

## **Taxation of tobacco products - improving public health: Recommendations for increasing excise duties in Moldova, in the context of the regional specific - Ukraine - minimizing the risks of illicit trade and smuggling in Moldova.**



This material is published within the project "Health Monitor for good governance in the Republic of Moldova" implemented by the Center for Health Policies and Studies (PAS Center) with the financial support of the Soros Foundation-Moldova /Public Health Department. The PAS Center would like to thank Mr. Pavlo Iavorskyi from Kyiv School of Economics for making this material. The views presented are not necessarily shared by the Soros Foundation-Moldova.

## Taxation of tobacco products - improving public health: Recommendations for increasing excise duties in Moldova, in the context of the regional specific - Ukraine - minimizing the risks of illicit trade and smuggling in Moldova.



Chisinau, September 2021

## SUMMARY

Introduction.....	5
Chapter 1. Tobacco taxation systems in Moldova and Ukraine.....	6
Defining the object of taxation. ....	6
The structure of tobacco taxes. ....	6
Figure 1. General scheme of the principle of taxation of tobacco in Ukraine and Moldova. ....	8
Comparative presentation of tax rates applicable to tobacco products. ....	8
Table 1. Taxes on tobacco products in Ukraine and Moldova. ....	10
Table 2. Customs duties on tobacco and tobacco products in Ukraine and Moldova.....	12
Chapter 2. Prices for tobacco products in Moldova and Ukraine.....	13
Table 3. Comparison of tobacco products prices in Moldova and Ukraine, September 2021. ....	14
Chapter 3. The potential for increasing excise duties in Moldova. ....	15
The structure of the tax pressure on tobacco products. ....	15
Figure 2. The structure of cigarette prices in Moldova and Ukraine .....	16
Figure 3. Price structure for HTPs in Moldova and Ukraine, 2021. ....	18
Figure 3. Price structure for cigarillos in Moldova and Ukraine, 2021.....	18
Table 4. Estimated calculations for the change in the price of tobacco products according to current plans of increasing tobacco excise duties. ....	19
The result of the review of increased excise rates for cigarettes and HTPs in Moldova in 2022 (Table 5): .....	20
Table 5. Anticipated price for tobacco products according to current projects of tobacco excise duty increase. ....	21
ANNEXES .....	22
Annex A. ....	22
Table A1. Principles of taxation of tobacco products in Ukraine and Moldova .....	22
Annex B. ....	24
Table B1 Structuring of prices for tobacco products in Ukraine and Moldova, EURO, 2021.....	24
Annex C. Illicit trade in tobacco products in Ukraine. ....	25
Figure C1. The share of illicit trade in the Ukrainian tobacco market .....	25

**ABBREVIATIONS**

AAV – Ad valorem exercise duty

RED - Retail exercise duty

SED - Specific excise duty

AT - Total excise duty

NTCP - Non-taxable component of the price (price without taxes)

MED - Minimum excise duty requirement

MRP - Maximum retail price

HTP - Heated tobacco products (non-burning tobacco products)

CD - Customs duties

VAT - Value added tax

## Introduction

Increasing excise duties on tobacco products is considered one of the most effective tools for controlling tobacco use. Studies conducted in different countries have convincingly shown that the increase in excise duties results in higher prices for tobacco products, fewer smokers and a lower volume of consumption. In addition, another advantage for the state authorities responsible for supplementing the budget, is the collection of legitimate tax revenues.

Article 6 of the WHO Framework Convention on Tobacco Control<sup>1</sup> stipulates that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons. Without prejudice to the sovereign right of the Parties to determine and establish their taxation policies, each Party should take account of its national health objectives concerning tobacco control and adopt or maintain, as appropriate, measures which may include implementing tax policies and, where appropriate, price policies, on tobacco products so as to contribute to the health objectives aimed at reducing tobacco consumption.

The Association Agreement between the European Union (EU) and the Republic of Moldova<sup>2</sup> provides for a commitment to develop their cooperation and harmonize policies in the field of tobacco taxation. Annex VI to Article 8 Taxation stipulates that the Republic of Moldova undertake to implement European Council Directive 2011/64/EU within 2 years of the entry into force of the Agreement. The Directive sets out a number of requirements regarding the structure and minimum rate of excise duty on tobacco products: the excise duty must combine the ad valorem element and the specific element (in absolute terms per unit of product), and the minimum rate by 2025 shall not be less than 90 euros per 1000 cigarettes.

On the other hand, the increase in "vice taxes" can lead to the development of the illicit market, which operates mainly with counterfeit and smuggled products. In order to minimize the risks of stimulating the growth of smuggling in Moldova, Article 55 of the Agreement provides that the implementation of European rules will take into account the constraints of the regional context in approximation of excise rates on tobacco products.

This analytical note refers to the regional context that may influence Moldova's fiscal policy, comparing Moldova with Ukraine, which has also committed to implementing Directive 2011/64/EU.

The analytical note includes 3 parts. Chapter 1 provides an overview of the tax principles and tax principles of both countries. Chapter 2 compares the level of prices for tobacco products in Ukraine and Moldova. The last chapter makes a projection of the evolution of prices for tobacco and related products in Ukraine and draws the acceptable level of excise duties on tobacco and related products in Moldova for 2022.

---

<sup>1</sup> WHO Framework Convention on Tobacco Control, <https://fctc.who.int/publications/i/item/9241591013>, as of 25th September 2021

<sup>2</sup> Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova. [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02014A0830\(01\)-20180824&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02014A0830(01)-20180824&from=EN)

## Chapter 1. Tobacco taxation systems in Moldova and Ukraine.

The principles that apply to tobacco taxation in Ukraine and Moldova are stipulated in the tax codes of these states<sup>3</sup>, <sup>4</sup>. These documents provide definitions of the object of taxation; establish the system of excise duties applied and the level of taxation, as well as the method of calculating them.

### *Defining the object of taxation.*

For tax purposes, the Fiscal Code of Ukraine (Article 14.1.252) defines **Tobacco Products** as: cigarettes with or without filter, cigarettes, cigars, cigarillos, as well as pipe tobacco, dry snuff, moist snuff, chewing tobacco, loose leaf and other tobacco products or substitutes therefor, used for smoking, smelling, sucking or chewing. In addition to the tobacco products listed, excise duties are also applied to raw tobacco and its industrial substitutes, as well as to liquids used for electronic cigarettes.

The Tax Code of the Republic of Moldova (Article 119) defines the processed tobacco as all kinds of tobacco in the form of filtered and unfiltered cigarettes, tobacco products for tobacco heaters, cigars and cigarettes, as well as other types of tobacco, smoking tobacco, including fine-cut tobacco for hand-rolled cigarettes. It should be noted that the Republic of Moldova does not apply excise duties on liquids used for electronic cigarettes, thus bypassing fiscal policies that would improve public health and accumulate more money in the budget.

The structure of tobacco taxes.

In both countries, excise duties on tobacco products, in accordance with Directive 2011/64/EU, consist of two components (Article 122 of the Moldovan Tax Code; Article 215.2.2 of the Ukrainian Tax Code).

- **Specific excise duty (SED).** SED is charged in absolute value per unit of goods or, in other words, in an absolute amount of Ukrainian hryvnia or Moldovan lei for a unit (piece) of tobacco product. For certain types of tobacco products, SED is applied in the form of an absolute amount per unit weight. These products include:
  - In Ukraine - raw tobacco and tobacco waste; tobacco and tobacco substitutes, industrially manufactured; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences.
  - In Moldova - fine-cut tobacco for hand-rolled cigarettes; smoking tobacco, other manufactured tobacco and tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences.

<sup>3</sup> Податковий кодекс України, <https://zakon.rada.gov.ua/laws/show/2755-17#Text>, as of 25th of September 2021

<sup>4</sup> [https://www.legis.md/cautare/getResults?doc\\_id=117668&lang=ro](https://www.legis.md/cautare/getResults?doc_id=117668&lang=ro), as of 25th of September 2021

- **Ad valorem excise duty (AVED)** is calculated as a percentage of the value of the goods, excluding excise duties and VAT, or of the customs value of the imported goods, taking into account the taxes and duties to be paid at import, without taking into account excise duties and VAT.

The calculation basis for AVED in both Ukraine and the Republic of Moldova are **the maximum retail price (MRP)** - the prices set for excisable products, including all types of taxes (duties) (Article 123.1 of the Fiscal Code of the Republic of Moldova; Article 14.1.106 of the Fiscal Code of Ukraine).

MRP are established by manufacturers or importers of goods (products) by declaration. Although the very definition of MRP involves setting a certain retail prices ceiling at which goods are sold for final consumption, there is a difference in its application in Ukraine and Moldova.

- **Retail excise duty (RED).** The difference in the structure of excise duties in Ukraine and Moldova consists in the inclusion of an additional excise duty (RED) on excisable products sold by retailers in Ukraine. The basis of RED accumulation is also MRP, but unlike AVED and AS, RED is not included in MRP.
- **Minimum excise duty (MED).** The total excise duty (TED) for tobacco products is charged as the sum of the ad valorem excise duty (AVED) and the specific excise duty (SED). In addition, there are MEDs for certain types of tobacco products:
  - In Ukraine - for filter-tipped or untipped cigarettes, as well as cigarillos.
  - In Moldova - for filter-tipped or untipped cigarettes.
- **Value added tax (VAT).** In addition to excise duties, tobacco products are also subject to VAT, which is applied to all goods that are sold to final consumers. The basis for calculating VAT is MRP and the value of VAT is included in MRP in both countries.
- **Customs duties (CD).** In addition to national taxes (VAT) and excise duties on tobacco, customs duties may be applied to tobacco products.

Figure 1 schematically summarizes the structure of the unit cost of tobacco products in Ukraine and Moldova. RED is applied in Ukraine - while in Moldova the unit price of tobacco product is equal to MRP, in Ukraine the unit price of tobacco product is equal to the sum of MRP and RED. Consequently, MRP includes TED and VAT. The difference between MRP, VAT and TED is the cost of production, as well as the profit margins of manufacturers, wholesalers and retailers. TED, in turn, is equal to the highest value of two indicators - MED or the sum of AVED and SED.

Figure 1. General scheme of the principle of taxation of tobacco in Ukraine and Moldova.

(a) Moldova.

Price = MRP (Maximum retailer price)

	CD (customs duties)	TED (total excise duty)	VAT (value added tax)

(b) Ukraine.

Price

MRP (maximum retailer price)				
	CD (customs duties)	TED (total excise duty)	VAT (value added tax)	RED (retail excise duty)

*Comparative presentation of tax rates applicable to tobacco products.*

**In Ukraine, excise duties on all essential tobacco products are higher than in Moldova.**

Table 1 compares the tax rates that apply to tobacco products - in EURO at the current exchange rate (September 2021) of UAH and MDL (data in national currencies are presented in Table A1, Annex A):

- **The retail excise duty (RED) of tobacco products in Ukraine is 5%.** There is no such excise duty in Moldova.
- **VAT rates in Ukraine and Moldova are the same and constitute 20%.**
- **Excise duties on cigarillos applied in Ukraine are higher than those applied in Moldova.** In Ukraine, the applied excise duties include the specific component (SC) and the ad valorem component (AVC) charged at EUR 34.22 per 1000 pieces and 12% respectively. There is also a minimum excise duty of EUR 45.78 per 1000 pieces. In 2022, the rate of the specific component (SA) will increase to 41.07 EURO per 1000 pieces, and the minimum excise duty (MED) will reach 54.9 EURO per 1000 pieces. In Moldova, only ad valorem excises duties (AVED) of 41% are applied for these products.
- **Excise duties on cigarettes in Ukraine** are now higher and, according to the seven-year plan for the annual increase in excise duties, will be even higher in 2022. Both countries apply the same quotas for filter-tipped or untipped cigarettes. In 2021, in Ukraine, the current specific excise duty (SED) is 34.22 EURO per 1000 pieces (it will reach 41.07 EURO per 1000 pieces in 2022), and the ad valorem tax (AVT) is 12%. In Moldova, the respective taxes are of 29.68 EURO per 1000 pieces (they will be 34.18 EURO per 1000 pieces in 2022) and 13% AVT.

The minimum excise duty (MED) in Ukraine is now by 14.8% higher than in Moldova (45.78 EURO and 39.87 EURO, respectively, per 1000 pieces). If the seven-year plan for the annual increase in excise duties is applied, the minimum excise duty (MED) would grow to 54.94



EURO and 45.84 EURO per 1000 pieces, respectively, which would increase the difference between the two rates by 5 percentage points, i.e. up to 19.8%.

- **Excise duties on HTP in Ukraine** are now higher and, according to the seven-year plan for the annual increase in excise duties, will be even higher in 2022. The specific excise duty (SED) for HTP in Ukraine is equal to the minimum excise duty on cigarettes of 45.78 EURO per 1000 pieces (in 2022 it will be 54.94 EURO per 1000 pieces). In Moldova, the rates for HTP and cigarettes are also equal - 39.87 EURO per 1000 pieces in 2021 and 45.87 EURO per 1000 pieces in 2022.
- **In Ukraine, the excise duty on liquids used for electronic cigarettes containing tobacco is 94.31 EURO per liter.** There is no such excise duty in Moldova.

In addition to national taxes and excise duties on tobacco, customs duties also contribute to price formation for imported tobacco products. In Ukraine, cigarillos and HTP are mostly or entirely imported, Moldova mostly import cigarettes (the imports from Ukraine in the first 6 months of 2021 amounted to 10.5 million USD or 770 million pieces), cigarillos and HTP (Table 2).

- The CDs for cigarettes in Moldova is of 3 euros for 1000 pieces.
- The CDs for cigarettes in Moldova is of 3 euros per 1000 pieces, and in Ukraine - 10%.
- The CD for HTP in Moldova is of 15%, and in Ukraine - 1.8 euros per 1000 pieces.

Table 1. Taxes on tobacco products in Ukraine and Moldova.

Tax	Tobacco product/Related product		Units of measurement		Excise duty			
	Ukraine	Moldova	Ukraine	Moldova	Ukraine		Moldova	
					2021	2022	2021	2022
<b>Retail excise duty (RED)</b>	All	None	%	None	5	5	None	None
<b>Value Added Tax (VAT)</b>	All	All	%	%	20	20	20	20
<b>Specific excise duty (SED)</b>								
	Raw tobacco and waste (code 2401)	None	Euro/kg	None	43,00	51,60	None	None
	Cigars, including cheroots, containing tobacco (code 2402100010)	None	Euro/kg	None	43,00	51,60	None	None
	Cigarillos, including cheroots, containing tobacco (code 2402100090)	None	Euro/1000 pieces	None	34,22	41,07	None	None
	Cigarettes without filter (code 2402209010)	Cigarettes without filter containing tobacco: oval, up to 70 mm long, with a mouthpiece, other (code 240220)	Euro for 1000 pieces	Euro for 1000 pieces	34,22	41,07	29,68	34,18
	Filter cigarettes (code 2402209020)	Filter cigarettes containing tobacco (code 240220)	Euro for 1000 pieces	Euro for 1000 pieces	34,22	41,07	29,68	34,18
	Tobacco and tobacco substitutes, others, processed tobacco; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences (code 2403, code 2403 99 90 10)	Smoking tobacco, other manufactured tobacco and industrial tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences (code 2403, code 240319 and 240399900)	Euro/kg	Euro/kg	43,00	51,60	7,54	7,92

		Fine-cut tobacco for the rolling of cigarettes (code 240319)		Euro/kg			60,23	63,24
	Heated tobacco products (non-burning tobacco products) (HTP) (code 2403999010)	Tobacco reserves for tobacco heaters (code 240399900)	Euro/1000 pieces	Euro/1000 pieces	45,78	54,94	39,87	45,84
	Liquids for electronic cigarettes (code 3824909720)	None	Euro/Liter	None	94,31	94,31	None	None
<b>Ad valorem excise duties (AVED)</b>								
	Cigarettes without filter (code 2402209010)	Cigarettes without filter containing tobacco: oval, up to 70 mm long, with a mouthpiece, other (code 240220)	%	%	12	12	13	13
	Filtercigarettes (code 2402209020)	Filter cigarettes containing tobacco (code 240220)	%	%	12	12	13	13
	Cigarillos, including cheroots, containing tobacco (code 2402100090)	Cigars, cheroots and cigarillos, containing tobacco (code 240210000)	%	%	12	12	41	41
	None	Cigars, cheroots and cigarillos, containing tobacco (code 240210000)	None	%	None	None	41	41
	None	Other cigars, cigarillos and cigarettes, containing tobacco substitutes (code 240290000)	None	%	None	None	41	41
<b>Minimum excise duty (MED)</b>								
	Cigarettes without filter (code 2402209010)	Cigarettes without filter containing tobacco: oval, up to 70 mm long, with a mouthpiece, other (code 240220)	Euro/1000 pieces	Euro/1000 pieces	45,78	54,94	39,87	45,84
	Filter cigarettes (2402209020)	Filter cigarettes containing tobacco (code 240220)	Euro/1000 pieces	Euro/1000 pieces	45,78	54,94	39,87	45,84
	Cigarillos, including cheroots, containing tobacco (code 2402100090)	None	Euro/1000 pieces	None	45.78, but not less than 43/kg	54.94, but not less than 51.6/kg	None	None

**Source:** Fiscal Code of Ukraine, Fiscal Code of Moldova.

Table 2. Customs duties on tobacco and tobacco products in Ukraine and Moldova.

Tobacco product/related product		Units of measurement		Customs duty	
Ukraine	Moldova	Ukraine	Moldova	Ukraine	Moldova
Raw tobacco and tobacco refuse (code 2401)	Raw tobacco and tobacco refuse (code 2401)	%	%	1	5
Cigars, including cheroots, containing tobacco (code 2402100010)	Cigars, cheroots and cigarillos containing tobacco (code 240210000)	%	Euro/1000 pieces	10	3
Cigarillos, including cheroots, containing tobacco (code 2402100090)		%		10	
Cigarettes without filter (code 2402209010)	Filter cigarettes containing tobacco (code 240220)	Euro/1000 pieces	Euro/1000 pieces	1,5	3
Filter cigarettes (code 2402209020)		Euro/1000 pieces		1,5	
Tobacco and tobacco substitutes, others, processed tobacco; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences (code 2403, code 2403 99 90 10)	Smoking tobacco, other manufactured tobacco and industrial tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences (code 2403, code 240319 and 240399900)	%	%	20	15
Heated tobacco products (non-burning tobacco products) (HTP) (code 2403999010)	Tobacco reserves for tobacco heaters (code 240399900)	Euro/1 kg	%	1,8	15
Liquids for electronic cigarettes (code 3824909720)	None	None	None	None	None

Source: Ukraine and Moldova legislation on customs duties.

## Chapter 2. Prices for tobacco products in Moldova and Ukraine.

In order to compare the prices of tobacco products in Moldova and Ukraine, specific brand samples present on both markets were tracked. Thus, the prices of cigarettes, HTP, cigarillos and liquids for electronic cigarettes were compared. Table 3 provides information on these types of tobacco products.

It is estimated that **cigarettes in Ukraine are 1.4-17.5% more expensive than in Moldova**. According to the State Statistics Service of Ukraine, the average price for Premium cigarettes is 2 euros, and for the middle class cigarettes - 1.8 euros, as of July 2021. These figures reflect the monitoring data of 14 popular cigarette brands. In September 2021, only 2 brands out of 14 were more expensive in Moldova than in Ukraine. These two brands are Sobranie Blue and Parliament Aqua Blue, which belong to the Premium segment, with a price of 2.31-2.28 euros in Ukraine and 2.36-2.46 euros in Moldova. The price difference is 2.3 and 8%, respectively.

Thus, 12 out of 14 cigarette brands are more expensive in Ukraine. This pattern is valid for both Premium brands, such as Marlboro Red (2.18 EURO in Ukraine and 1.98 EURO in Moldova) and Marlboro Gold (2.15 EURO in Ukraine and 1.98 EURO in Moldova), and for the medium and economic segment - L&M Loft Blue (1.9 EURO in Ukraine and 1.69 EURO in Moldova) and Prima Lux RED (1.61 EURO in Ukraine and 1.45 EURO in Moldova).

In general, no firm correlation or legitimacy can be distinguished neither for the cost of a pack of cigarettes in Ukraine or Moldova, nor for the price difference in these two countries. The largest difference is observed for Rothmans Blue (1.93 EURO in Ukraine and 1.59 EURO in Moldova) and Camel Filters (2.1 EURO in Ukraine and 1.79 EURO in Moldova), and the smallest - for Rothmans Royals Blue (1.61 EURO in Ukraine and 1.59 EURO in Moldova) and Rothmans Royals Demi Silver (1.68 EURO in Ukraine and 1.78 EURO in Moldova).

The estimates conclude that **HTPs are by 8.1-12.6% more expensive in Ukraine than in Moldova**. Two classes of HEETS - standard HEETS and premium HEETS Dimensions - were used to compare prices on tobacco sticks for tobacco heaters. Prices for HEETS within the segment were standardized both in Moldova and Ukraine. As of September 2021, the HEETS and HEETS Dimensions packages in Ukraine cost 2.15 and 2.31 EURO, respectively, and in Moldova 1.88 and 2.12 EURO, respectively.

It is estimated that **cigarillos are 24-68% more expensive in Ukraine than in Moldova**. To compare prices for cigarillos we reported on three popular brands in different price categories: Clubmaster Mini Brown (10.12 EURO in Ukraine and 7.71 EURO in Moldova), Handelsgold Blond (4.11 EURO in Ukraine and 1.93 EURO in Moldova) and Light Seniorita Vanilla (7.59 EURO in Ukraine and 2, 41 EURO in Moldova).

Table 3. Comparison of tobacco products prices in Moldova and Ukraine, September 2021.

Tobacco product/related product	Trademarks	Price in national currency		Price, EURO		Difference
		Ukraine	Moldova	Ukraine	Moldova	
Cigarettes	Sobranie Blue	73	49	2,31	2,36	2,3%
	Parliament Aqua Blue	72	51	2,28	2,46	8,0%
	Marlboro Red	69	41	2,18	1,98	-9,4%
	Marlboro Gold	68	41	2,15	1,98	-8,1%
	Camel Filters	66	37	2,10	1,78	-15,2%
	Davidoff Classic	66	40	2,09	1,93	-7,6%
	Rothmans Blue	61	33	1,93	1,59	-17,5%
	Winston XS Blue	62	36	1,98	1,73	-12,2%
	L&M Loft Blue	60	35	1,90	1,69	-11,1%
	LD Amber Line	54	33	1,71	1,59	-6,8%
	Davidoff Reach	55	33	1,74	1,59	-8,6%
	Rothmans Royals Demi Silver	53	33	1,68	1,59	-5,1%
	Prima Lux RED	51	30	1,61	1,45	-10,3%
	Rothmans Royals Blue	51	33	1,61	1,59	-1,4%
HTP	Heets	68	39	2,15	1,88	-12,6%
	Heets Dimensions	73	44	2,31	2,12	-8,1%
Cigarillos	Clubmaster Mini Brown	320	160	10,12	7,71	-23,8%
	Handelsgold Blond	130	40	4,11	1,93	-53,1%
	Light Senorita Vanilla	240	50	7,59	2,41	-68,2%
Liquids for electronic cigarettes (code 3824909720)	Frozen Yoghurt Ice Boost - Strawberry + Kiwi	300	200	9,48	9,64	1,6%
	Fruit Shake Ice Boost - Watermelon + Strawberry	330	200	10,43	9,64	-7,6%
	PRIDE TEA Herbal - Pine, Berries	250	200	7,90	9,64	21,9%

Source: Retail network and internet-stores monitoring.

**Based on the monitoring performed, no conclusions can be drawn regarding the persistent differences in the prices of liquids for electronic cigarettes in Ukraine and Moldova.** To compare prices three popular brands were tracked: Frozen Yoghurt Ice Boost (9.48 EURO in Ukraine and 9.64 EURO in Moldova), PRIDE TEA Herbal (7.9 EURO in Ukraine and 9.64 EURO in Moldova) and Fruit Shake Ice Boost (10.43 EURO in Ukraine and 9.64 EURO in Moldova). Two of the three brands of liquids are cheaper in Ukraine (1.6% and 21.9%), the third one is cheaper in Moldova (7.6%).

## Chapter 3. The potential for increasing excise duties in Moldova.

In order to minimize the risks of stimulating smuggling into Moldova, Article 55 of the Moldova–European Union Association Agreement stipulates that the implementation of European norms shall take into account the limitations related to regional characteristics.

Romania is a member of the EU and applies much higher excise duties than Moldova and Ukraine. Thus, Ukraine is one of the reference countries in the region for Moldova. In December 2017 Ukraine adopted the so-called "7-year plan", which increased the specific excise duty rate for cigarettes in 2018 and approved its annual increases - from 2019 to 2025. According to this program, the excise duty would increase by 20% annually for the following 5 years in the period from January 1, 2021 to January 1, 2025).

From January 1, 2021, the minimum excise duty (MED) on cigarettes is 34.22 EUROS per 1,000 pieces, and in 2025, at the current exchange rate, the excise duty will reach 95.5 EURO per 1000 pieces. The same principles will be applied to HTP. These rates exceed the commitments made by Ukraine under the EU-Ukraine Association Agreement.

Thus, in accordance with the structure of the fiscal pressure on tobacco products, it is possible to estimate the level of excise duty rates in Moldova, by which the current price difference between Ukraine and Moldova will be maintained.

### *The structure of the tax pressure on tobacco products.*

Figures 2 to 4 show the structure of tobacco prices in Ukraine and Moldova, the overall picture for which it is shown in Figures 1a to 1b. Thus, the price of tobacco products consists of the retail excise duty (RED), the value added tax (VAT), the tobacco excise duty (TED), the customs duty (CD) and the non-taxable component (NTC), which represents the difference between the price of the product and the sum of all taxes (for a detailed calculation see Table B1, Annex B).

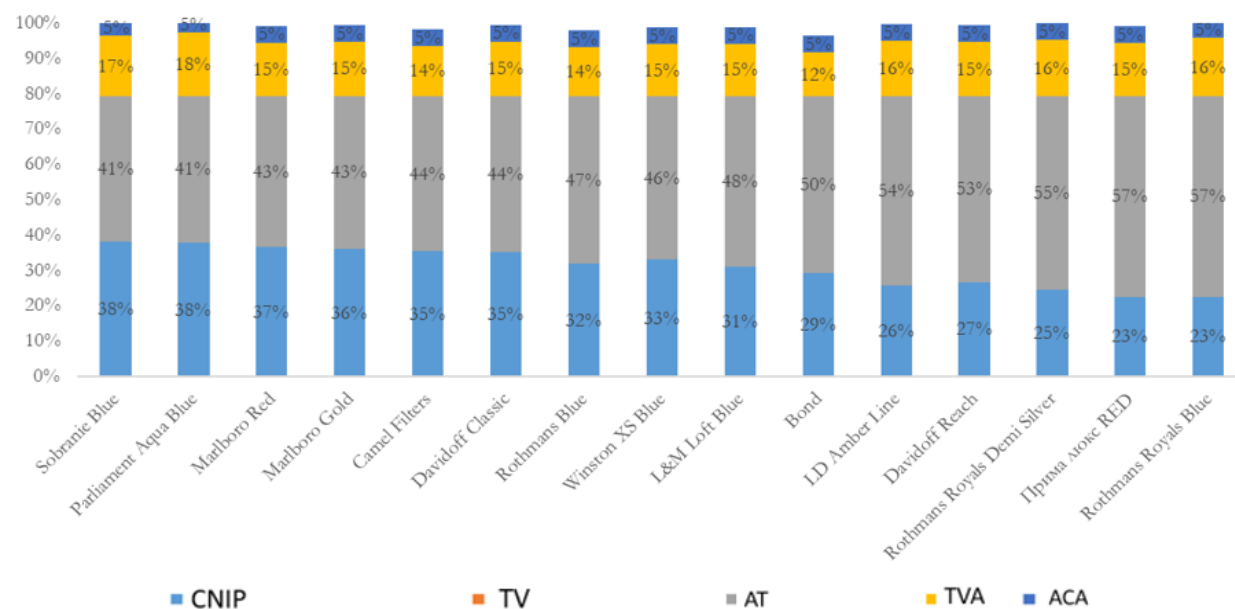
**In 2021, the total fiscal pressure on cigarettes in Ukraine was 63-78% of the price, and in Moldova it was 56-76% of the price (figure 2).** In Ukraine, the non-taxable component (NTC) does not exceed 38% of the price for any selected brand, reaching 23% for the cheapest brands. The most weighted component of the price in Ukraine is the tobacco excise duty (TED), which represents 41-57% of the price.

**In Moldova, the non-taxable component (NTC) is lower than in Ukraine - 29-43%, given lower excise duties compared to Ukraine. In Moldova the tobacco excise duty (TED) is over 50% only for 2 brands of cigarettes.**

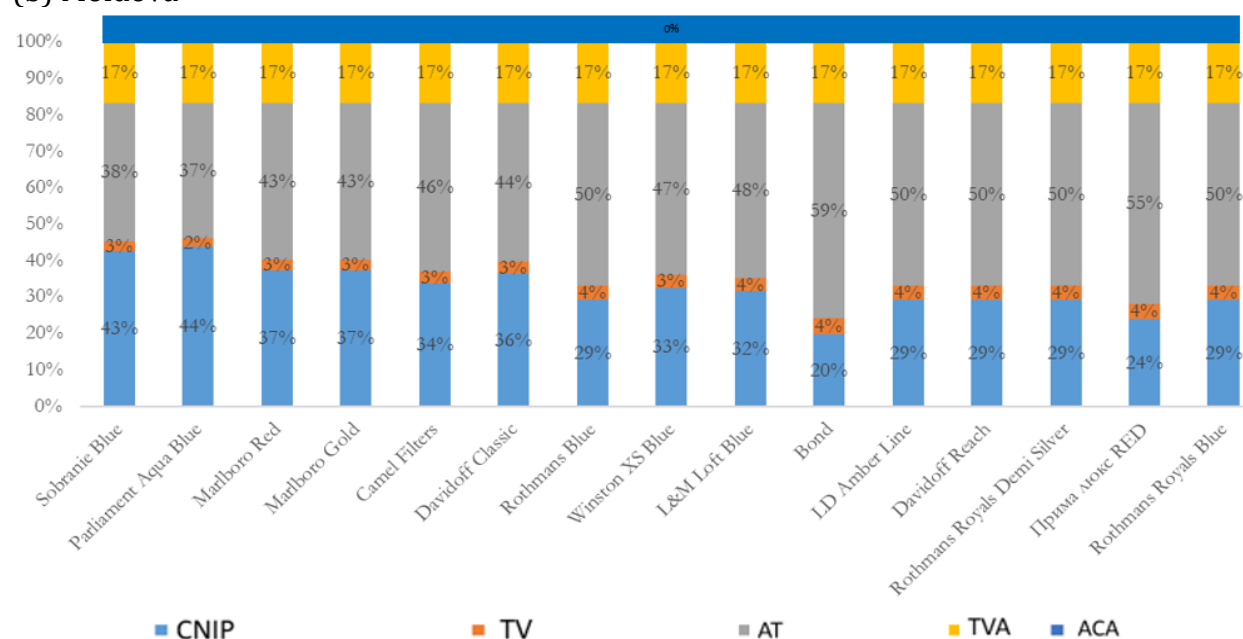
On the other hand, with regard to cigarillos, the situation in Ukraine compared to Moldova is totally different. **The total fiscal pressure in Ukraine is 40-42%, of which the share of tobacco excise duties is 15-18%. In Moldova, the total fiscal pressure reaches 74-84% due to high tobacco excise duties (41%) and customs duties (16-26%).**

Figure 2. The structure of cigarette prices in Moldova and Ukraine

(a) Ukraine



(b) Moldova



Source: Own calculations



**Similar trends of higher fiscal pressure in Ukraine compared to Moldova are also distinguished for HTPs (figure 3). In the first case, the total tax burden in Ukraine is 74-78%, and tobacco excise duties account for 40-43%. The corresponding figures for Moldova are 60-64% and 38-42%.**

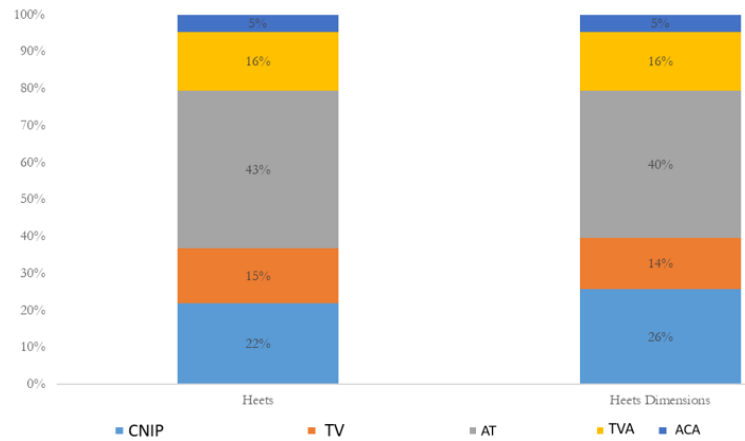
**The planned increase in tobacco excise duties in 2022 in Ukraine and Moldova will raise the overall tax burden on tobacco products.** In Ukraine, the total tax burden will be 64-80% for cigarettes (tobacco excise duty (TED) - 44-60% of the price), 77-80% for HTPs (tobacco excise duty (TED) - 43-46% of the price), and for cigarillos - 43-45% (tobacco excise duty (TED) - 17-19% of the price). In Moldova the total tax burden will increase as follows: for cigarettes - 58-82% (tobacco excise duty (TED) - 39-61% of the price), for HTPs- 77-80% (tobacco excise duty (TED) - 63- 67% of the price), for cigarillos - 74-84% (tobacco excise duty (TED) - 41% of the price).

An even greater increase in tobacco excise duties in Ukraine will increase the price gap for tobacco products in Ukraine and Moldova. This trend will be perceptible for all types of tobacco products (Table 4). In the case of cigarettes, the price difference for the brands that were more expensive in Moldova will either decrease significantly (Parliament Aqua Blue: 2021 - 8%, 2022 - 4.4%), or will disappear completely (Sobranie Blue: 2021 - 2,3 %, 2022 - 0.8%). **Brands that were more expensive in Ukraine will become even more expensive compared to cigarettes sold in Moldova. The price difference will increase from 1.4-17.5% in 2021 to 6.1-19.9% in 2022.**

Similarly, **price gap between Moldova and Ukraine for HTP will increase from 8.1-12.6% in 2021 to 10.8-15% - in 2022, and for cigarillos - from 23.8- 68.2% in 2021 to 25.3-67% - in 2022.**

Figure 3. Price structure for HTPs in Moldova and Ukraine, 2021.

(a) Ukraine



(b) Moldova

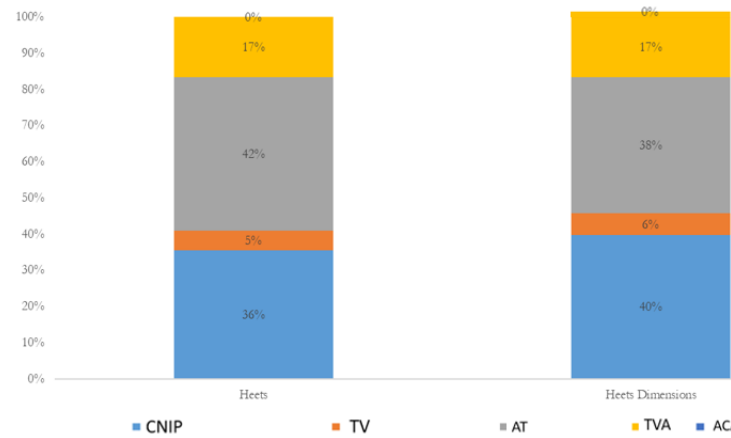
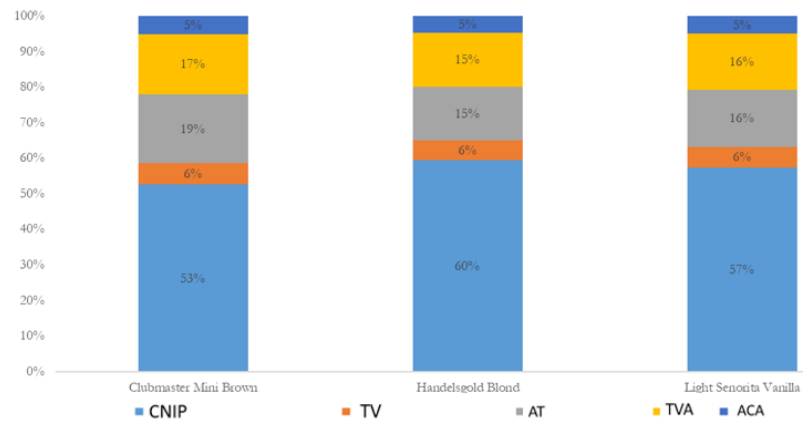
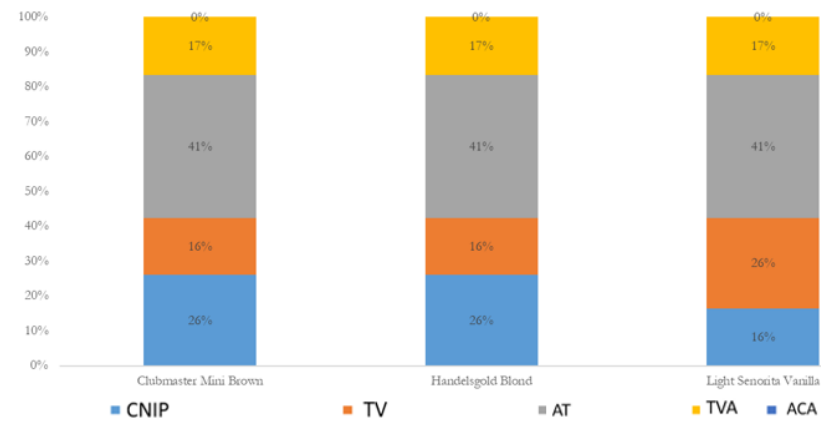


Figure 3. Price structure for cigarillos in Moldova and Ukraine, 2021.

(a) Ukraine



(b) Moldova



Source: own calculations.

Tabele 4. Estimated calculations for the change in the price of tobacco products according to current plans of increasing tobacco excise duties.

Tobacco product/related product	Brand	Price, 2021		Price, 2021		The difference between Ukraine and Moldova	
		Ukraine	Moldova	Ukraine	Moldova	2021	2022
Cigarettes	Sobranie Blue	2,31	2,36	2,51	2,49	2,3%	-0,8%
	Parliament Aqua Blue	2,28	2,46	2,48	2,59	8,0%	4,4%
	Marlboro Red	2,18	1,98	2,39	2,10	-9,4%	-12,0%
	Marlboro Gold	2,15	1,98	2,36	2,10	-8,1%	-10,9%
	Camel Filters	2,10	1,78	2,32	1,91	-15,2%	-17,7%
	Davidoff Classic	2,09	1,93	2,31	2,06	-7,6%	-11,0%
	Rothmans Blue	1,93	1,59	2,16	1,73	-17,5%	-19,9%
	Winston XS Blue	1,98	1,73	2,21	1,86	-12,2%	-15,6%
	L&M Loft Blue	1,90	1,69	2,13	1,81	-11,1%	-14,7%
	LD Amber Line	1,71	1,59	1,94	1,73	-6,8%	-10,7%
	Davidoff Reach	1,74	1,59	1,97	1,73	-8,6%	-12,2%
	Rothmans Royals Demi Silver	1,68	1,59	1,91	1,73	-5,1%	-9,2%
	Prima Lux RED	1,61	1,45	1,84	1,59	-10,3%	-13,8%
	Rothmans Royals Blue	1,61	1,59	1,84	1,73	-1,4%	-6,1%
HTP	Heets	2,15	1,88	2,38	2,02	-12,6%	-15,0%
	Heets Dimensions	2,31	2,12	2,54	2,26	-8,1%	-10,8%
Cigarillos	Clubmaster Mini Brown	10,12	7,71	10,32	7,71	-23,8%	-25,3%
	Handelsgold Blond	4,11	1,93	4,16	1,93	-53,1%	-53,7%
	Light Senorita Vanilla	7,59	2,41	7,69	2,41	-68,2%	-68,7%

Source: Own calculations.

Such a situation could have several important consequences:

- The current policy of the Government of Ukraine and **the difference between Ukraine and Moldova in terms of tobacco tax policy does not create the premises for increased smuggling of tobacco products from Ukraine to Moldova.** Currently, **tobacco products in Ukraine are more expensive than those in Moldova are and will continue to be more expensive in the coming years.** This might lead to opposite trend in the illicit trade of tobacco products - the intensification of smuggling from Moldova to Ukraine - is more realistic (Annex B).
- **There is an opportunity for the Moldovan government to simultaneously increase excise rates on tobacco and related products without violating regional restrictions.** This will generate revenues to the state budget, as well as improve the well-being of citizens by reducing long-term life and health risks.

*The result of the review of increased excise rates for cigarettes and HTPs in Moldova in 2022 (Table 5):*

- The minimum excise duty (MED) for filtered and unfiltered cigarettes could be increased from 45.84 euros to 48.5 euros for 1000 pieces (1,006.38 lei for 1,000 cigarettes).
- The specific excise duty (SED) for HTP can be increased from 45.84 to 48.5 euros for 1000 pieces (1006.38 lei for 1000 tobacco reserves for tobacco heating devices).
- Following the example of Ukraine, it is appropriate to set a minimum excise duty (MED) for cigarillos at the level of the minimum excise duty (MED) for cigarettes and HTPs. Thus, in 2022, the excise rate for cigarettes can remain at the level of 41%, but not less than 1006.38 lei per 1000 pieces.
- Also, following the example of Ukraine, it is appropriate to include liquids for electronic cigarettes in the excise policy for 2022 and establish the excise duty (SED) at the level of 1.957 lei for 1 liter.

Table 5. Anticipated price for tobacco products according to current projects of tobacco excise duty increase.

The tobacco product	Trademarks	Ukraine	Moldova		Difference		
		2022: 54.94 EURO per 1000 pieces	2022: 54.94 EURO per 1000 pieces	2022: 48.5 EURO pt. 1000 pieces	2022: 54.94 EURO per 1000 pieces	2022: 48.5 EURO pt. 1000 pieces	2021: 54.94 EURO per 1000 pieces
Cigarettes	Sobranie Blue	2,51	2,49	2,49	-0,8%	-0,8%	2,3%
	Parliament Aqua Blue	2,48	2,59	2,59	4,4%	4,4%	8,0%
	Marlboro Red	2,39	2,10	2,12	-12,0%	-11,3%	-9,4%
	Marlboro Gold	2,36	2,10	2,12	-10,9%	-10,3%	-8,1%
	Camel Filters	2,32	1,91	1,96	-17,7%	-15,7%	-15,2%
	Davidoff Classic	2,31	2,06	2,08	-11,0%	-10,0%	-7,6%
	Rothmans Blue	2,16	1,73	1,79	-19,9%	-16,9%	-17,5%
	Winston XS Blue	2,21	1,86	1,92	-15,6%	-13,2%	-12,2%
	L&M Loft Blue	2,13	1,81	1,88	-14,7%	-11,9%	-11,1%
	LD Amber Line	1,94	1,73	1,79	-10,7%	-7,4%	-6,8%
	Davidoff Reach	1,97	1,73	1,79	-12,2%	-8,9%	-8,6%
	Rothmans Royals Demi Silver	1,91	1,73	1,79	-9,2%	-5,9%	-5,1%
	Prima Lux RED	1,84	1,59	1,65	-13,8%	-10,3%	-10,3%
	Rothmans Royals Blue	1,84	1,73	1,79	-6,1%	-2,7%	-1,4%
HTP	Heets	2,38	2,02	2,09	-15,0%	-12,3%	-12,6%
	Heets Dimensions	2,54	2,26	2,33	-10,8%	-8,3%	-8,1%

Source: Own calculations

# ANNEXES

## Annex A.

Table A1. Principles of taxation of tobacco products in Ukraine and Moldova

Tax	Tobacco product / Related product		Units of measurement		Excise duty			
	Ukraine	Moldova	Ukraine	Moldova	Ukraine		Moldova	
					2021	2022	2021	2022
<b>Retail excise duty (RED)</b>	All	None	%	None	5	5	None	None
<b>Value Added Tax (VAT)</b>	All	All	%	%	20	20	20	20
<b>Specific excise duty (SED)</b>								
	Raw tobacco and tobacco refuse (code 2401)	None	UAH/1 kg	None	1367,71	1641,26	None	None
	Cigars, including cheroots, containing tobacco (code 2402100010)	None	UAH/1 kg	None	1367,71	1641,26	None	None
	Cigarillos, including cheroots, containing tobacco (code 2402100090)	None	UAH/ 1000 pieces	None	1088,64	1306,37	None	None
	Cigarettes without filter (code 2402209010)	Unfiltered cigarettes containing tobacco: oval, up to 70 mm long, with a mouthpiece, other (code 240220)	UAH/ 1000 pieces	MDL / 1000 pieces	1088,64	1306,37	621	715
	Filter cigarettes (code 2402209020)	Filter cigarettes containing tobacco (code 240220)	UAH/ 1000 pieces	Lei / 1000 pieces	1088,64	1306,37	621	715
	Tobacco and tobacco substitutes, others, processed tobacco; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences (code 2403, code 2403 99 90 10)	Smoking tobacco, other manufactured tobacco and industrial tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences (code 2403, code 240319 and 240399900)	UAH/1 kg	Lei / 1 kg	1367,71	1641,26	157,8	165,7
		Fine-cut tobacco for the rolling of cigarettes (code 240319)		Lei / 1 kg			1260	1323
	Heated tobacco products (non-burning tobacco products) (HTP) (code 2403999010)	Tobacco reserves for tobacco heaters (code 240399900)	UAH/ 1000 pieces	MDL / 1000 pieces	1456,33	1747,6	834	959

	Liquids for electronic cigarettes (code 3824909720)	None	UAH / 1L	None	3000	3000	None	None
<b>Ad valorem excise duty (AVED)</b>								
	Cigarettes without filter (code 2402209010)	Cigarettes without filter containing tobacco: oval, up to 70 mm long, with a mouthpiece, other (code 240220)	%	%	12	12	13	13
	Filter cigarettes (code 2402209020)	Filter cigarettes containing tobacco (code 240220)	%	%	12	12	13	13
	Cigarillos, including cheroots, containing tobacco (code 2402100090)	Cigars, cheroots and cigarillos containing tobacco (code 2402100000)	%	%	12	12	41	41
	None	Cigars, cheroots and cigarillos containing tobacco (code 2402100000)	None	%	None	None	41	41
	None	Other cigars, cigarillos, cigarettes with tobacco substitutes and (tobacco code 2402900000)	None	%	None	None	41	41
<b>Minimum excise duty (MED)</b>								
	Unfiltered cigarettes (code 2402209010)	Unfiltered cigarettes containing tobacco: oval, up to 70 mm long, with a mouthpiece, other (code 240220)	UAH/ 1000 pieces	MDL / 1000 pieces	1456,33	1747,6	834	959
	Filter cigarettes (code 2402209020)	Filter cigarettes containing tobacco (code 240220)	UAH/ 1000 pieces	MDL / 1000 pieces	1456,33	1747,6	834	959
	Cigarillos, including cheroots, containing tobacco (code 2402100090)	None	UAH/ 1000 pieces	None	1456,33 but not less than 1367,71 UAH/1kg	1747.6, but not less than 1641.26 UAH / 1kg	None	None

*Annex B.*

Table B1 Structuring of prices for tobacco products in Ukraine and Moldova, EURO, 2021

The tobacco product	Brand	Ukraine						Moldova					
		Price	NTC	CD	TED	VAT	RED	Price	NTC	CD	TED	VAT	RED
Cigarettes	Sobranie Blue	2,31	0,88	0,00	0,95	0,39	0,11	2,36	1,01	0,06	0,90	0,39	0,00
	Parliament Aqua Blue	2,28	0,86	0,00	0,94	0,41	0,11	2,46	1,07	0,06	0,91	0,41	0,00
	Marlboro Red	2,18	0,80	0,00	0,93	0,33	0,10	1,98	0,74	0,06	0,85	0,33	0,00
	Marlboro Gold	2,15	0,78	0,00	0,93	0,33	0,10	1,98	0,74	0,06	0,85	0,33	0,00
	Camel Filters	2,10	0,74	0,00	0,92	0,30	0,10	1,78	0,60	0,06	0,83	0,30	0,00
	Davidoff Classic	2,09	0,73	0,00	0,92	0,32	0,10	1,93	0,70	0,06	0,84	0,32	0,00
	Rothmans Blue	1,93	0,61	0,00	0,92	0,27	0,09	1,59	0,46	0,06	0,80	0,27	0,00
	Winston XS Blue	1,98	0,65	0,00	0,92	0,29	0,09	1,73	0,57	0,06	0,82	0,29	0,00
	L&M Loft Blue	1,90	0,59	0,00	0,92	0,28	0,09	1,69	0,53	0,06	0,81	0,28	0,00
	Bond	1,83	0,54	0,00	0,92	0,22	0,09	1,35	0,27	0,06	0,80	0,22	0,00
	LD Amber Line	1,71	0,44	0,00	0,92	0,27	0,08	1,59	0,46	0,06	0,80	0,27	0,00
	Davidoff Reach	1,74	0,46	0,00	0,92	0,27	0,08	1,59	0,46	0,06	0,80	0,27	0,00
	Rothmans Royals Demi Silver	1,68	0,41	0,00	0,92	0,27	0,08	1,59	0,46	0,06	0,80	0,27	0,00
	Prima lux RED	1,61	0,36	0,00	0,92	0,24	0,08	1,45	0,35	0,06	0,80	0,24	0,00
	Rothmans Royals Blue	1,61	0,36	0,00	0,92	0,27	0,08	1,59	0,46	0,06	0,80	0,27	0,00
HTP	Heets	2,15	0,47	0,32	0,92	0,34	0,10	1,88	0,67	0,10	0,80	0,31	0,00
	Heets Dimensions	2,31	0,60	0,32	0,92	0,37	0,11	2,12	0,84	0,13	0,80	0,35	0,00
Cigarillos	Clubmaster Mini Brown	10,12	5,63	0,56	1,84	1,61	0,48	7,71	2,02	1,25	3,16	1,29	0,00
	Handelsgold Blond	4,11	2,26	0,23	0,62	0,62	0,20	1,93	0,50	0,31	0,79	0,32	0,00
	Light Seniorita Vanilla	7,59	4,14	0,41	1,17	1,14	0,36	2,41	0,40	0,62	0,99	0,40	0,00

Source: Own calculations



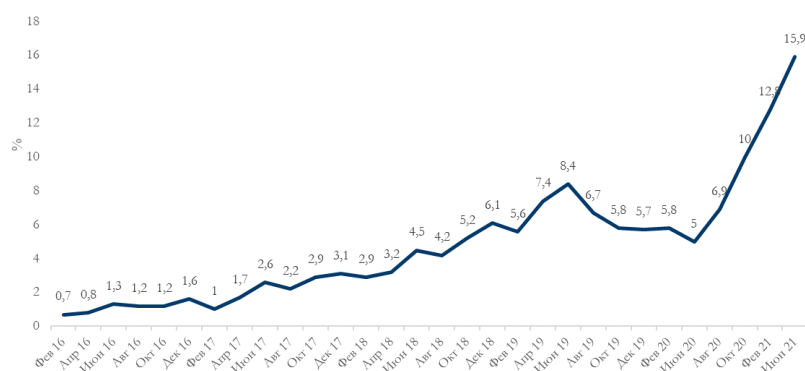
### *Annex C. Illicit trade in tobacco products in Ukraine.*

Ukraine's state policy on tobacco control is characterized by two trends. The first is a course on the systematic increase of excise duties on tobacco products. According to the chronological program approved by the Fiscal Code of Ukraine, the minimum excise duty on cigarettes and HTPs will increase by 20% in the next 4 years, and in 2025 will reach over 90 euros for 1000 cigarettes/tobacco reserves for tobacco heaters.

The second trend is weak administrative control over the illicit trade in tobacco products, especially cigarettes. The practice of selling unlicensed tobacco products is quite common. Most of these activities are carried out by street vendors, who offer cigarettes at significantly lower prices than those charged by authorized trade units. Among the cigarettes sold illegally, those produced in Ukraine under duty free arrangements, as well as those smuggled (mainly from the territories occupied by Russia in the Donetsk and Lugansk regions, Belarus and Moldova) predominate.

Figure C1 represents the illegal cigarette market in 2016-2021. According to Kantar Ukraine, between 2016 and 2021, the share of illicit tobacco sales in Ukraine increased significantly. If in the period 2016-2017 illicit trade was not a significant problem and was at the level of a few percent, since the beginning of the excise duties raise, it has increased, reaching 8.4% in 2019. The growth of the dark market continued in the second half of 2020 and in 2021, because of increased excise duties and ineffective measures against unlicensed retailers.

Figure C1. The share of illicit trade in the Ukrainian tobacco market



Source: Kantar Ukraine