is the Inter-ministerial for Tobacco Control (The Council).³⁹ The Council is established by the Government of Kosovo and currently has 15 members. It is composed of representatives from: Ministry of Health; Ministry of Education, Science and Technology; Ministry of Finance; Ministry of Labor and Social Welfare; Ministry of Justice; Ministry of Internal Affairs; Ministry of Environment and Spatial Planning; Ministry of Infrastructure; Ministry of Agriculture and Rural Development; Ministry of Culture, Youth and Sports; health professionals, representatives of the media, and civil society.⁴⁰

The Council was established in July 2013, and the Minister of Health is its chairperson. It is also in charge of overseeing the work of monitoring and implementing bodies of the Law on Tobacco Control, which are the Health Inspectorate, Sanitary Inspectorate, Market Inspectorate, Labor Inspectorate, Education Inspectorate, Transports Inspectorate, Anti-Corruption Agency, and Kosovo Police. It also oversees the work of the non-governmental sector, such as the WHO office in Kosovo, civil society organizations and media. The Minister of Health reports to the Prime-Minister on the state of implementation of the Law on Tobacco.

The report that the Minister of Health, the Chairperson of the Council, submitted to the Prime-minister in July 2016, emphasized that Kosovo's Law on Tobacco Control is fully in compliance with the WHO Framework Convention on Tobacco Control (FCTC), and the prohibition of tobacco smoking in all public areas was welcomed and respected by the general public even in its first year of coming into force. This was also considered as a major public health achievement by the European Commission Progress Report for Kosovo in 2013.⁴¹

The Council's Report also provided information on the activities of the Inspectorates from 2013 to 2016. As provided in following tables, the mandatory fines are very low compared to the cases that were reported. For example, in 2015, 245 cases were reported and only 28 were fined.

³⁹ LAW No. 04/L-156 On Tobacco Control, Article 13, at: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=8665>

⁴⁰ Ibid.

⁴¹ European Commission: Commission Staff Working Document: Kosovo* 2013 Progress Report, Accompanying the document Communication from the Commission to the European Parliament and the Council, Enlargement Strategy and Main Challenges 2013-2014, at: http://eeas.europa.eu/archives/delegations/kosovo/documents/eu_kosovo/ks_progress_report_2013_en.pdf

Table 4: Activities undertaken by the Sanitary Inspectorate during the period 2013– 2015

Year	Orders	Reports	Mandatory Fines	Complaints Reviews
2013	3000	21	15	498
2014	1700	80	8	165
2015	981	245	28	549
TOTAL	5681	346	51	1212

Source: Ministry of Health of Kosovo, Report on the implementation of the Law on Tobacco Control, Pristina, July 2016.

Table 5: Activities undertaken by Kosovo’s Police during the period 2014– May 2016

Year	Assistance to the Inspectorates	Mandatory Fines
2014	65	133
2015	89	120
2016 (January – May)	06	11
TOTAL	160	264

Source: Ministry of Health of Kosovo, Report on the implementation of the Law on Tobacco Control, Pristina, July 2016.

Since the 2014 political gridlock in Kosovo^{42a} a significant decline in the implementation of the Law on Tobacco Control is noticed. The Council’s Report identifies the following major challenges in the implementation of the Law on Tobacco Control:

- Low involvement of some of the Inspectorates in the implementation of the Law;
- Inadequate motivation of inspectors;
- Lack of coordination between the monitoring/implementing institutions;
- Lack of support of the Law on the political level;
- Low involvement of the municipal authorities;
- The negative effects from the violation of the Law by the public figures (deputies, ministers, majors, etc.);
- The continuous interference by the tobacco industry;
- Lack of funds for developing more activities and awareness campaigns.

The Council’s Report also shows that, in the meantime, when the Law on Tobacco Control entered into force, the Ministry of Trade and Industry launched a “free of charge telephone line”, where the general public could report cases of violation of the Law. Thus, between 2013 and 2016, 600 cases were reported in total.

⁴² After the elections in June 2014 Kosovo failed to form the government and the political gridlock lasted until November 2014.

4.1.1 Relevant Legislation for Tobacco Control

The ground work for most of the existing laws, among them tobacco regulation and policies pertaining to tobacco consumption control in Kosovo, was laid after 1999 under the United Nation Interim Mission in Kosovo (UNMIK). The first Law on Tobacco⁴³ was issued in 2005, followed by the Law on Tobacco Control in 2013.⁴⁴

The purpose of the Law on Tobacco Control is to protect the public health of present and future generations from the devastating health, social, economic and environmental consequences of tobacco use and exposure to tobacco smoke. The Law determines measures for the prohibition, restriction of the use of tobacco products, tobacco ingredients, prevention of harmful consequences, and supervision for implementation.⁴⁵ This Law determines: restraint measures and prohibition of tobacco smoking in public areas; harmful ingredients in the cigarettes; obligatory warning labels regarding the health consequences that smoking causes; measures for reducing and limiting of tobacco consumption; and spaces near which tobacco selling is prohibited. Under the section for preventive measures, the Law states the establishment of the Inter-ministerial Council for Tobacco Control, its composition and the chairperson.⁴⁶

Contrary to the UNMIK Law on Tobacco, where fines for legal persons varied between €3,000 and €10,000, and private persons could be fined by a 5% reduction of their net monthly salary, the Law on Tobacco Control defines in details the administrative fines for law violations. The fines for legal persons vary between €1,000 and €20,000, and for natural persons they vary between €50 and €1,000.

4.1.2 Policy Framework for Tobacco Control

Law on Excise on Tobacco Products: The first policy on excise taxes in Kosovo was issued by UNMIK administration in January 2000. Regulation No. 2000/2 on Excise Taxes in Kosovo⁴⁷ defined taxes levied on various goods, including tobacco. This regulation had an ad valorem rate of 25% for cigarettes, cigars, cigarillos and other manufactured tobacco. The Law on Excise on Tobacco Products entered into force in October 2011. This law adjusts the particular payment of excise on tobacco products, which are produced, imported and sold in Kosovo.⁴⁸ This law determines: excise is applied to both tobacco products produced and/or imported in Kosovo; a list of the tobacco products that are exempted from the tax excise; the placement and the content of the fiscal banderols; the confiscation and destruction of confiscated tobacco products.

⁴³ Law No. 02/L-36, Tobacco Law, at: http://www.assembly-kosova.org/common/docs/ligjet/2005_02-L36_en.pdf

⁴⁴ Law No. 04/L-156, on Tobacco Control, at: <https://www.kuvendikosoves.org/common/docs/ligjet/Law%20on%20Tobacco%20Control.pdf>

⁴⁵ Ibid, Article 1.

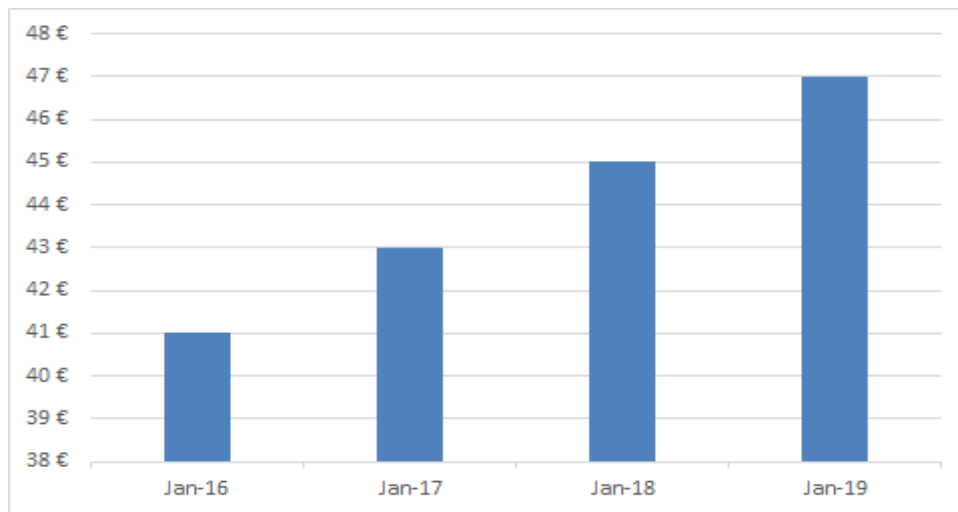
⁴⁶ Ibid, Article 13.

⁴⁷ Regulation no. 2002/2 UNMIK/REG, on Excise Taxes in Kosovo, at: http://www.unmikonline.org/regulations/2000/re2000_02.htm

⁴⁸ Law No. 04/L-021 on Excise on Tobacco Products, Article 1, at: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2779>

In December 2015 the Kosovo Government decided on Excise on Tobacco Products⁴⁹, stating that from 2016 to 2019, the excise tariff on tobacco per unit (1,000 cigarettes) shall be increased each year by €2. In 2016, the excise on tobacco was €41 per unit; in 2017 it was €43 per unit; in 2018 it is €45 per unit; and in 2019 it will be €47 per unit. However, it is unclear which policy on Excise on Tobacco Products will be applied after 2019.

Fig.9: Tobacco Excise Tax Increase Calendar



Source: Tobacco Excise Calendar⁵⁰

The Law on Production, Collection, Processing and Trading of Tobacco stipulates legal relations related to procedures, rights and duties of the parties involved in the production, collection, processing and trade of tobacco.⁵¹ The law entered into force in October 2011, and states that all producers, collectors and processors of tobacco should obtain the appropriate license from the Ministry of Agriculture, Forestry and Rural Development of Kosovo (MAFRD).⁵² Annually, producers should declare in writing to MAFRD the factual data on production place, surface, type, sort, brand and production planned for tobacco.⁵³

This law also stipulates that subjects dealing with trading of tobacco and its products should be appropriately licensed for conducting the activity by the Ministry of Trade and Industry.⁵⁴ It also defines the fines for violations, which vary between €10,000 and €200 for natural and legal persons, respectively.⁵⁵ The supervision of implementation of this law is performed by the Phytosanitary Inspectors and Trade Inspectors.⁵⁶ The Law on

⁴⁹ Qeveria e Republikës së Kosovës, Vendim 11/64, 11.12.2015, at: http://www.kryeministri-ks.net/repository/docs/Vendimet_e_Mbledhjes_se_64-te_te_Qeverise_se_Republikes_se_Kosoves_2015.pdf

⁵⁰ Ibid.

⁵¹ Law No. 04/L-041 on Production, Collection, Processing and Trading of Tobacco, Article 1, at: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2783>

⁵² Ibid, Article 4.

⁵³ Ibid, Article 8.

⁵⁴ Ibid, Article 17.

⁵⁵ Ibid, Article 33.

⁵⁶ Ibid, Article 28.

Production, Collection, Processing and Trading of Tobacco stipulates as well issues such the control on seeds and planting material, contracts of production and collection of tobacco; trading of tobacco; labels; banderols; detailed role of inspectors.

4.1.3 Tobacco Control Measures

In addition to the related laws the Ministry of Finance's Customs and Excise Code is another important document that regulates tobacco import. This code regulates basic elements of the system for customs protection of the economy of Kosovo and the rights and obligations of all operators in applying customs legislation.⁵⁷ Another aspect of this code is the definition of tobacco and differentiation of its products. According to the code, there are three tobacco products: a) Cigarettes; b) Puro cigars and cigarillos; c) Other processed tobacco products, which are processed wholly or partly, extracted from tobacco or other substituting substances, but those do not include smoking plants.⁵⁸

Sanctions for illegal and criminal activities by tobacco traders are also stipulated in the code. Basically, it is stipulated that "whoever does not hold a valid license will be punished by a fine not exceeding twice the rate of the annual license fee or by imprisonment of up to three months".⁵⁹

Annex A of the Customs and Excise Code, Article 5 defines that duty relief cannot be granted for tobacco and all other tobacco products.⁶⁰ However, as stipulated in Article 31, duty relief can be granted to smaller amounts of tobacco and tobacco products: tobacco products such as "50 cigarettes, or 25 cigarillos (thin and small puro, maximum 3 grams each), or, 10 puro cigarettes, or 50 grams of smoking tobacco, or proportional assortment of these different products".⁶¹ Travelers could also carry tobacco products limited to "200 cigarettes, or 100 cigarillos (cigarettes that weigh more than 3 grams each), or 50 puros, or 250 grams of smoking tobacco, or a proportional assortment of these different products".⁶²

4.2 Tobacco Tax Structure

Kosovo has a well-established tax system based on the policies of the EU. The fiscal policies and laws are in compliance with the EU's Acquis Communautaire. This is also valid for tax and customs policies, including direct and indirect taxation. All the laws in force regulating the taxation system are implemented and monitored by the Kosovo Tax Administration and Kosovo Customs. Tobacco tax structure is regulated by a number of laws, including the Customs and Excise Code of Kosovo Nr.03/L-109, Law on Excise on Tobacco Products Nr.04/L-021, Law on Value Added Tax Nr.05/L-037, followed by relevant administrative instructions.

⁵⁷ CODE No. 03/L-109 Customs and Excise of Kosovo, Article 2, at: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2600>

⁵⁸ Ibid, Article 235.

⁵⁹ Ibid, Article 300.

⁶⁰ Ibid, Annex A, Article 5.

⁶¹ Ibid, Annex A, Article 31.

⁶² Ibid, Annex A, Article 46.

Tobacco products are subject to three kinds of taxes: Excise Tax, Value Added Tax (18%) and Customs Duty (10%). However, Kosovo applies three different customs' tariffs on imported goods from different countries:

- 0% for goods imported from Montenegro and Serbia;
- 1% for goods from Macedonia and Albania according to the free trade agreement;
- 10% for goods imported from all other countries.⁶³

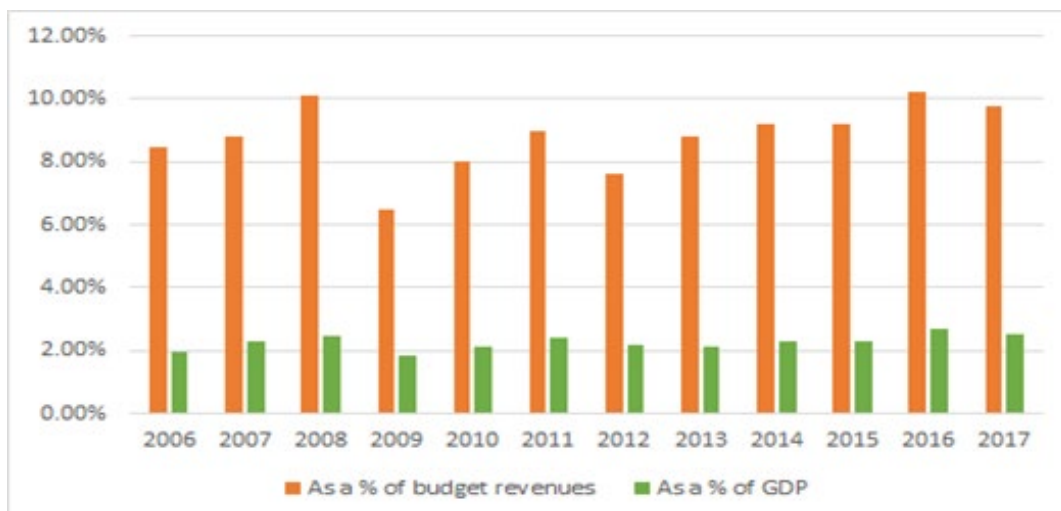
The basis for the calculation of the excise tax on tobacco products is common unit determined by Article 4 of the Law on Excise for Tobacco Products as followed:

- 1) For cigarette, of common weight one (1)-kilogram of common weight; any cigarette shall be considered to have one (1)-gram of conventional weight and, consequently, one thousand (1,000) cigarettes shall be deemed to weigh one (1)-kilogram; any cigarette more than nine (9) centimeters long (excluding any filter or mouthpiece) shall be treated as nine (9) centimeters or part thereof were one separate cigarette;
- 2) For pure cigarette and in cigarillos per weight unit;
- 3) For any other kind of tobacco, one (1) kilogram.

4.3 Tobacco Tax Revenues

The contribution of tobacco tax to the budget revenues is quite significant, being over 8% in most years, while its share to GDP has been around 2%.

Fig.10: Tobacco Tax Revenues as a percentage of budget revenues and GDP 2006 – 2017



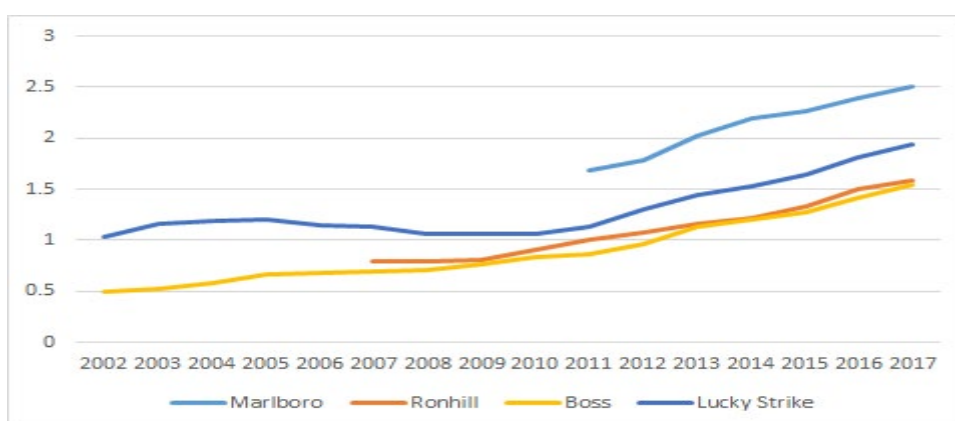
Source: Data calculated based on the data received by the Kosovo Customs in April 2018 and respective annual reports of the Central Bank of Kosovo

⁶³ State Portal Republic of Kosovo, at: <https://www.rks-gov.net/EN/f135/finance-taxes-customs/customs>

4.4 Pricing of Tobacco Products

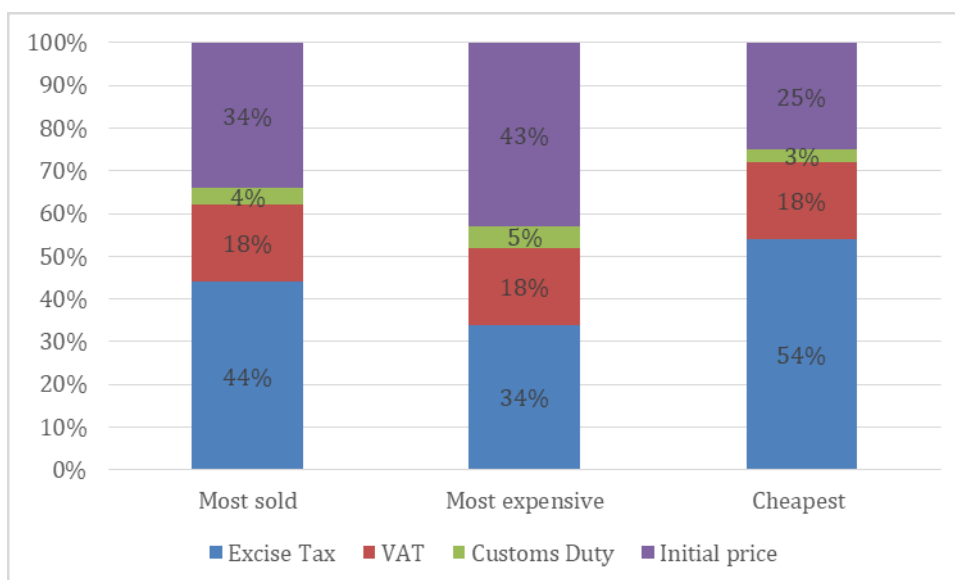
Prices of different brands of cigarettes in Kosovo have only been increasing, as Figure 12 shows. Although there are four different brands of cigarettes in the graph, it is worth mentioning that the increase in prices happened exactly at the same time for each one of them.

Fig.11: Price of different brands of cigarettes in Euro 2002 – 2017



Source: Data generated from the KAS, annually harmonized indices of consumer prices⁶⁴

Fig.12: Tax structure of the retail price of the tobacco products for most sold brand, most expensive and the cheapest brand



Source: Based on the KAS data, harmonized indices of consumer price and current tobacco taxation

⁶⁴ Kosovo Agency of Statistics data, at: http://askdata.rks-gov.net/PXWeb/pxweb/sq/askdata/askdata__03%20Prices__01%20Consumer%20Price%20Index/cpi03.px/table/tableViewLayout1/?rxid=38e06e25-dcb4-474e-9eea-b568709906a9

As shown in Fig.12, the initial price of cigarette pack differs between most sold, most expensive, and the cheapest brand. While the initial price is 43% of the entire retail price for the most expensive brand, it is 25% for the cheapest one. On the other hand, the excise tax constitutes the highest share of the retail price of the cheapest brand with 54%, while for the most expensive and the most sold, it is 34% and 44%, respectively. If we compare the initial price versus the retail price after taxes, the excise tax does not exceed more than 60% of the total price for any of the cigarette packs. That is very important, considering that the WHO framework recommends that the excise should constitute 70% of the total price of a pack.

The retail price for a pack of cigarettes in Kosovo has increased throughout the last period; however, it remains quite low and is among the lowest compared to other Western Balkan countries. As shown in table 5, the price for a pack of Marlboro Red is cheaper only in Macedonia (€2.20 compared to €2.51 in Kosovo) while in other countries such as Albania, Bosnia and Herzegovina, and Serbia the prices are relatively higher €2.56, €2.56, €2.70, respectively. The Western Balkan countries with the most expensive prices for a pack of Marlboro Red are Montenegro and Croatia with €3.01 and €3.75, respectively.

Table 6. Retail price of packs of cigarettes in the Western Balkans.

	Cheapest pack of cigarettes	Marlboro Red	Most expensive pack of cigarettes	Weighted average price
Albania	1.60	2.56	2.64	1.92
B&H	1.89	2.56	3.58	2.05
Croatia	2.14	3.75	5.09	3.21
Kosovo	1.59	2.51	2.51	1.94
Macedonia	0.97	2.20	2.30	1.30
Montenegro	2.00	3.20	3.70	2.10
Serbia	1.77	2.70	4.30	2.05

Source: IES (2018)⁶⁵

⁶⁵ Institute of Economic Sciences: Regional study, Accelerating Progress on Effective Tobacco Tax Policies in Low- and Middle-Income Countries, Regional study Albania, Bosnia-Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Belgrade 2018.

5. Elasticity of Tobacco Products

5.1 Estimation of the Price Elasticity Using the Macro Data

This part of the analysis explores the relationship between the consumption of cigarettes and other economic and social factors from 2005 to 2017. Information on tobacco consumption at the national level was generated from annual imported tobacco in kilograms, converted into sticks (1kg=1,100 sticks) per adult population, giving a mean value of 2,748 cigarettes annually per adult. The decreasing trend of consumption over the years (dependent variable) was tested in relation to real tobacco consumer price index, real income measured as annual GDP growth rate based on constant local currency, and implementation of tobacco control law in 2013 taking a value of 1 when the law was introduced, and 0 when not in force.

To test the robustness of our results, the tobacco Consumer Price Index (CPI) variable was replaced with real cigarette prices per one of the most popular brand in the market, the Boss brand.

Model 1: $Y(\text{consumption}) = \alpha + \beta_1 (\text{real tobacco price}) + \beta_2 (\text{real income})$

Model 2: $Y(\text{consumption}) = \alpha + \beta_1 (\text{real tobacco price}) + \beta_2 (\text{real income}) + \beta_3 (\text{tobacco law})$

To test the stationary of the selected variables and avoid independent random walks (spurious regression), we used the Augmented Dickey Fuller test using different number of lags. All the variables of the model presented conclusive results for different lags. To begin with, consumption was found to be non-stationary, which was fixed using the first difference of consumption. Concerning the other variables, real tobacco CPI and tobacco control law, the results also informed regarding the presence of unit root at the first order. To transform the variables into stationary, we applied first difference. The variable on real income "*rincome*" appeared to be stationary at 5% critical value. Following, to determine if y and x are co-integrated, Engle Granger two-step approach was performed. Using the information from the long run OLS regression, Augmented Dickey Fuller was applied upon the residuals of the model. The test statistic confirmed co-integration – an existing relation between nonstationary variables – giving the value -3.581 statistically significant at all levels. The VIF tests performed on the two models confirmed of no issue with multicollinearity, and the Durbin-Watson d-statistic reported no auto-correlation.

Following, we elaborate on the results from the first model measuring the long-term association and demand elasticity. The sign of real tobacco CPI presents the expected results confirming negative association. As real tobacco CPI increases by one unit, consumption per capita decreases by 21 cigarette sticks. The t values is -3.21 reporting an existing moderate relationship between the variables. Moving on the real income control, the results display a significant and positive association, which may be linked to the outwards shifted budget line enabling greater consumption of good.

When estimating the price elasticity of demand, the value obtained for the long-run was -0.68. Said differently, if the government imposes new (or increased) taxes, which

increases the cigarette price by 10%, demand would decrease by 6.8%. The value can be considered relatively comparable to previous literature on developing countries⁶⁶. Based on the study by Prabhat Jha⁶⁷ the price elasticity of consumption following a 10% price increase, varies between 4% to 8%. In relation to income elasticity of demand, the value is relatively low in the long run. According to our results, a 1% increase in income will lead to a 0.17% increase in consumption. Similar estimates were also obtained when applying the double log approach and bootstrapping methodology (price elasticity of demand: -0.68; income elasticity of demand: 0.14) .

For the second regression, including the implementation of tobacco law, price elasticity of demand increased to -0.82, while for income elasticity, the value is 0.18. Identical results were also obtained from the bootstrapping approach. Overall, it can be said the consumption of cigarettes is price inelastic in the long-run.

The second part of the analysis focused on the short-term effect. Using the Augmented Dickey Fuller, we tested the stationarity of the residuals confirming the presence of co-integration between the variables of interest at all critical values (test statistic: -3.581). Additionally, log residual from the Engle Granger two-step approach was estimated to validate the existence of a long-run relationship. The obtained value showed that around 85% of the deviation of the previous equilibrium will be corrected. The short-term regression presents the expected statistically significant negative correlation between real tobacco CPI and consumption, and positive for income. It can be said that the increase in tobacco CPI by one unit, leads to a decrease by 21 units in the short-run. The value is lower than in the long-run, which is intuitive considering that smoking is a difficult habit to break. The estimated price elasticity of demand is -0.33, and income elasticity of demand is -0.24. Moreover, real tobacco CPI parameter estimated for the second model showed the inverse relationship to consumption, decreasing consumption by 12 units, yet followed by an increase from the income effect. Price elasticity is estimated to be -0.40 and income elasticity is 0.25. In relation to the effect of tobacco control law, the results are statistically insignificant.

The results were further tested by replacing the current real tobacco CPI with the retail price of one of the most popular brands, "Boss," where price elasticity of demand appeared to be -0.56 in the long run, and -0.28 in the short run. Regarding the long-run income elasticity, the value was estimated to be 0.20 and 0.25 in the short-run.

A number of limitations within the study should be acknowledged. Initially, the time-period consisting of only 13 years presents a limitation to our model, which could affect the precision of our estimates. Second, the threat from omitted variable bias can be present as per the other not included relevant variables. Third, further analysis on a similar topic should ideally consider using variables that are stationary.

⁶⁶ Hana Ross & Nabilla Al-Sadat: Demand analysis of tobacco consumption in Malaysia, 2007.

⁶⁷ Prabhat Jha & Frank J Chaloupka: The economics of global tobacco control, 2000.

5.2 Estimation of the Price Elasticity Using the Micro Data

To estimate the price elasticity of the cigarettes consumption we use data from the Household Budget Survey (HBS) 2007 –2017. The HBS provided detailed information on household consumption, as well as the information on set of individual characteristics of the household members. Additionally, the data contained information on the municipality in which the respondents lived.

For Kosovo, we define clusters based on the information on municipalities and years (i.e. the cluster is defined as a municipality x in the year t). According to this definition, we generated 341 clusters.⁶⁸ In total, 10,217 households with positive expenditure on cigarettes enter the sample for the estimation. In the first stage regressions, beside total household expenditure (\ln), we control for household size (\ln), gender, age and “maximum” economic activity structure of the household, as well as the mean and maximum level of education of the household members. Households with 20% higher expenditure will buy about 1% more expensive cigarettes. This result is consistent with the previous results from other countries (e.g. John, 2008 for India). Additionally, budget share spent on cigarettes is larger in the households with higher number of members, in households with higher shares of men and adults, but lower in the households where mean and maximum education are higher. Similarly, to unit value equation, in unemployed type of households the budget share spent on the cigarettes is lower.

In the second stage regression, we additionally purge regional effects from the variability of the budget share and unit values. Results of the estimation indicate a negative price elasticity of cigarettes, which amounts to -0.288 . In other words, if the prices in Kosovo increase by 10%, the demand for cigarettes will decrease by 2.9%.⁶⁹ Standard error of the elasticity calculated via bootstrapping procedure (1000 replications) indicates that the elasticity is significantly lower than zero ($\xi = -0.288$; $SE\xi = 0.097$, $t = -2.969$).

⁶⁸ No cluster has less than two households, which is condition to estimate the Deaton’s model.

⁶⁹ It should be noted that this estimate is conditional as it is based only on reported consumption by tobacco spenders, while it excludes the non-spenders. Moreover, due to a lack of data, this estimate focuses only on consumption of cigarettes, while ignoring other combustible tobacco products, such as cut tobacco.

6. Summary and recommendations

The Kosovo tobacco industry is mainly import based. While this has many advantages, such as fewer sources of tobacco products providers, the biggest disadvantage is that the local importers and multinational companies exporting to Kosovo have plenty of room to influence decision-makers to adapt policies in their favor.

The Government of Kosovo should abolish any policy pertaining to incentivizing tobacco cultivation in Kosovo and prohibit the Municipality of Gjilan or any other municipality that attempts subsidizing tobacco farming.

Given the Government decision to increase excise by €2 per unit every year, which is foreseen to cease in 2019, the price for unit will halt at €47. In 2020, a new regulation could be drafted with the aim of increasing the excise to a much higher level, and would make a higher impact on tobacco consumption and increase government revenues. Meanwhile, WHO reports claim that one of the most effective ways to decrease consumption is through higher taxes, which affect prices. Higher prices lead to two initial outcomes: increase in the likelihood to quit smoking and prevent youth from picking up. The effect is expected to be larger for a low income group.

The tobacco excise tax €47 per unit is very low compared to the countries, even some Western Balkan (WB) countries. The government should significantly increase the excise to impact revenues and consumption, as well as to come closer or to come level with the minimum rate set by the EU Commission (€90 per 1,000 cigarettes).

Moreover, smoking is linked to several health consequences. Lung cancer rates in Kosovo are generally low, but the rates are alarming when considering the young population in the country. Reports have shown around 800 new cancer cases recorded every year, where the most common is lung cancer.⁷⁰ A decrease in consumption would also lead to an overall improvement of population well-being, less healthcare utilization, and less resource usage.

The revenue collected from the tax increase could be reallocated to awareness campaigns for pregnant women and youth to quit smoking.

The government should not leave the local tobacco farming uncovered; rather, they should put some strict tax policies in place to discourage any farmer to initiate tobacco cultivation in the future.

In this regard, the Inter-Ministerial Council for Tobacco Control should build a monitoring mechanism for its members/bodies in charge of monitoring the implementation of the Law on Tobacco. The Council should create an internal regulation of its work, specifying how many times in a year the members should submit monitoring reports, how many meetings of the Council should be organized per year, the sanctions for members that violate the regulation, etc. It should make a written agreement with the Public Radio

⁷⁰ Telegrafi.com: Vitin e kaluar u regjistruan 800 raste të reja me kancer, at: <https://telegrafi.com/vitin-e-kaluar-u-regjistruan-800-raste-te-reja-me-kancer/>

Television of Kosovo to broadcast a certain number of awareness ads per year on the consequences of tobacco use.

As stipulated by the Law on Tobacco Control, the Ministry of Health should proceed as soon as possible with the administrative instruction which obligates tobacco producers to add photos that discourage the use of tobacco in each unit of packaging.

A better and more efficient implementation of the Law on Tobacco Control can be achieved by increasing the number of inspectors who are in charge of reporting any violation of the law.

Since the increase of the excise rate is only foreseen until 2019, and it is not the only effective solution to cut the number of smokers, the Ministry of Health in joint cooperation with other stakeholders, could initiate cessation programs and/or alert campaigns against tobacco use.

More specifically, the results from this microanalysis show that an increase in tax for tobacco products would decrease the demand for cigarettes. In other words, the Government of Kosovo should increase the price for 10% to see a decrease of 6.8% demand for cigarettes.

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2. Interview with a Public Servant from the Ministry of Health of Kosovo. Ministry of Health of Kosovo, Pristina 25 July 2018.

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