

# IMPROVING TOBACCO TAX POLICIES IN THE REPUBLIC OF ALBANIA

## INTRODUCTION

Tobacco consumption in Albania remains one of the highest in Western Balkans (WB) based on 2015 data from the World Health Organization<sup>1</sup>. According to the Tobacco Atlas, more than 4,100 Albanians die as a result of tobacco-related diseases every year<sup>2</sup>. Additionally, more than 1,000 children (10-14 years old) and 398,000 youth and adults (15+ years old) continue to use tobacco each day, costing an estimated amount of 270 million Euros to the Albanian economy every year<sup>3</sup>. In response to high levels of smoking prevalence, the Government of Albania (GoA) adopted a set of tobacco control policies. The most distinct one is signing the WHO's 2004 Framework Convention for Tobacco Control (FCTC), which was then ratified in 2006<sup>4</sup>. By ratifying the FCTC, the parties acknowledged the role of prices and tax measures as an effective and important means of reducing the tobacco consumption<sup>5</sup>. The

European Commission also suggests further adjustments in the field of tobacco control in line with the EU's Acquis.

Tax policies on tobacco products are considered to be the most efficient not only for reducing tobacco consumption, but also for their positive impact on budget revenues<sup>6</sup>. Also, tobacco taxes are relatively easy to collect with low administration costs due to a small number of producers and large sales volumes<sup>7</sup>. The positive impact of taxes on reducing tobacco consumption has been confirmed in several empirical studies from developed and developing countries<sup>8, 9, 10, 11, 12, 13, 14, 15</sup>.

A study carried out by Development Solutions Associates (DSA)<sup>16</sup> shows that an increase in excise taxes on tobacco products could reduce tobacco consumption and increase government revenues.

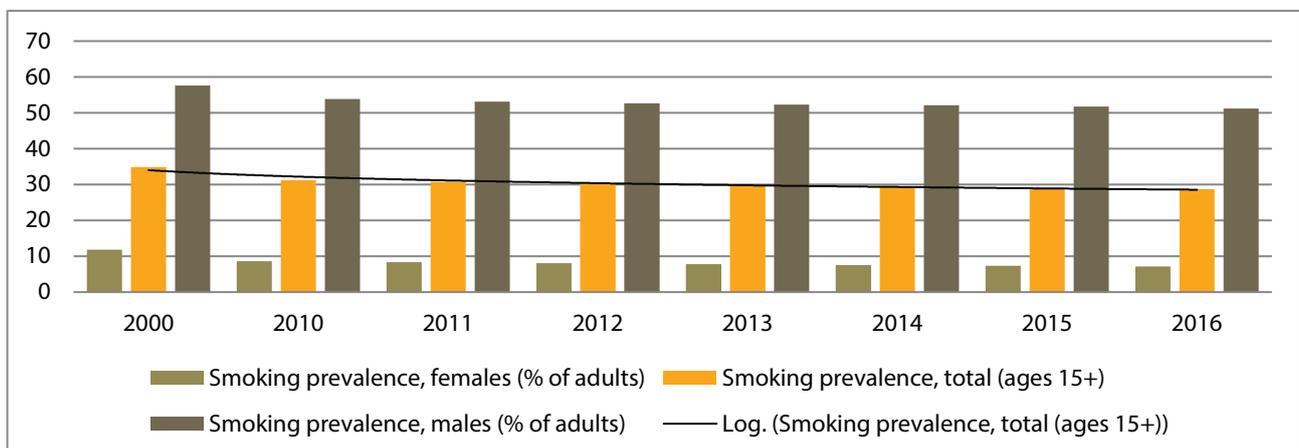
## TOBACCO USE IN ALBANIA

According to the WHO figures, the number of tobacco smokers in Albania in 2012 was 683,440, which was dominated by male consumers. As shown in Graph 1, the percentage of smokers in the adult population was 29.2%, with a mean number of cigarettes smoked per day/per smoker of 18.7 cigarettes. This estimate shows a decline in comparison to 2005, where mean number of cigarettes smoked per day per smoker was 20.7 cigarettes. Meanwhile, per capita consumption of cigarette sticks in 2012 was 1,116/year.

The smoking prevalence by gender is 51.2% for males and 7.6% for female. These figures are still high, even though there has been a slow decline over the years. Compared to other Western Balkan (WB) countries, the customary traditions in Albania provided no conditions for smoking in public for females, which made the consumption in the past much lower, especially in rural areas.

Tobacco consumption is also a major problem for Albania with respect to tobacco consumption among youth. The percentage of children under the age of 18 years that consume tobacco each day is estimated at 10.7%.

Graph 1. Smoking prevalence in the Republic of Albania, age-standardized data



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

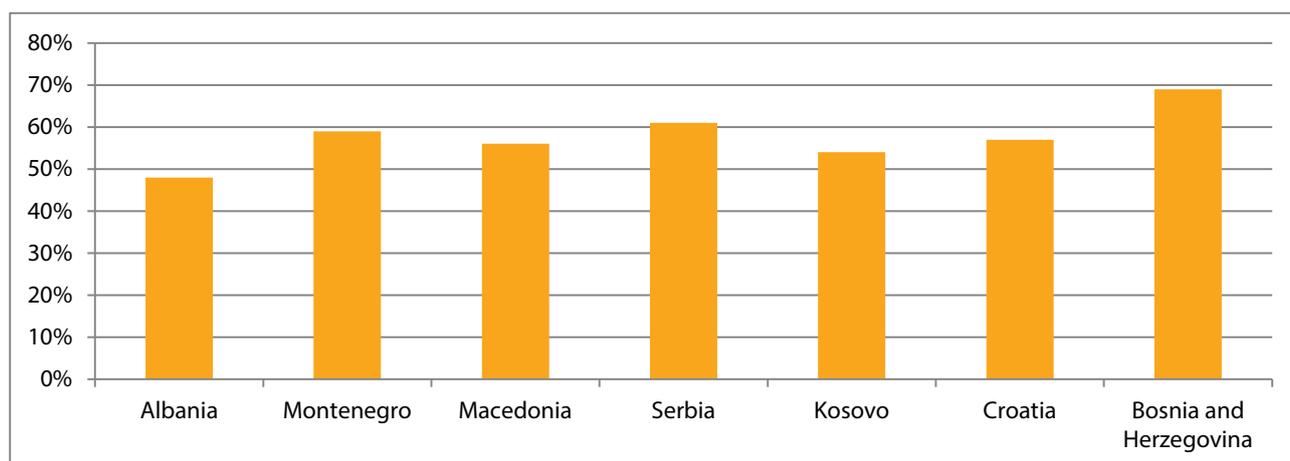
## TAX STRUCTURE OF TOBACCO PRODUCTS

Albania applies only a specific excise tax, having the lowest tax burden on tobacco among WB countries. The total tax burden on cigarettes stands around 66% of the retail selling price (RSP) for a pack of 20 cigarettes of the most sold brand (MSB). The total tax burden includes the specific excise tax, VAT and customs duties.

The excise tax on cigarettes accounts for only 48% of RSP, significantly lower when compared to other WB countries and

far below the WHO benchmark of 70% of the retail price (see Graph 2). The current level of excise tax per 1000 cigarettes is 44 Euros. This level is also below the minimum excise tax of 90 Euros per 1000 cigarettes required by the EU regulation. However, the Albanian government has pledged to increase the excise tax to 48.9 Euros per 1000 cigarettes by 2021, an increase of only 11%.

**Graph 2.** Excise burden in the retail price of the most sold brand of cigarettes in the Western Balkans countries in 2017 (%)

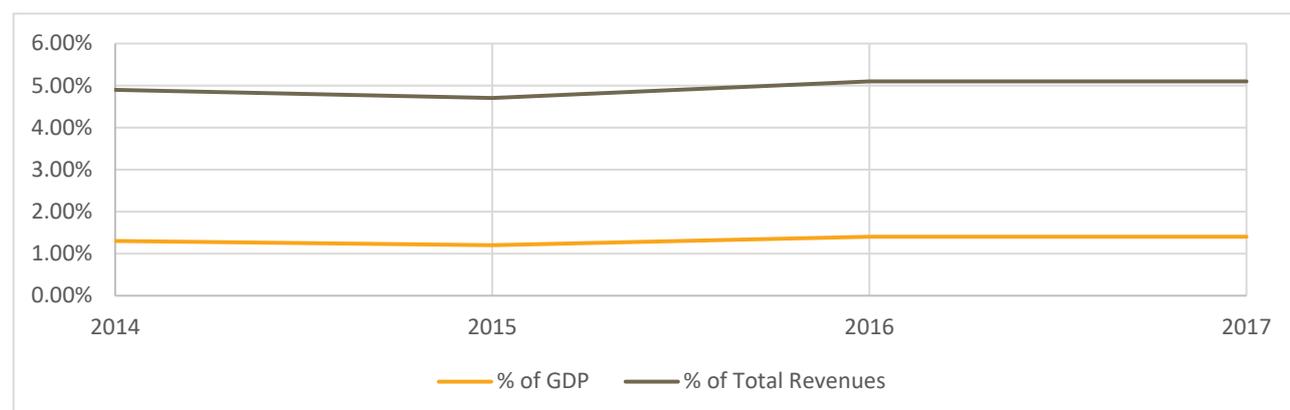


Source: Ministry of Finance

The revenues that taxation of tobacco consumption brings into the state budget have increased slightly in recent years, accounting for 5.1% of the total budget revenues, or around 1.4%

of GDP, in 2017 (see Graph 3.). The largest bulk of revenues come from excise taxes, amounting to 3.8% in 2017.

**Graph 3: Revenues from tobacco taxes (in %)**



Source: Ministry of Finance and authors' own calculations

## EVIDENCE-BASED FINDINGS

Based on an empirical estimation carried out by DSA on consumption, an increase in income, retail prices, public policies and other tobacco control measures for the period 2006-2017, it was found that the price elasticity of tobacco demand is -0.57. In other words, a 10% increase in retail prices reduce consumption by 5.7%.

Assuming the excise tax level of 90 Euros per 1000 cigarettes, as required by the EU regulations, and keeping the price level of imported cigarettes and the profit margin of the distribution chain constant, the retail price per pack would have to increase by 54.7%. An increase in retail prices of 54% as a result of the increase in excise duties would lead to a decrease in total sales

by 30.6% in the long-run, with a simultaneous increase in excise revenues by 33.7%, or 40 million Euros, and additional 3.4 million Euros from VAT.

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 consumer income goes up by 10%, consumer demand for cigarettes would increase by 2.4% as a result of the increased affordability of cigarettes.

## CONCLUSIONS AND RECOMMENDATIONS

Tobacco consumption in Albania has been frequently cited as one of the highest health concerns of the population, especially for males and youth. The policy approach followed for controlling tobacco consumption in Albania has been underlined by a combination of fiscal and non-fiscal instruments. Fiscal instruments have not been based on tobacco control strategies, but rather 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 cigarette taxes, compared to other Western Balkan and EU countries, Albania would be entirely justified in increasing the taxes on cigarettes and other tobacco products. That would provide a twofold benefit for policy makers – increase in budget revenues as well as reduction in tobacco consumption – with positive health benefits for the society.

In order to achieve a strategically prudent and sustained increase of excises, the government should follow a stepwise process which considers the following recommendations:

- In line with this research, the Government of Albania should implement a dynamic increase in excise taxes on tobacco products. Revising the existing tax policy would lead to an increase in tax revenues for the state and a significant savings in the health system.
- The Government of Albania should apply fiscal (excise-based) and non-fiscal (promotional campaigns, penalties, etc.) policies that are fully aligned with EU. Thus, increasing the excise tax so that the minimum level of excise tax is at 90 Euros per 1000 cigarettes, as required by the EU, would increase the budget revenues by 40 million Euros or 33.7%, as compared to the budget revenues generated in 2017. It would also reduce consumption of tobacco products by 30.6%.

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## 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.

<sup>1</sup> WHO Report on the Global Tobacco Epidemic, 2017: Country Profile Albania.

[http://www.who.int/tobacco/surveillance/policy/country\\_profile/alb.pdf?ua=1](http://www.who.int/tobacco/surveillance/policy/country_profile/alb.pdf?ua=1)

<sup>2</sup> Tobacco Atlas Fact Sheet, Albania. <https://tobaccoatlas.org/wp-content/uploads/pdf/albania-country-facts.pdf>

<sup>3</sup> Ibid. <https://tobaccoatlas.org/wp-content/uploads/pdf/albania-country-facts.pdf>

<sup>4</sup> Law No. 9474, dated 09-02-2006 „On the Ratification of WHO Framework Convention on Tobacco Control”.

[http://www.qbz.gov.al/botime/fletore\\_zyrtare/2006/PDF-2006/19-2006.pdf](http://www.qbz.gov.al/botime/fletore_zyrtare/2006/PDF-2006/19-2006.pdf) (accessed November 15, 2018)

<sup>5</sup> WHO Framework Convention on Tobacco Control. [http://www.who.int/fctc/treaty\\_instruments/Guidelines\\_Article\\_6\\_English.pdf](http://www.who.int/fctc/treaty_instruments/Guidelines_Article_6_English.pdf)

<sup>6</sup> WHO Framework Convention on Tobacco Control. [http://www.who.int/fctc/treaty\\_instruments/Guidelines\\_Article\\_6\\_English.pdf](http://www.who.int/fctc/treaty_instruments/Guidelines_Article_6_English.pdf)

<sup>7</sup> Ibid

[http://www.who.int/fctc/treaty\\_instruments/Guidelines\\_Article\\_6\\_English.pdf](http://www.who.int/fctc/treaty_instruments/Guidelines_Article_6_English.pdf)

<sup>8</sup> NCI (2016), The Economics of Tobacco and Tobacco Control, available at: <https://www.who.int/tobacco/publications/economics/nci-monograph-series-21/en/>

<sup>9</sup> Bader, P., Boisclair, D., & Ferrence, R. (2011). Effects of tobacco taxation and pricing on smoking behavior in high risk populations: a knowledge synthesis. *International journal of environmental research and public health*, 8(11), 4118-4139.

<sup>10</sup> Chaloupka, F. J., Straif, K., & Leon, M. E. (2010). Effectiveness of tax and price policies in tobacco control. *Tobacco Control*, tc-2010.

<sup>11</sup> Currie, L., Townsend, J., Roux, M.L., Godfrey, F., Gallus, S., Gilmore, A., Levy, D., Nguyen, L., Rosenqvist, G., Clancy, L. (2012). Policy Recommendations for Tobacco Taxation in the European Union Integrated Research Findings from the PPACTE Project. Technical Report. Research Institute for a Tobacco Free Society (RIFTFS), Dublin.

<sup>12</sup> Ross, H., Nabilla, A., Al-Sadat, M. (2007). Demand Analysis of Tobacco Consumption in Malaysia, *Nicotine & Tobacco Research*, 9(11), 1163-1169.

<sup>13</sup> Ross, H., & Chaloupka, F. J. (2003). The effect of cigarette prices on youth smoking. *Health Economics*, 12(3), 217-230.

<sup>14</sup> Chaloupka, F.J., Grossman, M. (1996). Price, tobacco control policies and youth smoking. Cambridge, Massachusetts, National Bureau of Economic Research.

<sup>15</sup> Farrelly, M.C., Bray, J.W., Pechachek, T.F., Woollery, T. (2001). Responses by adults to increases in cigarette prices by sociodemographic characteristics. *Southern Economic Review*, 68:156-165.

<sup>16</sup> Economics of Tobacco and Tobacco Taxation - National Study – Albania (2018), Development Solutions Associates, Research conducted within the project “Accelerating Progress on Effective Tobacco Tax Policies in Low- and Middle-Income Countries”.

<sup>17</sup> WHO Report on the Global Tobacco Epidemic, 2017: Country Profile Albania. [http://www.who.int/tobacco/surveillance/policy/country\\_profile/alb.pdf?ua=1](http://www.who.int/tobacco/surveillance/policy/country_profile/alb.pdf?ua=1)

<sup>18</sup> Ministry of Health. (2017). National Programme for Prevention and Control of Noninfective Diseases in Albania 2016-2020. Tirana, Albania.