

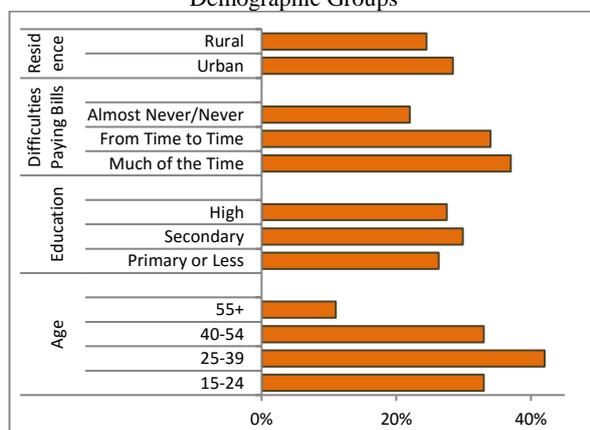
Tobacco Taxation in Romania

Based on: *The Economics of Tobacco and Tobacco Taxation in Romania* by Árpád Szabó, Ede Lázár, Hunor Burián, Todd Rogers, Kristie Foley, Zoltán Ábrám, Cristian Meghea, Teodora Ciolompea, Frank J. Chaloupka. 2016.

Tobacco Use in Romania

- Tobacco use is high in Romania, with nearly 5 million adults smoking tobacco products.
- Smoking prevalence among men is 37.4% as compared to 16.7% among women.
- Nearly all smokers consume manufactured cigarettes, and the vast majority smoke daily.
- A significant number of Romanian youth are initiating tobacco use, with 12.2% of boys and 10.1% of girls ages 13 through 15 consuming some tobacco products.
- Smoking rates differ among various socioeconomic and demographic groups.

Smoking Prevalence in Romania by Socioeconomic and Demographic Groups



Sources: Global Adult Tobacco Survey, 2011, and Eurobarometer, 2014.

Impact of Tobacco Use in Romania

Tobacco use has been falling in Romania, but remains high relative to other European Union countries, particularly among men.

- In 2010, 42,800 Romanians died prematurely from diseases caused by smoking.
- 23.8% of all deaths among men and 8.2% of all deaths among women in 2010 were caused by tobacco.
- The costs of treating smoking-attributable diseases was over RON 1.2 billion in 2012, approximately 5.4% of overall health care spending that year.

Tobacco Tax Structure in Romania

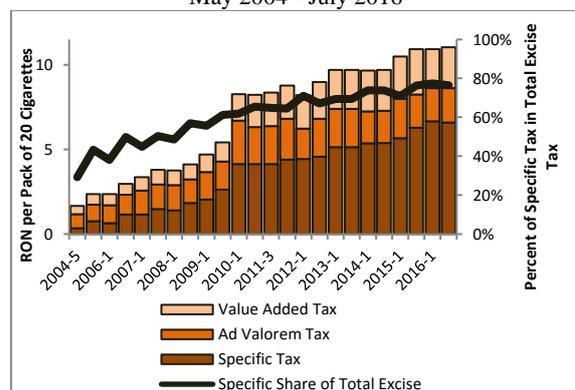
Upon joining the EU in 2007, Romania became subject to the EU's tobacco tax directive (Council Directive 2002/10/EC), which sets standards for cigarette and other tobacco product excise taxes.

- In 2010, the EU's tax directive increased the minimum excise per 1000 cigarettes to €90

(€1.80 per pack). Selected EU member states, including Romania, were allowed a transition period. Romania came into compliance with the directive by the beginning of 2015.

- In addition to the excise taxes it applies to cigarettes, Romania also levies a value added tax (VAT). The VAT rate applied to cigarettes is 16.67% since January 1, 2016.

Cigarette Taxes per Pack, Romania
May 2004 - July 2016



Source: European Commission, Excise Duty Tables, 2004-2016.

- Taxes on other tobacco products have also been rising. As of July 2016, Romania levies a specific excise tax of RON 303.23 per 1000 cigars and cigarillo, but applies no ad valorem tax on these products, resulting in a total excise of just over RON 0.30 per cigar/cigarillo, compared to the total excise of just over RON 0.43 per cigarette.
- Romania also levies a specific excise tax of RON 383.78 per kilogram of roll-your-own and other smoked tobacco, but does not levy an ad valorem excise tax on either; this amounts to a tax of about RON 0.27 per roll-your-own cigarette.
- Starting in 2016, Romania also levies excise taxes on the e-liquid used in electronic vaping products and on other emerging tobacco products, as well as applying the VAT to these products.

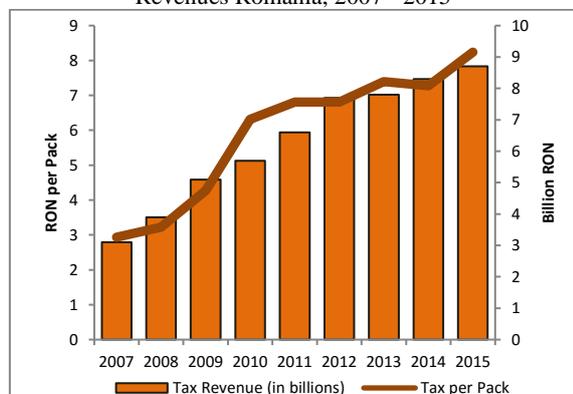
Tobacco Tax Revenues in Romania

As tobacco tax rates have risen in Romania, so have tobacco tax revenues, despite reductions in cigarette smoking resulting from the tax increases.

Since 2006, Romania has earmarked a portion of its tobacco and alcohol excise tax revenues for health purposes, including tobacco control. In recent years, these funds have accounted for

around RON 1 billion per year (1.14 billion in 2014), and account for a significant portion of the Ministry of Health's overall budget (14.4% in 2014).

Cigarette Excise Taxes per Pack and Cigarette Excise Tax Revenues Romania, 2007 - 2015



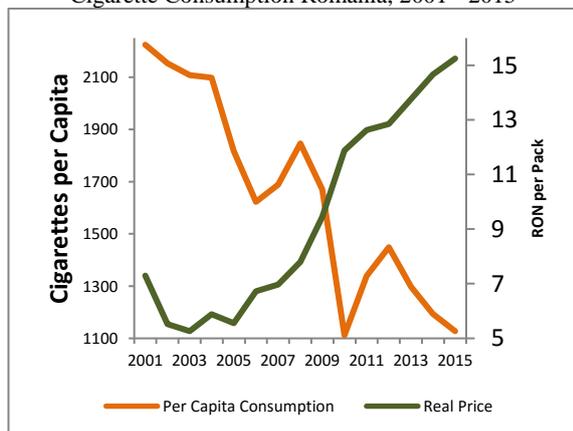
Sources: European Commission and Ministry of Finance.

Cigarette Prices in Romania

Excise taxes account for 60% of retail prices for discount brands and 56.4% of retail prices for premium brands. Total taxes, including VAT, account for 76.6% and 73.3% of discount and premium brand prices, respectively.

The sizable increases in cigarette taxes and prices over the past 15 years have contributed to significant reductions in smoking in Romania.

Inflation Adjusted Cigarette Prices and Per Capita Cigarette Consumption Romania, 2001 - 2015

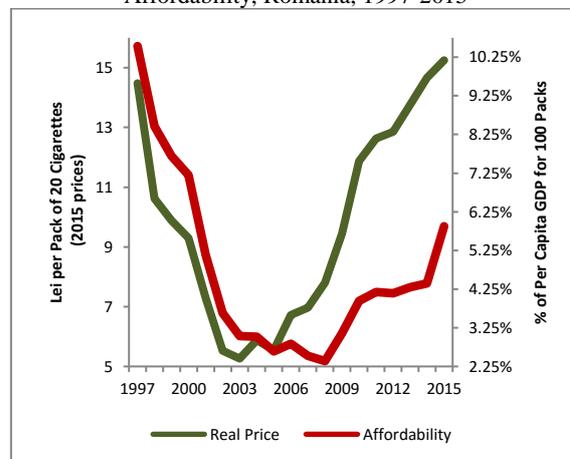


Sources: Economist Intelligence Unit, Euromonitor International, and World Bank.

Inflation-adjusted cigarette prices fell in the late 1990s and early 2000s, but increased sharply following Romania's entry into the EU and the significant increases in cigarette taxes that

followed. As a result, inflation-adjusted prices in 2015 were slightly higher than they were in 1997 and were almost three times higher than in 2003.

Inflation Adjusted Cigarette Prices and Cigarette Affordability, Romania, 1997-2015



Sources and notes: Prices are from the Economist Intelligence Unit Worldwide Cost of Living database and reflect the average price of premium and local brand cigarettes sold in mid-priced retail outlets. Inflation and per capita GDP data are from the World Bank.

Despite the significant increases in prices over the past 15 years, cigarettes in Romania are now more affordable than they were twenty years ago.

Higher taxes save Lives

Recommendations:

- Implement a large increase in the cigarette excise taxes that significantly raises cigarette prices and reduces smoking in Romania. Raising excise taxes to 65% of retail prices would lead over 400,000 adult smokers to quit and raise revenues by RON 1.35 billion
- Include annual adjustments in cigarette taxes that ensure that the affordability of cigarettes is reduced as incomes increase.
- Increase taxes on other tobacco products to be equivalent to cigarette taxes and to reduce price-related incentives to use these products.
- Increase the amount of earmarked tobacco taxes and allocate some of the new earmarked revenues to tobacco prevention and cessation.
- Strengthen tobacco tax administration, increase enforcement, and eliminate duty-free sales of tobacco products in order to control tax avoidance and evasion.

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