

## Tobacco Taxation in Albania

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**Abstract:** Tobacco Industry is one of the largest in the world, with very high impact in global economy, widely known as the fourth largest market in the world. In Albania tobacco industry is also an important part of the country's economy, a market that experiences great dynamics of changes both in terms of import and in relation to the production of tobacco for export. Albania applies only a specific excise tax, having the lowest tax burden on tobacco among Western Balkan 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. This paper aims to study all the dynamics of tobacco market in Albania, changes in tobacco taxation and the impact of these changes in Albanian economy. Thus, this paper focuses on analyzing the impact of tobacco taxation on tobacco consumption. At the end of the paper, the impact of changing its control policies on smoking behavior and exposure to advertising, if any, will be evaluated.

**Key Words:** Tobacco production, Unemployment rate, Population Growth

### 1. INTRODUCTION

Tobacco smoking is still listed as one of the leading causes of preventable death in the world. The data is particularly worrying considering health. The negative effects of this behavior have been officially recognized for several decades by national and international health organizations (Health, 2014). Various types of research studies have found relationships between smoking and heart disease or various types of cancer, Sarah Darmon, Amie Park, Leann A. Lovejoy, Craig D. Shriver, Kangmin Zhu, and Rachel E. Ellsworth, (2022). The most recent World Health Organization (2016) estimates suggest as many as 6 million tobacco-related deaths per year. Even more troubling is the research documenting the negative health outcomes of second-hand smoke, Alam et al (2018) exposure. For almost 40 years, studies have reported adverse health effects of ETS, particularly among women with smoking partners or children living with smoking parents, Dimitrios Trichopoulos, Xenophon Zavitsanos, Klea Katsouyanni, Anastasia Tzonou, Panagiota Dalla-Vorgia (1983). In fact, the World Health Organization (2016) has classified environmental tobacco smoke as a risk factor involved in several diseases such as: respiratory, cardiovascular diseases and some types of cancer. Evidence from a research study involving 192 countries estimated that in 2004 alone, diseases related to ETS exposure caused 603,000 deaths, Karin I. Öberg, Ruth Murray-Clay, Edwin A. Bergin (2011). Despite cross-border differences, smoking behavior is still an important public health issue in most countries of

the world. In this context, several efforts at the international level have been made to control the smoking epidemic. The best example is the Framework Convention on Tobacco Control, a treaty signed by more than 180 countries worldwide WHO (2003). Albania has had a long period positive natural growth and its population has been among the youngest in Europe, with an average age of 35.6 years in 2017 (Eurostat), but recently the growth rate of population has decreased with 0.35% from 2022 to 2023. This is because of different factors, such as people increase of emigration to EU Countries, USA, Canada and UK for employment, also because of increase in poverty rate after war in Ukraine started and was followed by a 50-60% increase in overall price levels. However, the population and age structure of Albania has undergone significant changes. Between 2001 and 2017, the total population decreased by 7%, while the average age increased drastically by 6.7 years from 28.9 years in 2007 and to 35.6 years in 2017, INSTAT (2018). The main reasons for the population decline and the changing age structure are attributed to the recent migration to the EU, especially of young people.

During the First Quarter of 2022, the unemployment rate decreased, the official unemployment rate is 9.9 % for males and 11.3% for females. The unemployment rate decreased by 1.0 percentage points for men, and is decreased by 0.4 percentage points for women, compared to the same quarter of 2021. Referring to INSTAT data (Quarterly Labor Force Survey 2023), the number of employees decreased by 25,345 people compared

to the previous year. There is an increase in employment in the public sector by 9,702 people compared to 2020; while employment in the private sector (with the exception of agriculture where there is a decrease of 35,340 people) increased by only 290 people.

According to the Tobacco Atlas, more than 4,100 people die from diseases caused by smoking each year. Also, more than 1,000 children (10-14 years) and 398,000 adults (15+ years) continue to use tobacco every day. This has an estimated cost of 270 million euros to the Albanian economy each year, which includes direct costs related to health care expenses, Atlas (2018). Therefore, tobacco consumption is an important and very worrying topic for Albanian society.

## 2. Albanian Production of Tobacco

As for the tobacco industry, there is no tobacco production, although tobacco production exists in small quantities. 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, Klodjan Rama, Aida Gjika, Edvin Zhllima, Drini Imami (2018). During the communist period, given the centralized planning of the economy, the production of raw tobacco was higher compared to the post-communist period. With the fall of communism, tobacco factories were dismantled or left abandoned. Currently, there are six companies that collect and package tobacco, but not for end consumers. Tobacco production is concentrated on oriental and semi-oriental varieties of tobacco, with an average annual production over the years of about 2,000 metric tons, although it has declined in recent years. However, this figure is insufficient to cover the demand from tobacco consumers in the country. Consequently, the demand for tobacco is met through imports. Albania is a small tobacco producing country and does not have a manufacturing industry. Growing tobacco production occupies only a small part of agriculture in Albania, with only 0.13% of agricultural land dedicated to tobacco cultivation (Atlas 2018). Based on expert estimates, there are about 3,000 - 4,000 family farms, or about 12,000 workers involved in tobacco cultivation. The cultivated area varies between 900 and 1500 ha, while the production varies between 1,000 - 3,000 tons per year (except for the years 2000 and 2001). As seen in Figure 1, tobacco production has generally declined over the years, from 6,200 metric tons in 2000 to 1,800 tons in 2016. Tobacco cultivation has historically been concentrated in two regions of Albania, Elbasan and Shkodër. In 2016, the percentage of the area

cultivated with tobacco in the regions of Elbasan and Shkodra was 47% and 40% of the total cultivated area, respectively. However, the potential area available for tobacco production is twice as large if demand increases. This means that the agricultural area that was previously under tobacco cultivation in the main tobacco production areas has not been fully exploited. Currently, there is no incentive (subsidy) policy of the state or donors for tobacco production. As mentioned above, Albania has a tradition in tobacco production, and currently oriental and semi-oriental varieties of tobacco are the main cultivated varieties. However, the National Tobacco and Cigarette Agency has emphasized the need to encourage tobacco cultivation in Virginia. The reduction in tobacco production is mainly the result of delays in payments for production already ordered and the reduction in prices of tobacco offered by tobacco pickers. Often tobacco collectors have acted as monopsonists in relation to farmers. The main destination of tobacco products produced in Albania is in foreign markets. The main destinations of tobacco export 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. The amount of imported tobacco and cigarettes has been stabling over the years, with about 3,000 tons on average, with significant discrepancies in 2004-2005. The largest amount of imported tobacco products was recorded in 2010. The largest importer of cigarettes in Albania is Philip Morris Albania, with 35.07% of the total amount imported, followed by Agna Group with 30%. The total annual turnover reported from the sale of cigarettes is around 80 million euros. Considering that the revenues are publicly available at the National Business Centre for only two companies, the annual turnover from the sale of cigarettes and tobacco, and thus the net profits, would be much higher. The import of cigarettes has continued to be subject to smuggling because historical data show large changes in cleared quantities that have not been reflected by consumption. Customs clearances in the 5-month period were 8 tons less than in 2016, while they were higher during the previous two years. However, the decrease in cigarette clearances has not been reflected in excise duty collections, as it has been compensated by fuel clearance, which has undergone a large increase due to the closure of the ARMO refinery. The cycle of cigarette clearances in our country is linked to the government's fiscal policy in terms of increasing the excise duty on this product, encouraging companies to make higher

imports before the tax comes into effect. By paying lower excise duty and later selling the products in the market at higher prices, cigarette wholesalers increase profits speculatively. Even in the 2018 fiscal package, the government applied a slight increase in excise duty on cigarettes, mainly the expensive ones, Etleva Muça, Fatmir Kazazi (2021)

### 3. Albanian Taxation System for Tobacco

Albania has one of the highest prevalence of tobacco consumption in the region (Organization 2016). According to WHO, the number of tobacco smokers is 683,440, dominated by male consumers. The prevalence of smoking by gender is 51.2% for men and 7.6% for women. Smokers make up 29% of the adult population, with an average number of cigarettes smoked per day per smoker of about 18.7 cigarettes (as of 2012). This figure is lower compared to 2005, when the average number of cigarettes smoked per day per smoker was 20.7. Meanwhile, the per capita consumption of cigarettes is estimated at 1,116 per year. Tobacco consumption is a big problem for Albania in terms of smoking for minors. According to the Tobacco Atlas, more than 1,000 children aged 10-14 use tobacco every day. The number of children under the age of 18 who smoke every day is even higher, about 15,000 children (Organization 2016). The Albanian tobacco (cigarette) market relies mainly on the import of cigarettes. Currently, there is no tobacco industry producing cigarettes for final consumers in Albania. Imported cigarettes account for more than 70% of domestic tobacco consumption. Tobacco production is generally destined for export and a small part of it is sold for tobacco in the domestic market. The data suggest that tobacco control policies, particularly taxes on tobacco products, not only affect imported quantities entering the domestic market, but also consumption levels. For example, tobacco consumption since 2007 has fallen by almost 50%. This corresponds to the highest excise tax increase in 2006, from 2,500 ALL per 1,000 items to 4,000 ALL per 1,000 items. Smoking is now accepted to be behind many serious diseases, and therefore, there has been an increase among policy makers to tackle smoking, especially in more developed countries. Effective policies aimed at reducing tobacco consumption must be evidence-based. Determinants of consumer demand are widely researched on an empirical basis; the investigation of tobacco products has recently been researched only in developed countries and to a lesser extent in developing countries or countries in transition. One of the most used policies is to increase taxes, which aims to lead to lower consumption. There is existing evidence from countries at all economic stages that

increasing the price of tobacco is effective in reducing smoking, Patrick Eozenou, Burke Fishburn (2007). Tobacco taxation generates social benefits in terms of health and quality of life. As for reducing tobacco consumption, economic theory and studies suggest that especially young people and people with lower incomes, especially low socio-economic status, may be more responsive to tax and price increases, because the greater the proportion of an individual's disposable income spent on a good, the more individuals will respond to price changes, Ross, Hana & Chaloupka, Frank Ross, Hana & Chaloupka, Frank (2004). The positive impact of taxes on reducing tobacco consumption has been confirmed in several established and emerging empirical studies, Karla Chaloupka, Yogeshkumar Malam, Alexander M Seifalian (2010). Despite the prevalence of smoking in Albania, the existence of several studies investigating the impact of smoking and policy control in the Albanian market, Eduard Zalosnjaja, Hana Ross, David T Levy (2010), shows that there is a lack of research Empirical research on tobacco price elasticity. Therefore, motivated by the need to investigate tobacco demand in Albania, from which policies can be better adapted, and the lack of empirical studies, this paper is based on extensive research including the econometric analysis of both aggregates, data macro and household level data. Figures on the burden of general taxes on cigarettes, as well as budget trends, provide optimal conditions for strengthening the instruments of fiscal control over tobacco in Albania. Moreover, the tax burden on cigarettes and tobacco products is the lowest in the region. Therefore, any immediate move to pursue sustainable tobacco excise increases is feasible and consistent with governments' revenue collection objectives. An awareness campaign should be organized to inform policy makers about the importance of applying an excise tax increase for tobacco control in Albania. The countries with the most improved cigarette tax policies from 2014-2018 are Bahrain, Saudi Arabia, the United Arab Emirates, Kyrgyzstan and the Philippines. Improvements in Bahrain, Saudi Arabia and the United Arab Emirates reflect the introduction of significant cigarette excise duties, while those in Kyrgyzstan and the Philippines result from the simplification of previously complicated cigarette excise structures and large tax increases. Like Australia and New Zealand, these countries are also already reaping the rewards of higher incomes and lives saved. Globally, the overall performance of cigarette tax policies is quite poor - especially given the magnitude of the economic and health losses associated with tobacco use. These results show significant untapped potential for increased

cigarette taxes to raise revenue for a cure of COVID-19 and more importantly, prevent premature deaths and promote a healthy and productive workforce. In order to influence the absolute price as much as possible and make tobacco products less affordable, governments must increase - in many cases dramatically - their excise taxes and increase the portion of the price that is tax (separately excise duty). Even with the best structure in place, if excise duties remain low, the effects also remain low. The case study in the Philippines is instructive. Starting in January 2013, the government reformed a complicated tier structure into a separate uniform excise duty. Moreover, they raised these specific taxes spectacularly. The effect has been that millions of young people have not started smoking and millions more have quit, which translates into higher economic productivity (healthier workers are more productive) and lower health care costs. At the same time, the government's tobacco excise revenue has increased significantly (because these products are inelastic - the percentage of decline in consumption is less than the tax increase), and the government allocates most of this new revenue to provide universal health care to lower-income Filipinos (which also generates more economic growth). Governments should consider their score from this Scorecard and take concrete steps to make cigarettes (and other tobacco products) significantly less affordable to save lives and promote economic growth. The tobacco excise is set to increase in annual steps, from EUR 49.8 per

1,000 cigarettes in 2019 to EUR 51.25 in 2020. The favorable excise tax continues to be applied to cigarettes produced with tobacco leaves grown in Albania. 36 billion lek are collected in the budget from excise tax/ Tobacco production in the country increases by 30%. The revenues collected in the budget from excise during the period January-October 2020 were realized in the amount of 36 billion ALL, 2.7 billion ALL or 7% less than the same period of 2019, as well as 0.2 billion ALL or 0.7% less than the plan of excise for this 10-month period. During 2001 - 2012 the Excise law in Albania has changed more than 20 times. The excise level for cigarettes has changed (increased) 5 times, and not gradually. In August 2012 a new law "On excise tax in the Republic of Albania" was approved, which has changed 4 times until October 2017 and excise rate is increased 3 times. The below tables clearly show that through the years 2003 - 2015 the excise rate increase has been only tax revenue oriented (even why in that regard no success was achieved) and is clearly ignored the affordability of consumers, predictability for operators and even state capacities in tax collection and enforcement. The excise tax on cigarettes in 2015 is increased 5,5 times compared with 2003, that is in average an increase of almost 40% per year, and, which is worse, is that the increase is not gradual and enables no predictability for the operators. The calendar for 2018 - 2021 shows a significant improvement in this regard.

Table 1: Changes of excise tax rates in Albania in the period 2003-2021

<i>Albania</i>													
<b>Years</b>	<b>2001-2003</b>	<b>2004</b>	<b>2006</b>	<b>2009</b>	<b>2011</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<i>Cigars and cigarillos (ALL/kg)</i>	2240			2500					4400	4400	4400	4400	4400
<i>Cigarettes (ALL/1000 sticks of cigarettes)</i>	1000	1250	2000	2500	3500	4500	5500	5500	5500	5850	6000	6250	6500
<i>Fine cut tobacco domestic production (ALL/kg)</i>	1500					2500	4400	2500	2500	2500	2500	2500	2500
<i>Fine cut tobacco imported (ALL/kg)</i>	1500					3000	4400	4400	4400	4400	4400	4400	4400

Table 2: Rates of excise tax in Albania (years 2003 -2021) in EUR currency

<i>Albania</i>													
<b>Years</b>	<b>2001-2003</b>	<b>2004</b>	<b>2006</b>	<b>2009</b>	<b>2011</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<i>Cigars and cigarillos (EUR/kg)</i>	16			19					33				

<i>Cigarettes (EUR/1000 sticks of cigarettes)</i>	7	10	16	19	25	32	40	42	42	45	46	47	48
<i>Fine cut tobacco domestic production (EUR/kg)</i>	11					18	32	18	18	19	19	19	19
<i>Fine cut tobacco imported (EUR/kg)</i>	11					21	32	32	32	33	33	33	33

#### 4. Methods and Results

Tobacco control in Albania has been a big problem which is improving over time. In order to analyze this issue, we have created a questionnaire which includes some of the main points of the operation of this control. The questionnaire was addressed to a representative sample of 300 adults (age 18 and over) living in households in Albania. It is distributed in urban and rural areas, as well as in the same male/female ratio so that there is no difference due to the use of tobacco in greater numbers by men. Results show that appropriate policy implementation remains important, educational and promotional campaigns that operate at the level of awareness, attitudes, or society (thereby increasing informal mechanisms of social control of behavior) are also crucial in achieving the long-term goal of reducing of smoking rate. The implementation of some acts of the law, a serious problem appeared. There are no smoking cessation services available. Albania has a ban on most forms of direct and indirect advertising, but it is not being enforced. Another violation is observed in some kiosks, the tobacco products placed on the outside contain parts of the brand on the back. Any youth over the age of eighteen can purchase tobacco products. Another important issue is taxation. The illegal trade of national tobacco products in Albania remains very free. A harmonization of tax and other tobacco control policies would limit and discourage incentives for illicit regional trade and cross-border transactions. Increases in tobacco taxation would provide multiple benefits for policymakers - increased budget revenues as well as reduced tobacco consumption - with positive health benefits for society. Taxes on tobacco products have an impact on: imported quantities entering the domestic market, consumption levels, as well as budget revenues. Considering Albania's aspirations to join the EU, the legal and political framework should be aligned with their regulations. In the case of tobacco control policies, the minimum level of excise duty in the EU is €90 per 1,000 cigarettes. This means that if Albania meets this requirement,

the retail price per package is expected to increase by 55%.

#### 5. Conclusions

Fiscal measures must be combined with other non-fiscal control policies, such as promotional campaigns, fines, or advertising bans, and many other possible policies. Policy enforcement with EU regulations should be based on the formation, implementation and monitoring of ad-hoc policies. An essential element is the cooperation between the Ministry of Finance and Economy and the Ministry of Health and Social Affairs. A cross-sectoral strategy should be designed and implemented, followed by a sound action plan. The government has already drawn up a national health strategy, which mainly envisages awareness initiatives against tobacco consumption, regardless of fiscal incentives. Increases in tobacco taxation would provide multiple benefits for policy makers such as increased budget revenues and reductions in tobacco consumption would also have positive health benefits for society. Analysis of macro-level and household-level data shows that taxes on tobacco products have an impact on imported quantities entering the domestic market, consumption levels, and budget revenues. Albania should continue to support and accelerate the development of European protocols, including illicit trade. National tobacco excise duties should be increased at the same time to control the illegal trade. Albania needs some improvements in the law and its acts, as well as some changes and additions to the approved legislation, which should be tested in the Albanian reality. An extension of taxes and other fiscal tobacco control policies would limit and disincentivize illegal regional trade and cross-border transactions.

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