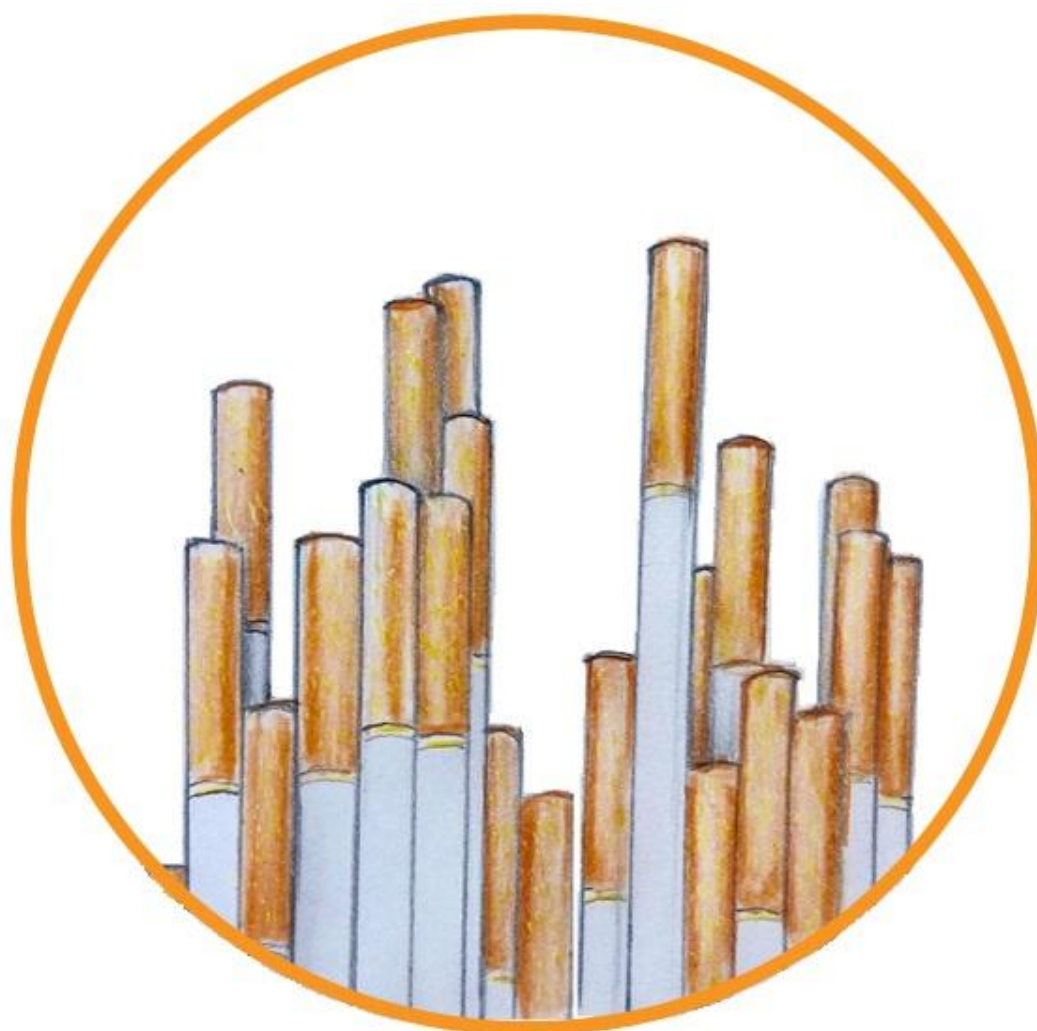

EXCISE ON TOBACCO

EFFECTS ON CONSUMPTION AND IMPORT



1.Introduction

Tobacco is the biggest cause of preventable diseases and premature deaths. One in two smokers dies of diseases caused by smoking.¹ For every dollar spent on tobacco, the health cost is about 5.5 dollars.² According to the Kosovo Agency of Statistics, in Kosovo 14% of the population above the age of nine are smokers. Gender represents an important smoking factor, as 6% of women are smokers compared to 23% male.³ Compared to other countries, Kosovo ranks in the first quarter (lower quarter) in regard to male smokers.⁴ In 2012 Finland, Liberia, Norway, Kenya had a similar percentage of male smokers.⁵ The purpose of this short study is to analyze the effect of tobacco excise duty on tobacco consumption in Kosovo.

2.Excise on Tobacco

Excise on tobacco was first applied in 2000, when the United Nations' Provisional Mission in Kosovo (UNMIK) applied the excise duty on several products. Initially UNMIK only applied a value based excise on tobacco (25% of the value),⁶ later on, the excise unit was changed between cigarettes and cigarillos.⁷ The excise rate on cigarillos was value based, whereas on cigarettes the excise rate was quantity based (four marks per 1,000 cigars). Three years later, UNMIK increased again the excise rate on cigars, initially from two euros to six, and then from six to ten euros per 1,000 cigars.⁸

In December 2008 the Law on Excise Tax Rate in Kosova entered into force.⁹ Table 1 shows the list of the decisions of the Government of Kosovo changing the tobacco excise rate. It can be seen that the

¹ NHS, effects of tobacco in the body, Source: <http://bit.ly/1pL260f>, accessed on 15.03. 2016

² American Cancer Society, Tobacco: The true cost of smoking, Source: <http://bit.ly/1sdPX8A>

³ Kosovo Agency of Statistics, Results of Household Budget Survey (2014), Source: <http://bit.ly/21zaiE4>, accessed on 13.03. 2016

⁴ See Annex 1

⁵ World Health Organization, Prevalence of smoking among adults and adolescents, Source: <http://bit.ly/1XAdkH9>, accessed on 15.03. 2016

⁶ UNMIK Regulation no.2000/2 on Excise Taxes in Kosovo, 22.01.2000, Source: <http://bit.ly/1R5hSGU>

⁷ UNMIK Regulation no. 2000/56 amending UNMIK Regulation no. 2000/2, on Excise Taxes in Kosovo, Source: <http://bit.ly/1THSA2o>

⁸ UNMIK Regulation no. 2003/23, on Excise Taxes on Tobacco Products in Kosovo, Source: <http://bit.ly/1LbqODE>, accessed on 14.03.2016

⁹ Official Gazette of the Republic of Kosovo, Law on Tobacco Products in Kosovo, 31.12. 2010, Source: <http://bit.ly/1THSPKL>, accessed on 13.03. 2016

last excise rate on tobacco is 41 euros for 1,000 cigarettes. Albania applies a similar excise rate on tobacco.¹⁰

According to EU instructions, the minimum excise rate for 1,000 cigarettes must be 90 euro.¹¹ The reason for not implementing this EU instruction, according to the Ministry of Finances, is the inability of Kosovo citizens to pay such a high excise rate.¹²

Table 1. Changes to the excise rate on tobacco 2009-2015

Legal act	Excise rate	Date it entered in force
Law 03/L-112	21 €/1000 cigarettes	01.01.2009
Law 03/L-220	21 €/1000 cigarettes	12.07.2010
Decision 24/53 of 21.12.2011	27 €/1000 cigarettes	01.01.2012
Decision 07/149 of 19.09.2013	30 €/1000 cigarettes	01.10.2013
Decision 07/149 of 19.09.2013	32 €/1000 cigarettes	01.01.2014
Decision 16/20 of 24.03.2015	35 €/1000 cigarettes	24.03.2015
Decision 04/39 of 22.07.2015	38 €/1000 cigarettes	22.07.2015
Decision 11/64 of 16.12.2015	41 €/1000 cigarettes	01.01.2016

Source: Kosovo Customs

3. The effect of excise rate on the import and consumption

In the last five years Kosovo has imported on average 56 million euro of tobacco products annually. 2011 marked the highest tobacco import of around 3,343 tons of tobacco. Since 2011 the import has decreased. Due to the smuggling of this product, these numbers do not necessarily constitute the accurate tobacco import numbers.¹³

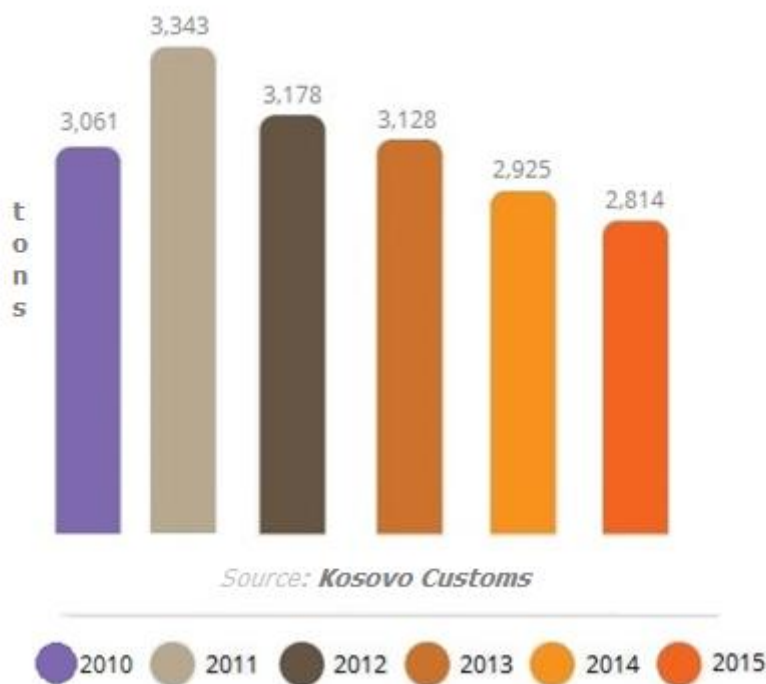
¹⁰ Assembly of the Republic of Albania, Law no. 158/2014 on some amendments to law no. 61/2012, "on Excise Taxes in the Republic of Albania", amended, 27.11.2014, Source: <http://bit.ly/1Rmf3S5>, accessed on 21.03. 2016

¹¹ European Commission, Excise Duties: Cigarettes, Source: <http://bit.ly/1UaFpqW>, accessed on 13.03.2016

¹² Albinfo, Excise duty is reduced on cars, but increased on tobacco and alcohol, Source: <http://bit.ly/1SYe9dC>, accessed on 12.03. 2016

¹³ Koha.net. A lot of tobacco smuggling at the Kosovo-Macedonian border, Source: <http://bit.ly/1o1xaz6>, accessed on 21 March 2016

Figure 1. Tobacco import during 2010-2015

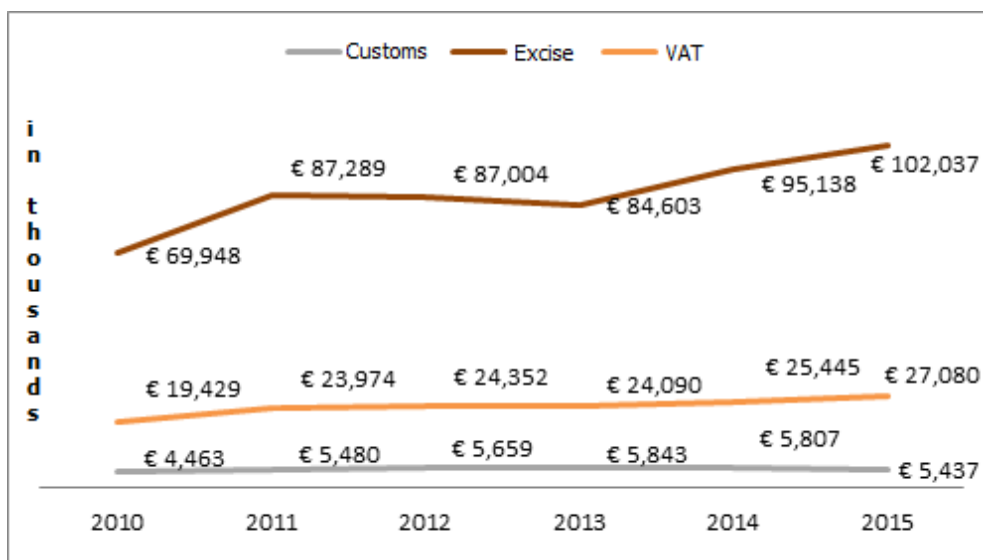


Source: Kosovo Customs

Below we have described the tobacco excise rate increase trend and its effect on import:

- In January 2012, the excise rate on tobacco increased from 25 to 27 euro. Compared to the previous year the tobacco import had a five percent drop;
- In 2013 the tobacco import had a two percent drop. The Slowdown of the decrease of tobacco import may have occurred because the excise rate on tobacco increased only in November that year;
- In January 2014, the excise on tobacco increased from 30 to 32 euros, and the import decreased another six percent;
- The excise on tobacco increased in 2015 again - from 32 to 35 euros, and the import registered a four percent decrease.

Despite the decrease of the tobacco import per kilograms, the customs revenues from tobacco import has increased eight percent on average during 2010-2015. While the customs revenues from tobacco were 93.8 million euros in 2010, in 2015 increased to 134.5 million euros. The biggest increase in revenues came from the excise tax, which constitutes ca. 75% of customs revenues from tobacco.

Figure 1. Trends of customs' revenues from tobacco ('000)

Source: Kosovo Customs

Besides increasing customs' revenues, the increase of excise rate has also increased the price per cigarette pack. In December 2010 one "Ronhill" cigarettes pack cost 1.01 euro,¹⁴ while in December 2015 a same pack of cigarettes cost 1.39 euro.¹⁵

In 2014 one household in Kosovo spent ca. 313 euros (4% of the household consumption budget) per year in alcohol and tobacco,¹⁶ however the consumption of these two products has dropped in recent years in Kosovo.¹⁷ In 2013 the smokers' percentage fell three percentage points, while in 2014 there was a slight increase of smokers for one percentage point. Based on the import data it results that the number of cigarettes consumed by smokers has dropped in 2014.

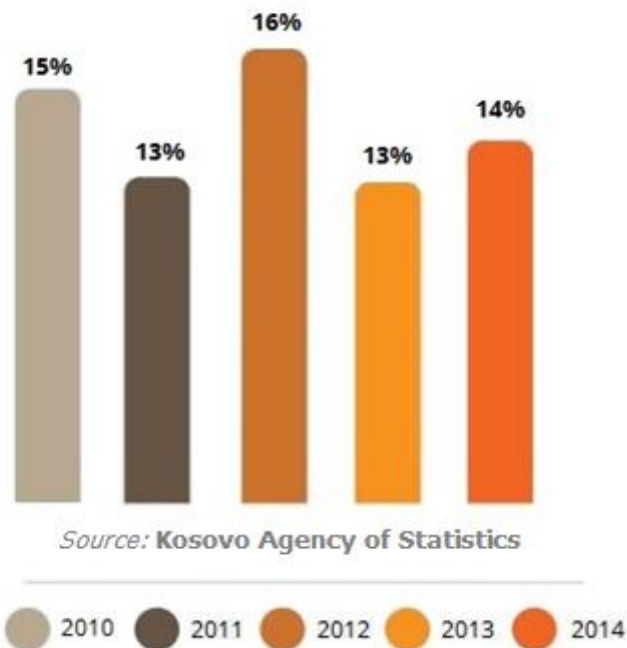
¹⁴ Kosovo Agency of Statistics, Price Index of Consumption Prices December 2010, Source: <http://bit.ly/1nUqmDa>, accessed on 14.03. 2016

¹⁵ Kosovo Agency of Statistics, Price Index of Consumption Prices December 2015, Source: <http://bit.ly/1UKPXLX>, accessed on 12.03. 2016

¹⁶ The same percentage is spent on clothing and furniture

¹⁷ Kosovo Agency of Statistics, Results of Household Budget Survey (2014), Source: <http://bit.ly/21zaiE4>, accessed on 13.03.2016

Figure 3. Percentage of smokers in Kosovo



Source: Kosovo Agency of Statistics

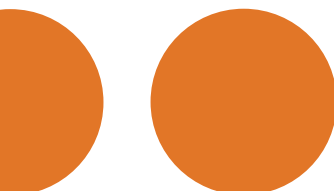
Despite the slight increase of smokers in 2014, their percentage remains lower than in 2012. The percentage of smokers may have dropped because as mentioned above, the price of one pack of cigarettes has continuously increased as a consequence of a higher excise tax on tobacco and the increase of the value-added tax (VAT). The negative impact of the cigarettes' price on consumption is supported by the data from other states as well.¹⁸ Other factors that may have reduced the number of consumed cigarettes and smokers, is the adoption of the Law on Tobacco Control in 2013 that prohibits tobacco consumption in closed public spaces.¹⁹

4. Conclusion

The data suggest that excise tax increase on tobacco products, consequently the increase of the cigarettes' price has reduced the use of tobacco in Kosovo. The reduction of tobacco consumption reduces public and private medical expenses. This because of the reduced number of sick people, medical examinations, use of medicine, and so on. On the other hand, the increase of tobacco excise increases the budget revenues and enables new public investments that improve the wellbeing of citizens. Therefore, in

¹⁸ The Cancer Council, the impact of price increase in consumption in Australia, Source: <http://bit.ly/1FaG0mk>, accessed on 23.03.2016

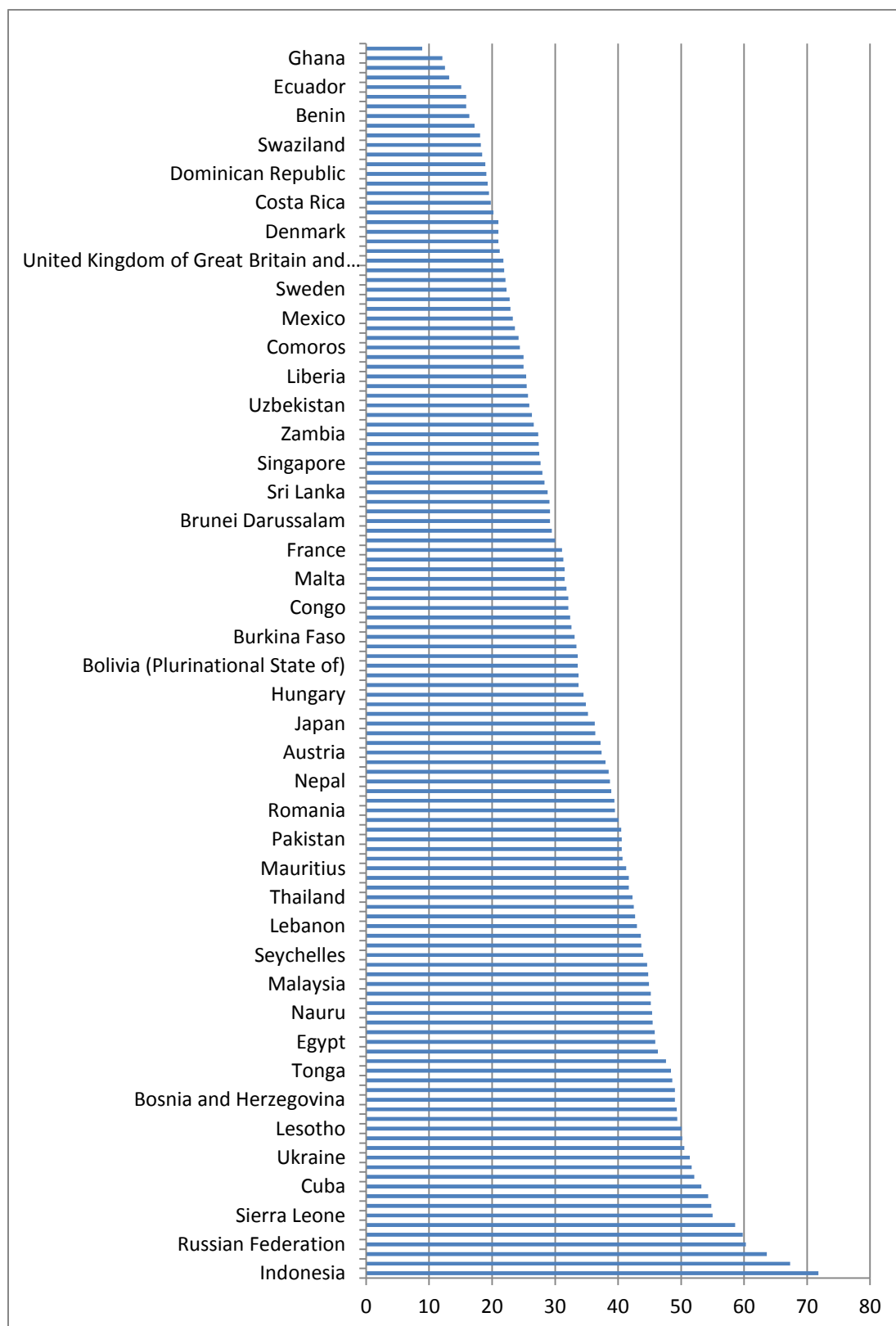
¹⁹ Official Gazette of the Republic of Kosovo, Law no. 04/L-156 on Tobacco Control, April 2013, Source: <http://bit.ly/1R8z896>



addition to measures to reduce the import smuggling, the Government of Kosovo should continue increasing the excise tax on tobacco.

Annex 1

Percentage of male smokers over the age of 15 in 2012



Source: World Health Organization, <http://bit.ly/1XAdkH9>

GAP Institute is a Think-Tank established in 2007 in Kosovo. The main goal of GAP is to attract professionals to create an environment of professional development and research, which is encountered in similar institutions in western countries. This also provides the opportunity for Kosovans to research, develop and implement projects with the aim of advancing Kosovar society. This Institute's priority is to mobilize professionals in addressing economic, political and social challenges of the country. The main goals of GAP are to fill the gaps between the Governments and the citizens, and also fill the gaps between problems and solutions.

GAP Institute is supported by:



This project is supported by:

