



Background

Global evidence shows that significantly increasing prices through tax increases is the most effective policy for reducing tobacco use. Despite this fact, governments are often reluctant to commit to larger tax increases due to the tobacco industry argument that higher taxes lead to increased illicit tobacco trade. Illicit trade in tobacco undermines the effectiveness of tax policies as well as results in lower revenues for governments, lower prices for smokers, and increased tobacco use particularly among poorer and younger people. Yet, evidence shows that increased taxation is not the most important factor contributing to illicit tobacco trade but instead, weak legislation and administration. At the same time, effectively administered tobacco tax increases deter smoking behaviour and motivate many smokers to quit. Estimates of illicit tobacco consumption in Albania date back to 2009 when Zaloshnja et al. (2010)¹ estimated that around 23 percent of adults purchase illicit cigarette packs.

Based on a nationally representative survey conducted in Albania in 2019 that included 1,000 adults (18–85 years of age),² Development Solutions Associates (DSA) conducted a study on tobacco tax evasion by means of pack examination.

Key Findings

- On average, 19.4 percent of cigarette smokers³ in Albania use illicit tobacco products (5.6 percent of manufactured cigarette (MC) smokers and 68.3 percent of hand-rolled (HR) tobacco smokers).
- Factoring in smoking intensity, on average, 29.3 percent of cigarette consumption in Albania is illicit (6.4 percent of MC and 74.0 percent of HR tobacco consumption).
- While smokers of MC mostly use legal brands, smokers of HR tobacco buy unbranded and mostly locally-produced tobacco (16.7 percent purchase HR tobacco in the open air market and 68.3 percent purchase it from private/independent producers).
- Most MC packs have an appropriate tax stamp and health warning label (Figure 1) and packs are purchased in grocery stores.
- The majority of HR tobacco packs do not have health warning labels nor a tax stamp (40.3 percent and 46.7 percent, respectively) (Figure 1).

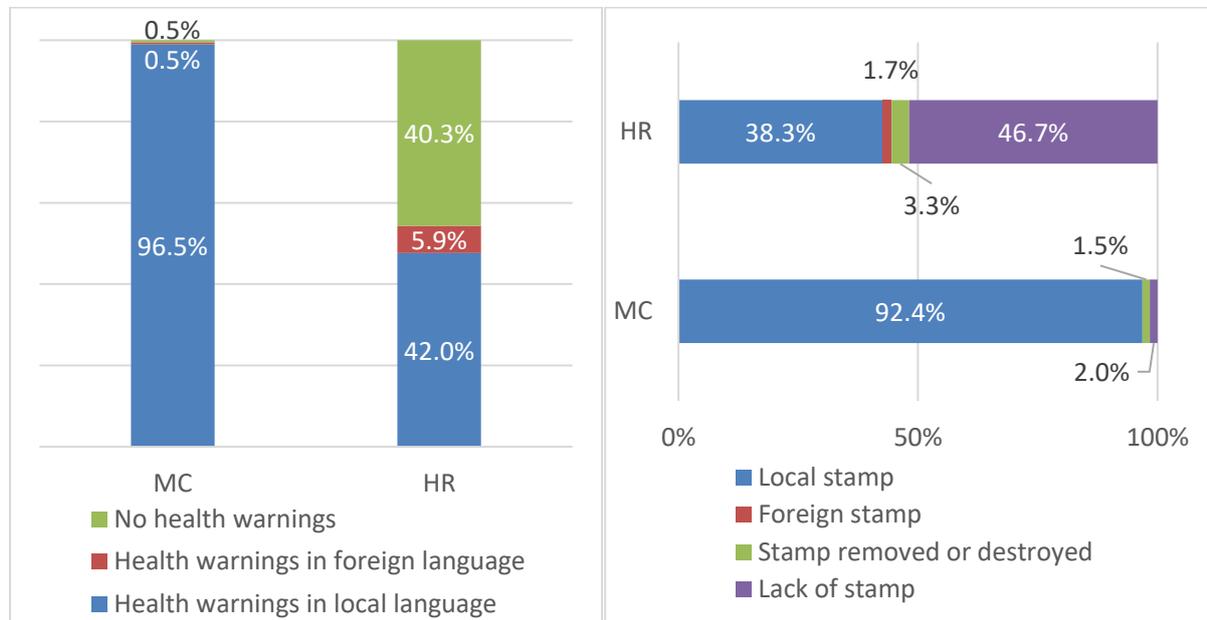
¹ Zaloshnja, E., Ross, H., & Levy, D. T. (2010). The impact of tobacco control policies in Albania. *Tobacco control*, 19(6), 463-468.

² Gjika, A., Gjika I., Zhllima, E., & Imami, D. (2020). Smoking uptake, prevalence, and cessation in Albania. Tirana, Albania: Development Solutions Associates.

³ Both smokers of manufactured cigarettes (MC) and hand-rolled (HR) cigarettes

- The open air market and streets are the main places of purchase for illicit HR tobacco.

Figure 1. The majority of HR tobacco packs do not have health warning labels or tax stamps



Source: Authors' calculations.

Factors contributing to tobacco tax evasion

The study results show that unemployed smokers are more likely to evade taxes compared to employed smokers. About one in four smokers who belong to lower-income households earning up to €400 per month smoke illicit cigarettes, while high-income MC smokers are less likely to evade taxes.

The study reveals that the share of illicit cigarette consumption in Albania is still large and that a considerable number of smokers in Albania consume illicit tobacco products. A significant share of illicit trade is driven by HR tobacco, which is typically purchased from illicit sources. Addressing illicit trade requires a careful analysis not only of tax-related factors for their impact on illicit trade but also non-tax factors including weak governance, high levels of corruption, poor government commitment to tackling illicit tobacco, ineffective customs and tax administration, and prevailing informal distribution channels for tobacco products.⁴ Thus, improvement of the institutional framework and law enforcement related to tobacco control is very important in the context of Albania.

⁴ Acharya A, Angus K, Asma S, Bettcher DW, Blackman K, Blecher E, Borland R, Ciecierski C, Commar AA, Cui M, da Costa e Silva VL, David AM, Delipalla S, Emery S & Hastings G (2016) The Economics of Tobacco and Tobacco Control. Chaloupka F (Editor), Fong G (Editor) & Yürekli A (Editor) NCI Tobacco Control Monograph Series, 21. Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute, and World Health Organization.

Policy Recommendations

- ***Tax increases should be paired with strengthening of monitoring, enforcement, and awareness efforts***

Previous empirical study results suggest that increased taxation can cause both reduced cigarettes consumption and illicit purchase increase. Different income groups react differently to price and income changes. More specifically, the empirical results suggest that low-income households are highly affected by price increases. For the low-income group a 25 percent price increase would lead to a sharp reduction of cigarette consumption by 27.1 percent⁵. On the other hand, lower income groups are also more prone to illicit tobacco purchase.

To strengthen the effectiveness of tobacco tax increases in terms of their positive impacts on public health and government revenues, government should prioritize **closer market monitoring by state authorities responsible for control of the tobacco trade as well as health awareness campaigns related to tobacco cessation**, to increase the likelihood that those who are most affected by price increases, such as poorer households, will quit using tobacco rather than switch to illicit tobacco consumption. A common and coordinated set of actions can be carried out between inspection by the State Health Directorate and education by the Institute of Public Health and Regional Directories of Education agencies to intensify consumer awareness of the harms of tobacco use and the benefits of cessation, especially when tax increases are introduced.

Tobacco cessation services should be made available and easily accessible to vulnerable populations. The government could follow the example of many countries that earmark a portion of their tobacco tax revenues for tobacco cessation services.

- ***Tobacco retail sales should be regulated, and relevant legislation should be adopted***

There have been efforts to regulate retail tobacco sales, but currently there are no restrictions in place, as any type of retailer or business operator can sell tobacco. In March 2019, through a draft law⁶ amending the law on tobacco, the Ministry of Health and Social Protection proposed requiring licenses for retail points of sale of tobacco products, but that requirement has not yet been endorsed. Thus, it is necessary to adopt and adequately enforce regulations on tobacco retail sales.

⁵ DSA (2019). *Healthier and wealthier – Why taxing tobacco is important not only for Health but also for the economy, Policy Brief*.

⁶ Ministry of Health and Social Protection (2019). Some additions and amendments to law no. 9636, dated 6.11.2006 "On the protection of health from tobacco products", as amended.

- ***For HR tobacco, interventions and monitoring are needed at both the farm and market levels***

The priority for enhancing tobacco control within the informal market should focus on HR tobacco. The main source for HR tobacco is local production – farmers may sell directly to consumers or via middlemen, making it difficult to spot and control. Tobacco farmers in Albania have faced difficulties in accessing the market, considering the lack of local industry, while reliance on export markets (foreign buyers) has proven unreliable for several years. Under such circumstances, some farmers may quit tobacco farming while others may become more motivated to engage in direct sales to final consumers, making HR tobacco more easily available and at a lower cost for consumers. This coping strategy of farmers to overcome transaction costs makes monitoring the market more challenging. Therefore, **policies for fiscal control should be jointly provided with market regulation policies**. Legal measures should be enacted by the MARD to register and monitor the use and output of areas planted with tobacco and regulate the supply chain by obliging parties (both sellers and buyers) to report after being registered.

- ***Accede to the international Protocol to Eliminate Illicit Trade in Tobacco Products***

The **Protocol to Eliminate Illicit Trade in Tobacco Products** is an international treaty that includes measures to prevent illicit cigarette trade. Several countries in the Balkan region have already adopted the Protocol, but Albania is not yet one of them. Becoming a party to this treaty should be considered. Even before joining formally, however, the government can begin implementing the recommended measures of the Protocol.

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