

THE EXCISE POLICY FOR TOBACCO PRODUCTS: AN EFFECTIVE MEASURE OF FINANCIAL PROTECTION IN HEALTH

POLITICA DE ACCIZARE A PRODUSELOR DIN TUTUN: MĂSURĂ EFICIENTĂ DE PROTECȚIE FINANCIARĂ ÎN SĂNĂTATE

Elena ZUBCOVA, PhD Student

Email: ezubcova@yahoo.com

Andrei PETROIA, PhD

Email: petroia5@hotmail.com

Academy of Economic Studies of Moldova,

61 Mitropolit Gavriil Banulescu-Bodoni Street, Chișinău, Republic of Moldova, www.ase.md

Abstract. *The purpose* Diseases caused by the consumption of tobacco products, which are among the main causes of premature deaths in the Republic of Moldova, affect the development of human capital and generate substantial economic costs for the country.

Methods The synthetic presentation of the content and the stages of the article differentiate several research methods of the approached topic: methods of data and information collection, processing and organization of the collected information.

Relevant results Taxation of tobacco products is an effective tool to reduce their consumption and associated health risks, increase state budget revenues and protect the population from the effects of poverty caused by high health care spending and absenteeism due to lost work days. In the future, not only the tax rates for tobacco products could be increased, but the tax structure could also be simplified by adopting uniform tax rates for both: filter and unfiltered cigarettes, in order to prevent substitution or switching to cheaper cigarettes as a result of increased tax rates for brands of tobacco products previously consumed.

Conclusions Recent experience in the Republic of Moldova shows, that the government could discourage smoking not only by raising awareness of the risks, but also by adopting higher tax rates to encourage higher cigarette prices and the implementation of other measures to combat the consumption of tobacco products.

Key words: expenditures, health, measures, tobacco, excises

JEL CLASIFICATION: H21, H51, I13, I15, I18

INTRODUCTION

Consumption of tobacco products is one of the main causes of growing burdens of noncommunicable diseases (NTDs) globally, affecting health and causing premature deaths while consuming tobacco products in the long run, and undermining the development of human capital. In addition to the negative impact on public health, the growing burden of consumer-associated diseases on tobacco products generates substantial costs for public health spending and household budgets.

MATERIAL AND METHOD

The bibliographic documentation, a component of the scientific documentation process, has a decisive importance for this, because it gives the possibility that, through information resources, we know the scientific dowry, the methods of analysis, the results and the conclusions. This requirement results not only from the complexity of the researched economic phenomena, but also from the imperfect or partially useful character of any method of research and analysis.

The comparative approach is also of great practical importance, because knowledge of the experience of other countries can provide, if not necessarily a guide, at least benchmarks for the

adoption and implementation of financial protection policies in health. Studying alternative solutions to similar problems can be useful to those involved in the decision-making process, in adopting new forms and programs, in coordinating and carrying out activities, in establishing the interactions between different factors with responsibilities in social policy.

RESULTS AND DISCUSSIONS

The Republic of Moldova is among the countries with a high prevalence of smoking. Over 43% of men use tobacco. The pandemic has exacerbated the problems caused by smoking. People who smoke are six times more likely to have complications if they contract COVID-19 infection. The prevalence of smoking in adolescents is 16%. They smoke cigarettes, heated tobacco or electronic cigarettes. [11]

One of the most effective and least expensive tools for combating tobacco use is taxes

In many countries, raising taxes on tobacco products can provide a double gain: positive results in the health sector and increased tax revenues for the implementation of priority programs and investments. However, in many cases, countries' tax rates are quite low, undermining their potential for improving public health and increasing tax revenues. The experience of the Republic of Moldova on the taxation of tobacco products in recent years encourages other countries that have examined the possibility of implementing this measure. Since 2016, the government has increased the tax rates of tobacco products annually to reach the minimum rate of 90 euros / 1,000 pieces under the European Union (EU) Directive by the beginning of the next decade, as provided in the current Agreement. Association with the EU (see table 1).

Table 1. Tobacco products

Name of the goods	Unit of measurement	2017	2018	2019	2020	EU directives
		Provisions of the Tax Code				
<i>With filter</i>	ad-valorem, %	12%	12%	12%	13%	of EUR 90 for 1000 cigarettes
	specific quota, (lei, 1000 cigarettes)	360	410	460	540	
	minimum	480	540	610	700	
<i>No filter</i>	ad-valorem, %		3%	6%	9%	
	specific quota, (lei, 1000 cigarettes)	120	350	460	540	
	The provisions of the Tax Code specific quota	120	160	200		

Source: Elaborated by the authors based on the information presented in the source [12]

The fiscal policy adopted for 2020, as well as the subsequent amendments to the Tax Code [8], provides for an excise duty rate on filtered and unfiltered cigarettes of at least 700 lei (540 lei + 13%) per 1000 cigarettes, as well as 700 lei for 1000 units of tobacco reserves for tobacco heaters (hereinafter - tobacco reserves). After equalizing the level of excise duties on filtered cigarettes, unfiltered cigarettes and tobacco stocks in 2020, it is imperative that the level of excise duties increase upwards. At the moment, the pre-established 700 lei per 1000 cigarettes / tobacco reserves for 2020 is about 35 Euros, so in order to reach by 2025 the quota of 90 Euros per 1000 cigarettes, the excise tax must increase by 11 Euros annually. Therefore, for the year 2021 it is required to establish an excise quota of at least 900 lei per 1000 cigarettes / tobacco reserves (see figure 1).

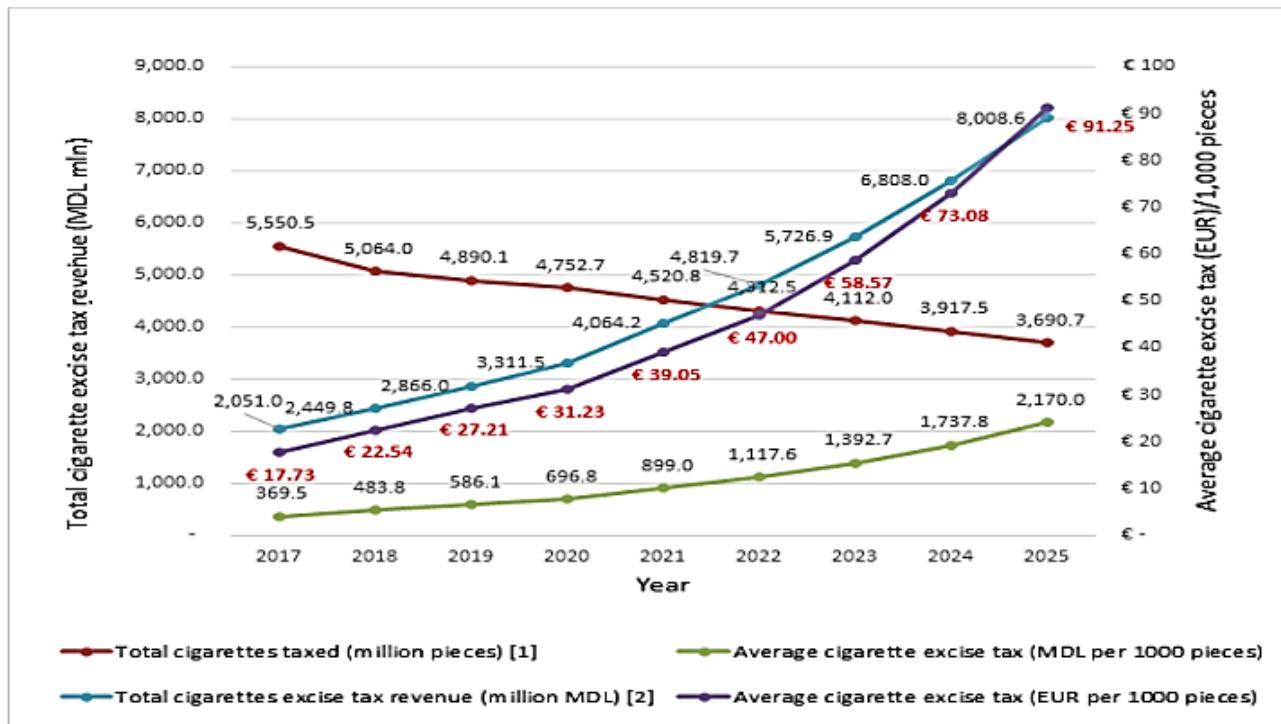


Figure 1. The Republic of Moldova - cigarette market trends, 2017-2025, and minimum excise rates in the EU (estimates)

Source: [7]

We mention that the provisions related to price and taxes are an efficient and important way to reduce tobacco consumption by various segments of the population, especially those on low incomes and young people. In turn, the reduction in the number of smokers has a significant impact on public health, including by reducing the pressure on the health system as a result of preventing diseases caused by smoking and exposure to tobacco smoke.

The estimates show that by applying the excise duty increase commitments, a decrease in cigarette consumption in Moldova can be obtained by about 41%, while maintaining and even multiplying the accumulations of excise duties to the state budget. Cigarette consumption can be forecast to decrease from 4617 million pieces in 2016 to 2740 million pieces in 2025, which will favor public health. The decrease in cigarette consumption will also be due to the increase in cigarette prices, as these will include increased excise duties. Based on the weighted average price indicator of a pack of cigarettes, we can anticipate an increase of about 370%, ie from 16.86 lei in 2016 to 62.21 lei in 2025. Even given that the market for tobacco products, as physical size, will decrease considerably, by increasing the excise duties, the budget revenues will register a significant increase, because the value of the excises and the VAT paid to the budget by the producers of tobacco products will also increase. We can forecast an increase in budget revenues of up to 6901 million lei by 2025. Thus, the additional annual revenues to the budget would be 2300 million lei.

The revenues from the taxation of tobacco products may provide the Government with additional funds for the implementation of tobacco control measures in all relevant sectors (public health, education, home affairs, public order, including to combat smuggling and illicit trade in tobacco products), and for increasing the transfers from the state budget for the compulsory health care insurance (hereinafter - MHI) of the categories of unemployed persons, for which the Government has the quality of insurance. It will be taken into account that the persons for whom the

Government has the quality of insurance consume much more services within the MHI than other categories of insured persons. At the same time, as a result of the unfair mechanism for determining the amount of transfers from the state budget to MHI funds, the size of transfers for a person insured by the Government is several times less than that paid by the employee and employer. Considers that increasing state budget transfers for MHI is needed both to reduce funding inequities and to cover the costs of some basic health services, which are now funded below their real cost, including expanding the list of reimbursed medicines, and for salary increases.

It should be mentioned that, in the Republic of Moldova public expenditures for medicines, as% of total costs for medicines, are 10 times lower compared to European Union countries (6.2% in the Republic of Moldova compared to 65.4% in the EU - data from the World Health Organization). The number of medicines for outpatient treatment, included in the list of medicines reimbursed from the MHI funds, is still subnormative in the country, a situation that invokes the undue concern of pharmaceutical care policies. According to the World Health Organization, 17.1% of households in Moldova face catastrophic health expenditures, 45% of which are from the poorest quintile. Moldova has the lowest level of protection of the population against the financial risks related to health services, among the countries of the European Region, and, as a result, a significant number of households are impoverished and unable to meet their basic human needs. We specify that the most effective financial protection policies can be identified from the analysis of the structure of out-of-pocket payments for health services among households. In fact, over 70% of them are for medicines administered in outpatient conditions, followed by expenses for dental care, inpatient care, etc. The situation is even worse among households in the poorest quintile, where approx. 90% of out-of-pocket payments are made for medicines.

Company opinion

The new director of the company Philip Morris Moldova, in an interview for the newspaper "окономическо обозрение Логос-пресс" claims that *"Fiscal policy should take into account the risks of tobacco products and apply excise duties based on their level of harmfulness"*.

According to the director, the tobacco market in Moldova is complicated but interesting. Referring to the tax regulation of the tobacco market, he stressed that the harmfulness of the product should be taken into account: the higher the level of harmfulness, the higher the taxes.

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From what was communicated by the company's leader, it results that the tobacco industry pays approximately 2 billion lei annually in the form of excise duties, which represents a third of the total volume of excise duties collected in the budget. At the same time, no differentiation is made according to risk factors: in Moldova, all products containing nicotine, except cigars, are taxed at the same level. This leads to an imbalance in health policies and taxes, as almost 1 billion lei are allocated annually for the treatment of diseases associated with tobacco smoking.

The top manager states that Philip Morris only partially shares the proposal of the Moldovan authorities. The company considers that for ordinary cigarettes, the 15% quota is quite appropriate, especially given the increased risks of smuggling. Regarding the tobacco heating system, in Moldova it is unjustly subjected to fiscal pressure.

The director of the company also referred to the official data of the Directorate-General for Taxation and Customs Union of the European Commission, according to which tobacco for heating

is subject to differentiated taxation in Great Britain, Greece, Italy, Hungary, Denmark, Latvia, Portugal, Romania, Slovakia, Croatia, Bulgaria, etc. On average, the excise duty on products for tobacco heaters is 4-8 times lower than for cigarettes. It should be noted that in early July, the US Federal Food and Drug Administration (FDA) issued an authorization to sell the Iqos tobacco heating system as a product with a low level of exposure (exposure modification order). So far, this is the only device in the tobacco industry that has received such status from the FDA.

Another tool to combat tobacco consumption is a ban on placing tobacco products on display

From 15 August 2020, the visible display of tobacco products, related products, devices and accessories for their use, recharging or heating in commercial spaces accessible to the public shall be prohibited [10].

Only the textual presentation of the list of tobacco products, related products and their price is allowed, without any promotional element. In full compliance with the provisions of par. (5) in art. 25 of Law 278/2007 and well detailed [9] in para. (5), point 12. of the Sanitary Regulation on the marketing of unfermented tobacco and fermented tobacco, tobacco products and related products, approved by GD 1065/2016, namely: cigarillos, related products and devices, and accessories for their use, reloading or heating, where the general public has the opportunity to view these goods and products. The list of tobacco products, related products and their accessories for use, reloading or heating in commercially available premises, with their prices, printed on white paper in black characters, shall be presented by the seller at the request of the adult purchasers, whose age has been verified by the seller on the basis of official age identification documents. The list will not contain images or highlighting of any product by color, fonts, underlining, decorative elements or other technical tools. It is forbidden to display the inscription or indicator that informs or suggests to the general public about the marketing of tobacco products, including heated tobacco, filter cigarettes, unfiltered cigarettes, cigarettes, related products, devices and accessories for use, refilling or heating them.”[10]

This measure is important for reducing the advertising and promotion of tobacco products. It is well documented that tobacco advertising and promotion increase their consumption. In addition, marketing strategies are particularly effective in targeting children and adolescents and increase nicotine dependence in young people [10].

The first country to introduce bans on placing tobacco products on display was Iceland, in 2001. The Republic of Moldova is the 30th country in which the provision applies [11].

CONCLUSIONS

The Republic of Moldova has benefited from the taxation of tobacco products, therefore, there is a need to simplify the tax structures of other countries by merging several levels of taxation of tobacco products and unifying the tax rate for all types of cigarettes. This can help prevent smokers from switching to cheaper cigarette brands after an increase in fees for previously consumed brands. In addition, the tax rates for tobacco products should be adjusted over time, at least to keep pace with inflation and preferably faster, so that accessibility is reduced over time.

Although Moldova is distinguished by the strictest anti-tobacco regulation in Europe, increasing poverty and deepening social inequality necessitate the implementation of urgent financial protection measures in health.

Funding arrangements by identifying and planning resources to meet health requirements, reducing financial barriers to the use of necessary services, in particular by substantially increasing allocations from MHI funds for reimbursed medicines, and implementing reforms to improve service

quality must to be among the objectives of the sectoral expenditure strategy for health care, and implicitly in the objectives of the budgetary and fiscal policy of increasing taxes on tobacco products.

Therefore, accepting and submitting as efficient measures as possible to increase excise duties on tobacco products - reshuffles to be reflected in the fiscal policy for 2021, will generate solid revenues in the state budget and will increase the amount of transfers from the state budget for the compulsory medical assistance insurance of the categories of unemployed persons, for which the Government has the quality of insured.

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