



**tobacconomics**

Economic Research Informing  
Tobacco Control Policy

## Economic Research to Support and Promote Tobacco Excise Tax Reform – Southeastern Europe

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# Core Competencies for Research

1. Estimating demand elasticity (e.g., overall, by income, sex, age, etc.)
2. Modeling alternative tax structures/rates to estimate impacts on revenues and public health
3. Measuring distributional impacts of tax increases
4. Quantifying economic costs (direct and indirect) of tobacco use and how taxes can address these costs
5. Estimating macroeconomic impacts of tax increases (e.g., employment, income, output) supply chain (I-O and CGE analysis)
6. Quantifying levels of illicit trade, measuring trends, geographical areas of leakage, etc., using primary and secondary data sources

# State of Play: Review of Research 2018-2022

	Elasticities		Modeling	Distributional impacts	Economic costs		Macroeconomic impacts	Measuring illicit trade	Tobacco farming and subsidies
	Adults	Youth initiation			Size	Poverty/Crowding out			
ALB	*	*	*			*		*	
BiH	*		*		*			*	
KOS	*	*						*	
MNE	*		*	*		*		*	
MKD	*							*	*
SRB	*			*		*	*	*	

# Review of SEE evidence, 2018-2022 – Part 1

## ➤ **Elasticities:**

Overall: *Demand is inelastic*

Prevalence: 0 (KOS) to -0.64 (MNE)

Intensity: -0.23 (MKD) to -0.46 (BiH)

By income: *Low-income households are relatively more responsive*

LI: -0.45 (MKD) to -1.41 (BiH)

MI: 0 (ALB) to -1.01 (MNE)

HI: 0 (KSV) to -0.71 (ALB & BiH)

By segment: *manufactured cigarettes are more elastic (-0.44 to -0.61) than hand-rolled (-0.36 to -0.42)*

Initiation: *Youth responds to price increase, -0.5 (ALB)*

# Review of SEE evidence, 2018-2022 – Part 2

➤ **Distributional impacts:** *Tobacco tax increase is progressive*

LI group: 1.6% to 1.8% (MNE); 1.7% to 2.4% (SRB)

HI group: 0.2% (MNE); -0.3% to -0.1% (SRB)

➤ **Economic costs:**

*Economic costs are high: 2.0% to 3.5% of GDP (BiH)*

*Tobacco use crowds out essential and productive spending, especially for low-income households.*

➤ **Illicit trade:** Overall, around 20.4% of smokers use illicit cigarettes in the region.

# Core Competencies for Policy Impact

1. Research translation: Demonstrated ability to produce clear and understandable Policy Reports, Briefs, and Key Messages
2. Strategic Dissemination: Demonstrated ability to disseminate the research strategically – timing, outreach, adaptability to remote outreach
3. Relationship Development: Demonstrated ability to develop supportive relationships with advocates
4. Relationship Development: Demonstrated ability to develop supportive relationships with policymakers
5. Trusted Resource: Demonstrated ability/willingness to produce rapid response technical assistance upon request from government
6. Sustainability: Demonstrated interest and motivation to inform policy beyond short-term economic incentive

# Recent tax policy changes in the region

## - Montenegro

- Tax increase – specific tax increased from 30 to 44 EUR (2018-22)
  - Less reliance on the ad valorem tax.
- Reform of duty-free zone regulations.
- Supply chain monitoring and enforcement.

## - Albania

- Inflation indexation.

## - Excise calendars

# What is going well on tobacco taxation in the region?

- An impressive and still-growing foundation of key research now exists for most countries in the region.
- Policymakers across ministries— but particularly in finance ministries— have been sensitized to the issue of increasing excise taxes on tobacco.
- Multilateral institutions are beginning to more actively raise this issue.
- In some countries, relevant authorities are seeking think tanks' counsel.

# Where are we headed?

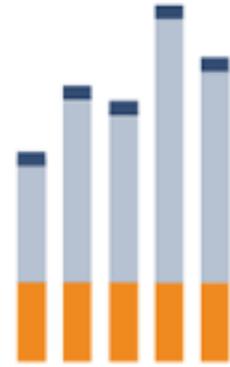
- More great research planned for the near future.
  - Youth
  - Poverty
  - Equity
- National dialogues.
- Regional dialogues.
- Direct consultation with tax authorities in some countries.
- Direct consultation with other relevant policy makers (e.g., parliamentarians).

# What more do we need to do to improve tobacco tax policies? How do we innovate?

- Consistently get key messages about tobacco taxes to the right stakeholders.
  - Finance ministries, revenue and/or customs, legislators (finance committee members).
- Which messages? Youth, poverty, and equity... and what else?
- Own the narrative:
  - Positive – increases tax revenue, lowers health costs, higher productivity, improves equity (pro-poor), EU integration, good for young people,...
  - “Defense” – employment, regressivity and illicit trade (and farming)

# How do we innovate? Part 2

- Understand how to resolve the tension between policymakers' short-term goals (e.g., re-election) and the longer-term rewards of improving tobacco taxes.
  - As Montenegro's case demonstrates, the increased revenue rewards are very immediate.
- Find more champions— both technocrats and influential elected officials— who can be trusted and prominent voices for these reforms.
  - Help champions to do more championing...
- Find allies in other related areas – economic development, environment, tax reform, etc.



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Thank you.

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