



**tobaccotaxation**  
Economic Research Informing  
Tobacco Taxation Policy

# Size and Characteristics of the Illicit Tobacco Market in Kosovo

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**DEMOCRACYPLUS**

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## EXECUTIVE SUMMARY

Empirical evidence demonstrates that significantly increasing tobacco taxes has a dual effect: saving lives by reducing tobacco consumption while at the same time increasing government revenues (Contreary, 2015). However, tobacco tax evasion and avoidance directly undermine tobacco control policies such as taxation, the main aim of which is to make tobacco consumption less affordable. This study uses unique data collected in 2019 to investigate the main demographic and socioeconomic factors impacting current smokers' decisions to evade tobacco tax. Given that tobacco use prevalence in Kosovo is quite high (36.4 percent)<sup>1</sup> and 8.9 percent of current smokers of manufactured and hand-rolled cigarettes evade tobacco taxes, the results of this study can be utilized by government to develop tailored policies that will simultaneously curb tobacco consumption and prevent tax evasion in Kosovo.

This study relies on data from the face-to-face Survey on Tobacco Consumption in Southeastern European countries (STC-SEE), which was carried out in September 2019. The survey was conducted in six SEE countries including Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, and Serbia. In the case of Kosovo, the survey used a sample of 1,000 adults from 18 to 85 years of age, designed to be nationally representative based on the latest census conducted in Kosovo, in 2011.<sup>2</sup> For the purpose of this study only current adult smokers (daily and less than daily) are included in the analysis, comprising a total sample size of 364 respondents. The analysis focuses on a number of socioeconomic characteristics such as age, gender, residence, education level, household income level, and variables pertaining to the identification of illicit packs of cigarettes. These variables are based on the survey questions regarding the presence of tax stamps and health warning labels as well as self-reported prices paid for cigarette packs.

Given that the findings show only three cases of tax avoidance in Kosovo, this analysis focuses only on tax evasion. The study provides a descriptive overview of the size and characteristics of tax evasion in Kosovo for manufactured and hand-rolled cigarettes.

### **The key findings of this study are the following:**

- Overall, 8.9 percent of current smokers (of manufactured and hand-rolled cigarettes) purchase illicit packs of cigarettes (5.8 percent of manufactured cigarette smokers and 83.9 percent of hand-rolled tobacco smokers).
- Moreover, when differences in consumption among smokers who use licit and illicit tobacco are taken into account, 9.1 percent of consumption of manufactured cigarettes and 96.0 percent of hand-rolled cigarette consumption in Kosovo is illicit.
- Illicit packs of both manufactured and hand-rolled cigarettes can be purchased at legal points of sale, such as grocery stores.

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<sup>1</sup> Please see: Prekazi, B., & Pula, E. (2020). *Adult tobacco use in Kosovo*. Democracy Plus. Prishtina, Kosovo.

<sup>2</sup> Ibid.

- Illicit packs of both manufactured and hand-rolled cigarettes are also sold in open air markets<sup>3</sup> and by independent sellers on the street. These points of sale are prohibited in EU countries.
- Most illicit hand-rolled tobacco packs have an inappropriate tax stamp and health warning label (83.9 percent of all packs), while for manufactured cigarettes the most common illicit characteristic is an inappropriate tax stamp (4.8 percent of all inspected packs).
- Current smokers residing in municipalities bordering North Macedonia, Serbia, and Albania are more likely to purchase illicit manufactured cigarettes.

### **Policy recommendations**

- 1) Implement effective measures to control the whole supply chain of tobacco products to prevent leakages in tax collection, as a significant percentage of sales of illicit cigarettes currently take place in grocery stores.<sup>4</sup>
- 2) Prohibit sales of tobacco by independent sellers in open air markets and on the street, as these are currently not considered illegal points of sale—contrary to EU regulations—and strengthen implementation of the Law on Tobacco Control.
- 3) Exclude individual independent sellers from the right to obtain a license to sell tobacco products<sup>5</sup> and enable inspectors to confiscate tobacco products from independent sellers on the street and in open air markets.
- 4) Strengthen the capacity of the tax administration system to reduce opportunities for tax evasion for both manufactured and hand-rolled cigarettes, paying particular attention to border crossings with North Macedonia, Serbia, and Albania.
- 5) Implement a digitalized tracking system for tax stamps to improve the control of cigarette sales.

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<sup>3</sup> Open air markets are very common in the Balkans. They represent a designated area with rows of stalls where agricultural goods are sold, usually located in the center of the municipality of a neighborhood, and they can be fenced. They are commonly characterized by the absence of strict controls, except for some aspects of trade (e.g., the control of scales used to weigh goods, and the inspection of fresh meat for sale). Sellers usually need to pay a daily or monthly fee to the municipal government to be able to sell in these markets. Fees vary by municipality, location of the market, and location of the stalls at the market. However, in many cases, they also include informal sellers who create improvised and mobile stalls and sell their products without paying the fee.

<sup>4</sup> Licensing is already regulated by law; all sellers must have licenses issued from the Ministry of Finance.

<sup>5</sup> Law No. 04/L-041 on Production, Collection, Processing and Trading of Tobacco, stipulates that natural persons can obtain licenses for selling tobacco products.

## CHAPTER 1. INTRODUCTION

Global evidence demonstrates that significant tax increases are the single most effective policy measure for reducing tobacco consumption. However, tobacco tax increases are quite often viewed by manufacturers, tobacco users, and other agents in the market as an incentive to engage in tax avoidance and unlawful activities such as tax evasion. For this reason, governments tend to waver on such policies, relying on unrealistic overestimations of the impact of a potential tax increase on the illicit tobacco market. This study focuses on the illicit tobacco market in Kosovo, using data from the STC-SEE conducted in September 2019. The purpose of this study is to provide an overview of the size and characteristics of the illicit tobacco market in Kosovo. The results of this study confirm the global evidence that tax increases themselves do not increase the magnitude of tax evasion and avoidance; rather, illicit activities occur mainly due to a lack of effective administration of government policies.

The definition of the “illicit tobacco market” can be very broad. Therefore, this study considers that the “illicit tobacco market” refers to “cases of trade without partial or full payment of taxes” (Ross & Blecher, 2019). In addition, tax evasion is defined by illegal methods used with the intent to evade altogether or partly the payment of tobacco taxes (Ross & Blecher, 2019). The most orthodox methods of tax evasion include smuggling tobacco products, which is an activity taking place “across the borders without paying tax in the jurisdiction of intended consumption”; counterfeiting, which entails manufacturing of cigarettes “without authorization from the trademark owner”; unbranded tobacco, which is “often sold as finely cut loose tobacco” (Ross & Blecher, 2019); and illicit manufacturing, which refers to tobacco manufacturers underreporting their actual production (IARC, 2011).<sup>6</sup>

Tax avoidance, on the other hand, is a distinct activity from tax evasion as it entails legal mechanisms to avoid paying taxes. Methods of tax avoidance include cross-border shopping and forestalling.<sup>7</sup> The former occurs when “consumers purchase tobacco products from a lower-tax jurisdiction within the allowable amount or duty-free purchase” and is usually conducted by individual consumers, whereas the latter is an activity conducted by manufactures who “produce larger amounts of products before a tax increase in order to avoid paying a higher tax in the future” (IARC, 2011).

Extensive research shows that smokers are inclined to purchase lower-cost cigarettes outside their country (Driezen et al., 2019). This phenomenon is especially prevalent in European Union (EU) countries, where price differentials for a pack of 20 cigarettes remain in place (Driezen et al., 2019). Such an activity poses many challenges for the country which imposes higher taxes, as cheaper tobacco products—illicit or legal—derail tobacco control policies and undermine government revenue (Guindon et al., 2014). Tax evasion showcases a major challenge to research as well, since measuring the size and prevalence of the illicit tobacco market in any given country is always challenging due to limited data. Furthermore, the data that are available are often provided by the tobacco industry. These data are not be reliable due to the industry’s incentive to inflate the size of illicit market as an argument against tobacco tax increases or other tobacco control policies (Joossens, 2012).

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<sup>6</sup> In Kosovo all consumed tobacco is imported and there is no domestic production.

<sup>7</sup> Forestalling is illegal in Kosovo.

There is a lack of extensive, independent research on tobacco tax evasion and avoidance in Kosovo. This study contributes to the literature while providing a solid foundation for policy makers to make informed policy decisions to reduce consumption of tobacco and prevent tobacco tax evasion.

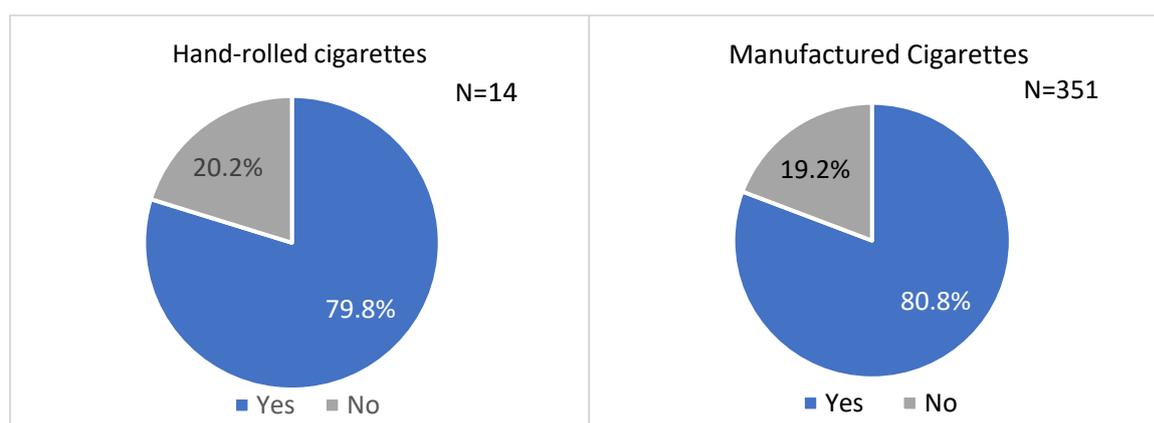
This report is organized as follows. After the executive summary, Section 2 describes the data and the methodology used in this study, including a detailed explanation of the methods and approach for identifying illicit packs and tax avoidance. Section 3 provides the results with descriptive analyses of the overall size of the illicit tobacco market and characteristics of illicit packs. Finally, Section 4 discusses the implications of the study's findings and provides policy recommendations.

## CHAPTER 2. DATA AND METHODOLOGY

This study relies on data from the face-to-face Survey on Tobacco Consumption in Southeastern European countries (STC-SEE), which was carried out in September 2019. The survey was conducted in six SEE countries including Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, and Serbia. In the case of Kosovo, the survey used a sample of 1,000 adults from 18 to 85 years of age, designed to be nationally representative based on the latest census conducted in Kosovo, in 2011.<sup>8</sup>

As the purpose of this study is to examine illicit tobacco purchases, the analysis is based only on the 364 adults from the survey who were identified as current smokers (daily and less than daily) of manufactured and hand-rolled cigarettes. The study focuses only on the questions that were included in the questionnaire with the aim of identifying and inspecting illicit packs of cigarettes. The field interviewers asked each smoker to show their pack of cigarettes, to allow them to take pictures of the front and the back of the pack, and to answer a few questions. If respondents did not show their cigarette pack, per questionnaire instructions, the interviewer was advised to ask the respondents to answer the survey questions based on their best knowledge (see the response rate in Figure 1). Aiming to identify cases of tax evasion, the following survey questions were asked: (1) Did the last-purchased package of tobacco product have health warnings? and (2) Did the last-purchased tobacco product have a tax stamp? The latter question had a follow-up question, which asked smokers to respond with the name of the country in case they purchased their cigarettes abroad. The final question used for this purpose was about the price that smokers paid for their last-purchased tobacco product.

**Figure 1.** Around 80 percent of survey respondents' last-purchased packs of manufactured and hand-rolled cigarettes were inspected by interviewers



Source: Authors' calculations using STC-SEE data for Kosovo

Illicit packs are identified following Joossens et al. (2014) and the Kosovo legislation regarding tobacco control. Table 1 describes three characteristics of illicit packs, according to the

<sup>8</sup> For more information, please see: Prekazi, B., & Pula, E. (2020). *Adult tobacco use in Kosovo*. Democracy Plus. Prishtina, Kosovo.

methodology of Joossens et al., and compares them with the legal provisions in Kosovo that are used to identify tax evasion and tax avoidance.<sup>9</sup>

**Table 1. Method for identification of illicit packs**

Characteristics of an illicit pack	Kosovo legislation
Packs without appropriate health warning label	Law on Tobacco Control, Article 6: “all tobacco products must have health warnings according to the law”. Section 9.5: “the text must be in the official languages”. <sup>10</sup>
Packs without appropriate tax stamp	Law on Excise on Tobacco Products: Article 14, point 1. “Tobacco products [...] shall be marked with a fiscal banderol with inscription ‘Republic of Kosovo – Ministry of Finance, which except the inscription must contain the mark in serial letters and the number.’” <sup>11</sup>
Packs purchased at a price lower than 70% percent of the lowest price of a pack of cigarettes in Kosovo	Price of the cheapest brand in Kosovo in 2019 was €1.68. <sup>12</sup>

Another characteristic in Joossens et al. (2014) to identify cases of tax evasion is the place of purchase of the respondents’ last-purchased pack of cigarettes or tobacco. However, this characteristic is excluded from this study because Article 9 of the Law on Tobacco Control does not specifically prohibit the sales of tobacco products by independent individual sellers on the street or in open air markets (Official Gazette, 2013). According to Article 9, points 3 and 4, tobacco products should not be visible in any selling point or reachable by consumers, but the place of purchase is not specified. However, one could argue that both of these prohibitions are violated by the independent sellers who usually sell their tobacco products in the streets (or in bars and restaurants) and make the products visible and easily accessible by customers.

The current legislative framework also does not specify which brands are legal and allowed to be sold in Kosovo. Unlike its neighboring countries, according to Kosovo Customs officials, Kosovo neither regulates nor distinguishes between legal and illicit tobacco brands. In addition, it does not specify which brands are allowed to be sold in the Kosovo market.<sup>13</sup>

Based on the above information, researchers determined that if a pack of manufactured cigarettes has at least one of the characteristics listed in Table 1 it is considered illicit. For hand-rolled cigarettes the third characteristic—price of a pack lower than 70 percent of the

<sup>9</sup> The original method utilizes four characteristics to identify illicit packs, but in the case of Kosovo the characteristics about the place of purchase were excluded since the legislation does not specifically prohibit tobacco sales by independent individual sellers.

<sup>10</sup> Official Gazette Law No. 04/L-156 on Tobacco Control. (2013). <https://gzk.rks-gov.net/ActDetail.aspx?ActID=8665>

<sup>11</sup> Official Gazette Law No. 04/I-021 on Excise on Tobacco Products. (2011). <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=2779>

<sup>12</sup> Agjencia e Statistikave të Kosovës. (2019). *Harmonized indices of consumer prices November 2019*. Series 3: Economic statistics. <https://ask.rks-gov.net/media/5197/hicp-november-2019.pdf>

<sup>13</sup> Interview with Kosovo Customs officers, August 2020.

lowest price—does not apply since STC-SEE does not provide information on the weight of the last-purchased pack of hand-rolled tobacco. The hand-rolled tobacco price that is comparable to the price of a 20-cigarette manufactured cigarette pack cannot, therefore, be calculated. The survey did collect data on whether the tax stamp was removed or absent, but these packs were not classified as illicit since these damages could occur while opening the pack.

Identification of tax avoidance cases is much simpler as it only involves legal purchasing behavior to pay less or no taxes and it only includes cross-border shopping, duty-free shopping, and purchases over the internet. To identify tax-avoided packs for both manufactured and hand-rolled cigarettes, options three, four, and eight from the following multiple choices on the source of purchase were used: 1) in grocery stores (small independent grocery stores, mini/super/hyper markets), kiosks; 2) in specialized tobacco shops; 3) in other countries (grocery stores, specialized tobacco shops, etc.); 4) duty-free shops; 5) on the street, on the open market from an independent/individual seller; 6) nargile/shisha bar; 7) café/restaurant/club; 8) other (where?).

### CHAPTER 3. SIZE AND CHARACTERISTICS OF TAX EVASION

This section discusses the findings on the prevalence of illicit tobacco consumption by adults in Kosovo. Prekazi and Pula (2020) show that most current smokers in Kosovo smoke manufactured cigarettes (96.9 percent) and a much smaller percentage (3.8 percent) smoke hand-rolled cigarettes (Prekazi & Pula, 2020).<sup>14</sup> This study provides an overall picture of manufactured and hand-rolled cigarette packs across various selected characteristics, followed by findings on the percentage of illicit manufactured and hand-rolled cigarette consumption, as well as demographic and socioeconomic characteristics of smokers who consume illicit tobacco products.<sup>15</sup>

Figure 2 shows the percentage distribution of manufactured and hand-rolled packs based on various characteristics: place of purchase, health warning labels, and tax stamps. The majority of manufactured cigarettes (91.5 percent) were purchased in grocery stores and kiosks, while 55.2 percent of hand-rolled cigarettes were purchased on the street from independent individual sellers or in open air markets.

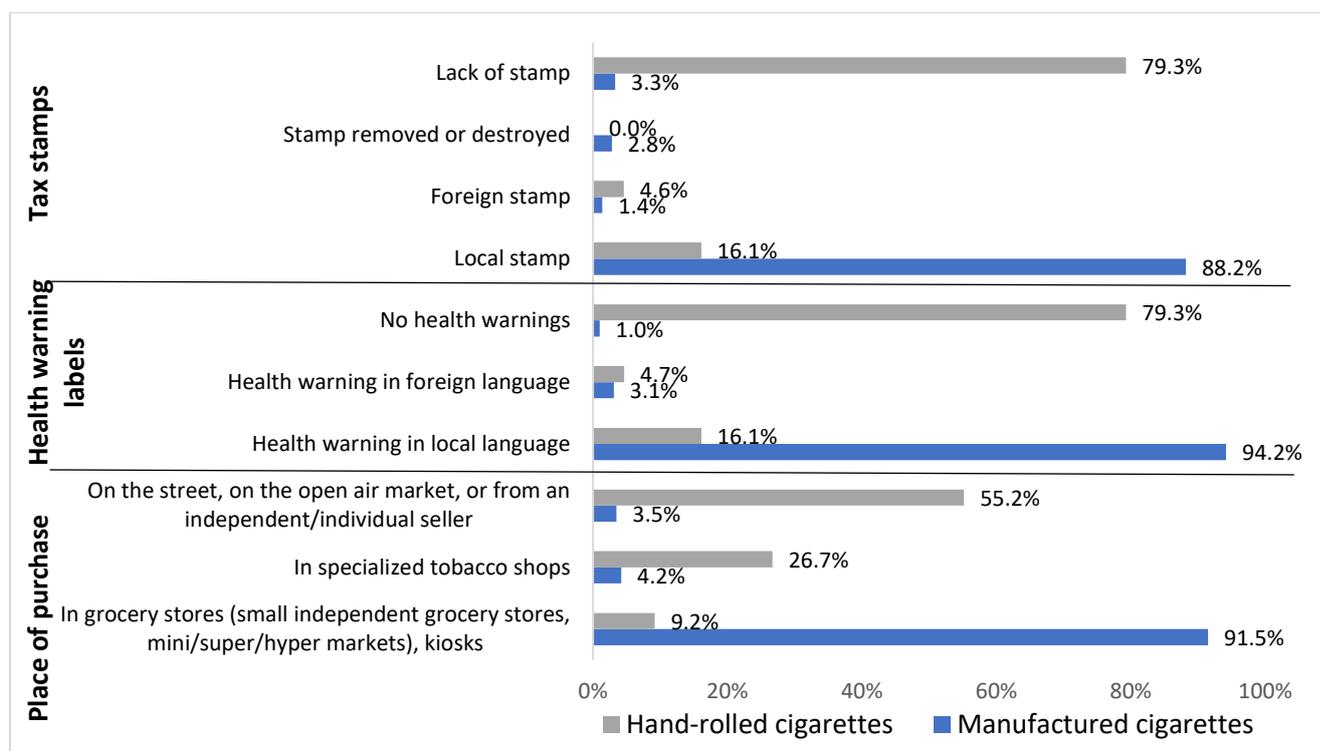
More than 94 percent of manufactured cigarettes have health warning labels in the local language, while four out of five hand-rolled packs do not have health warnings. Regarding the presence of tax stamps, 88.2 percent of manufactured packs have local tax stamps while only 3.3 percent are without tax stamps. On the other hand, 79.3 percent of hand-rolled packs are without tax stamps, 16.1 percent have local stamps, and 4.6 percent have foreign stamps (see Table A1 in the Appendix).

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<sup>14</sup> "Cigarettes" includes both manufactured and hand-rolled cigarettes.

<sup>15</sup> This study also attempted to evaluate empirically factors affecting the probability of tax evasion for manufactured cigarettes in Kosovo. Various model specifications with different combinations of smoking behavior, distance, and income variables were tested. However, due to a low variability in the dependent variable (a dummy variable being equal to one if the pack of manufactured cigarettes was illicit, and 0 otherwise), none of the models passed the diagnostic tests, due to which they could not be estimated.

**Figure 2.** Most packs of manufactured cigarettes are purchased in grocery stores and have health warning labels in the local language and local tax stamps, while most packs of hand-rolled cigarettes are purchased on the street or in open air markets and have no health warning labels nor tax stamps



Source: Authors' calculations using STC-SEE data for Kosovo

Table A2 in the Appendix shows the majority of manufactured packs (4 out of 5) with foreign health warning labels were purchased in domestic grocery stores. Moreover, around 75 percent of manufactured packs without any health warnings were purchased in domestic grocery stores, while the rest were purchased on the street from independent individual sellers. On the other hand, all hand-rolled cigarettes with health warnings in foreign languages were purchased on the open market or from individual sellers. Hand-rolled cigarettes without health warnings were purchased from independent sellers on the street (52.6 percent) or in specialized tobacco shops (24.7 percent). Of the hand-rolled cigarettes without health warning labels, 11.6 percent were purchased in grocery stores and 11.2 percent in duty-free shops (see Table A2 in the Appendix).

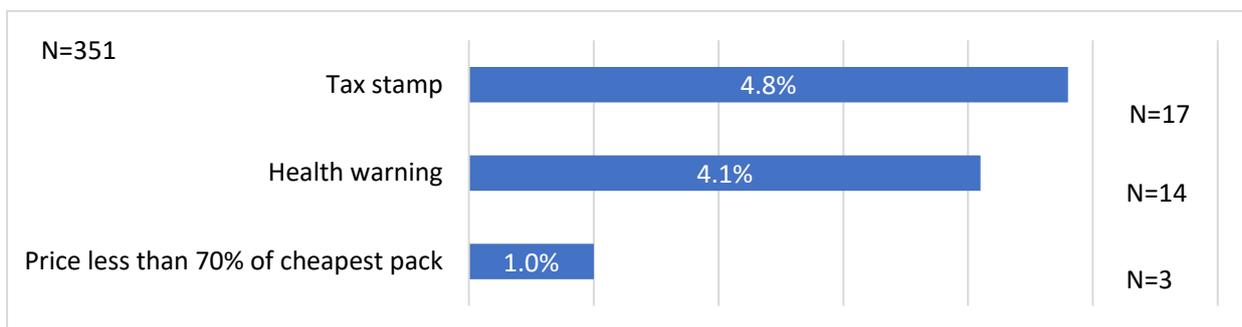
More than 90 percent of the manufactured packs of cigarettes with local stamps were purchased in domestic grocery stores. Of the manufactured cigarette packs without a tax stamp, three out of five were purchased in domestic grocery stores, followed by independent/individual sellers on the street (38.4 percent), and foreign countries (4.3 percent). It should be noted that all of the illicit manufactured packs of cigarettes with foreign stamps and those with a removed/destroyed stamp were purchased from domestic grocery stores. For hand-rolled cigarette packs the same figures given above for health warning labels apply, as these packs lack both health warnings and tax stamps (see Table A3 in the Appendix).

Table A4 in the Appendix shows that all manufactured packs without health warning labels also do not have tax stamps. Half of the manufactured packs with health warnings in a foreign

language do not have tax stamps, while only around seven percent of manufactured packs with health warnings in the local language either have foreign tax stamps, removed/destroyed tax stamps, or no tax stamp at all. On the other hand, all hand-rolled cigarettes with health warnings in foreign languages have foreign tax stamps, just as those with no health warning labels also lack tax stamps (see Table A4 in the Appendix).

As explained in the methodology section, the identification of tax evasion for manufactured cigarette packs is based on three characteristics: foreign or lack of tax stamp, foreign or lack of health warning labels, and self-declared price at which the consumer purchased the pack is less than 70 percent of the price of the cheapest brand.

**Figure 3.** *Less than five percent of inspected manufactured cigarette packs have inappropriate tax stamps*



Source: Authors' calculations using STC-SEE data for Kosovo

Figure 3 shows that a total of 4.8 percent of current smokers reported purchasing packs of manufactured cigarettes without an appropriate tax stamp. Females (7.9 percent), smokers living in rural areas (5.9 percent), and those belonging to the age category 45–64 (6.8 percent) are more likely to purchase packs of manufactured cigarettes without the appropriate tax stamp. (See more details in Table A5 in the Appendix.)

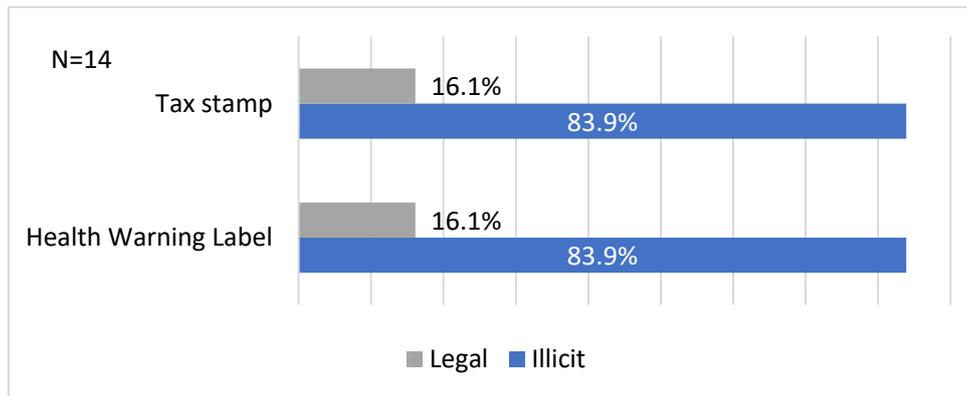
Furthermore, 4.1 percent of illicit packs of manufactured cigarettes have an inappropriate health warning label. Female smokers (6.9 percent) and smokers living in rural area (5.5 percent) are more likely than male smokers (2.7 percent) and those in urban areas (2.4 percent) to purchase packs of manufactured cigarettes with an inappropriate health warning label. Also, smokers with a higher level of education (7.0 percent), those with household incomes greater than €1,200 a month (7.3 percent), and smokers with a heavy intensity<sup>16</sup> of smoking are more likely to purchase manufactured cigarettes without appropriate health warning labels. (See more details in Table A5 in the Appendix.)

This study also analyzed incidents where packs contain only one, two, or all three of the characteristics together. As shown in Table A6 in the Appendix, 78.8 percent of illicit manufactured packs do not have appropriate tax stamps nor health warning labels. None of the illicit manufactured packs has all three characteristics: inappropriate tax stamp, inappropriate health warning, and purchased at a price lower than 70 percent of the price of the cheapest brand in Kosovo.

<sup>16</sup> Smoking intensity is categorized based on the number of cigarettes smokers consumed per week: light (1-100 cigarettes), standard (101-250 cigarettes), heavy (251-500 cigarettes), and extra heavy (501-700 cigarettes).

Figure 4 shows that overall, 83.9 percent of hand-rolled tobacco smokers consume illicit hand-rolled cigarettes that lack both the appropriate tax stamp and health warning label. Table A7 in the Appendix shows that male smokers (84.1 percent) and those living in urban areas are more likely to purchase hand-rolled cigarettes without appropriate tax stamps nor health warning labels. Also, smokers belonging to the age category 65 or older, those with an education level of primary or less, and those with light and medium smoking intensity are more likely to purchase illicit hand-rolled cigarettes lacking appropriate tax stamps and/or health warning labels. (See more details in Table A7 in the Appendix.)

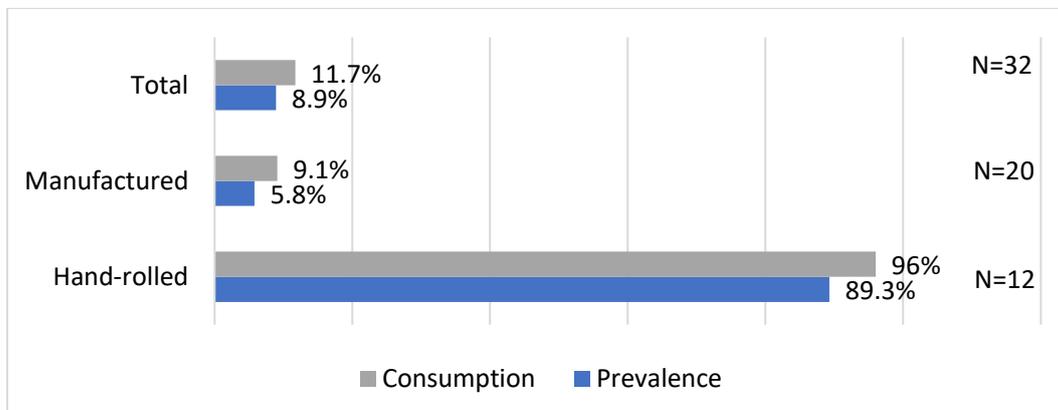
**Figure 4.** Most illicit hand-rolled cigarettes in Kosovo have both inappropriate tax stamps and health warning labels



Source: Authors' calculations using STC-SEE data for Kosovo

The prevalence of manufactured and hand-rolled illicit packs is 8.9 percent, while 11.7 percent of consumption of both manufactured or hand-rolled cigarettes is illicit, as shown in Figure 5. While 5.8 percent of current manufactured cigarettes smokers evade tax, 9.1 percent of consumption of manufactured cigarettes is illicit. Similarly, 83.6 percent of hand-rolled cigarette smokers use illicit tobacco, and 96.0 percent of total hand-rolled tobacco consumption is illicit.

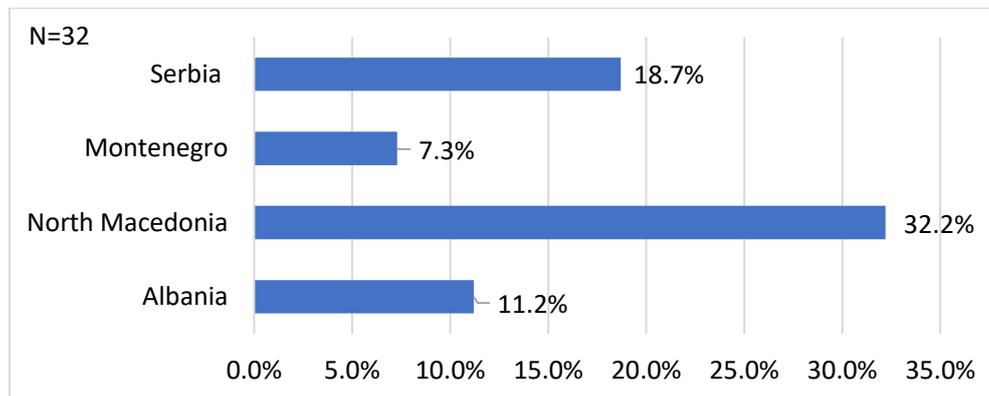
**Figure 5.** Most hand-rolled cigarette smokers evade tobacco taxes and most hand-rolled cigarette consumption is illicit



Source: Authors' calculations using STC-SEE data for Kosovo

As mentioned in the methodology section, the surveyors inspected both manufactured and hand-rolled packs of cigarettes and took pictures of the front and back of each pack. A total of 274 (see Figure 1) packs were inspected. As per Kosovo’s laws on tobacco control (Table 1), 12.4 percent of both manufactured and hand-rolled packs of cigarettes are identified as illicit as they have either a foreign tax stamp or a health warning label in a foreign language. Only one pack lacks both. About half of these packs come from Serbia and are tax-paid in Serbia, as they have a Serbian tax stamp (the three-leaf tax stamp affixed to the packs). The other half of illicit packs have a health warning label in a foreign language and could be considered as “illicit whites,” which are packs of cigarettes manufactured by legitimate enterprises that are usually sold outside the jurisdiction where they are produced (Ross et al., 2016). Based on the surveyors’ pictures, these include brands such as Ashima (China), King and Ibiza (Bulgaria), and Monus (Serbia), each of which come from jurisdictions with higher cigarette taxes or prices than in Kosovo (ACS & Vital Strategies, 2019). According to SELEC (2020), brand Ashima represents 17 percent of all manufactured cigarettes reported as illegal.

**Figure 6.** *Current smokers living in municipalities bordering North Macedonia are more likely to purchase illicit manufactured cigarettes*



Source: Authors’ calculations using STC-SEE data for Kosovo

It should be noted that illicit packs of manufactured and hand-rolled cigarettes are identified in only 18 out of the 28 municipalities included in the survey. Figure 6 shows that 32.2 percent of illicit packs are identified in municipalities bordering North Macedonia, followed by 18.7 percent bordering Serbia, 11.2 percent bordering Albania, and only 7.3 percent of illicit packs are identified in municipalities bordering Montenegro. The remaining 41.8 percent are identified in other municipalities not close to any neighboring country (see Table A8 in the Appendix).

## CHAPTER 4. DISCUSSION AND POLICY RECOMMENDATIONS

Results stemming from this study, using unique data collected in 2019, provide an overall picture of tax evasion for manufactured and hand-rolled tobacco products in Kosovo by delving into the main characteristics of the current smokers who are more likely to evade tobacco taxes. These results, which present data that are rare in Kosovo, can be utilized by policy makers to design policies that simultaneously reduce consumption of tobacco in Kosovo while also controlling for tax evasion.

A limitation of this analysis is that it is a cross-sectional study, which captures the situation only for a given time period. For a more robust view from which to make an assessment as to whether this is a persistent problem, longitudinal data from Customs and periodic surveys targeting current smokers are needed.

As elaborated above, this study uses individual survey data, since tobacco companies' data are either missing, difficult to access, or distorted. Data on movement of tobacco products in the supply chains and uncontrolled distribution networks, however, are considered more useful to study the phenomenon of illicit trade in a given country.

In addition, the dynamics of the tobacco supply chain such as domestic production (if relevant), import and export, and transit routes would provide a valuable basis to analyze in depth the illegal tobacco trade in Kosovo and evaluate the outcome of possible solutions.

### **Policy recommendations**

Although the prevalence of smoking hand-rolled cigarettes is relatively small (1.4 percent of all adults) as opposed to 35.3 percent for manufactured cigarettes (Prekazi & Pula, 2020), 96.0 percent of hand-rolled tobacco consumption is illicit.

- Therefore, it is of utmost importance to strengthen and enforce the inspection of tax stamps and health warning labels on hand-rolled cigarettes, to be at least as frequent as the inspection of manufactured cigarettes.

A significant number of packs of manufactured cigarettes with health warning labels in foreign languages (81.4 percent), without health warning labels (75.6 percent), and hand-rolled cigarettes without health warning labels (11.6 percent) were purchased at local grocery stores. Similarly, all manufactured cigarettes with a foreign tax stamp, 57 percent of those without a tax stamp, and 11.6 percent of hand-rolled cigarettes lacking any stamp were purchased at grocery stores.

- This implies that a stricter inspection of points of sale by government institutions is necessary.

In most EU countries, the sale of tobacco products by individual sellers on the street is prohibited. This study shows that manufactured cigarettes with health warnings in foreign languages (14.3 percent), manufactured cigarettes without health warning labels (24.4 percent), all hand-rolled cigarettes with health warning labels in foreign languages, and 52.6 percent of hand-rolled cigarettes without health warning labels were purchased in the open air market or by independent individual sellers on the street. Similarly, 38.4 percent of manufactured cigarettes lacking a tax stamp, all hand-rolled cigarettes with foreign tax

stamps, and 52.6 percent of hand-rolled cigarettes lacking a tax stamp were purchased in the open air market or from individual sellers on the street.

- These types of sales make tobacco products easily accessible and visible to everyone. Hence, to comply with EU standards and to prevent sales of illicit packs the government should amend both the Law on Tobacco Control and the Law No. 04/L-041 on Production, Collection, Processing and Trading of Tobacco. The legislation should prohibit sales on the street by independent sellers and not allow issuance of licenses to natural persons. In addition, the legislation should enable inspectors to confiscate tobacco products from independent sellers.
- The Law on Tobacco Control restricts the sale of tobacco products in health, education, and athletic facilities. More precisely, tobacco products are not allowed to be visible at any point of sale nor to be reachable by consumers who want to serve themselves. The Law, however, does not prohibit the sale of tobacco products by independent sellers (Official Gazette, 2013). Usually, the latter sell tobacco products in the streets and indirectly violate the Law by not only making the tobacco products visible but also easily accessible by the customers. For this reason, to further control the sales of tobacco products and strengthen the implementation of the Law, it is of utmost importance to amend the current Law by making it less ambiguous and to put a ban on selling tobacco products in the streets.
- Additional control from Kosovo Customs is necessary in order to decrease the circulation of hand-rolled cigarettes that do not contain both tax stamps and health warnings, thus controlling for evasion among hand-rolled cigarettes.

The highest shares of illicit packs of both manufactured and hand-rolled cigarettes were identified in the municipalities bordering North Macedonia (32.2 percent), Serbia (18.7 percent), and Albania (11.2 percent).

- The government of Kosovo should strengthen the tax administration system and Customs' capacity to investigate and reduce tobacco tax evasion, especially for those municipalities bordering North Macedonia, Serbia, and Albania.
- Close cooperation between neighboring countries' institutions and border crossing points is necessary to be able to control and reduce illicit trade across countries.

Better control of tobacco tax evasion is needed and could be achieved through imposing a digitalized tracking and tracing system. Such a system could reduce illicit trade and smuggling of tobacco products, as it would be able to track and trace the movement of tobacco through the supply chain from import to point of sale (WHO, 2003). According to the International Organization for Standardization (ISO) traceability is the "ability to track a product or component forward through specified stages of the supply chain to the user, and trace back the history, application or location of that product or component". Thus, by monitoring the movement of legal tobacco products, the public authorities (tax administration and Customs) will be able to determine when and where the product has been diverted into the illicit market (EC, 2018). This, however, requires enhanced cooperation of national institutions with the main transit countries used for illegal tobacco trading. Tracking and tracing systems have proven beneficial for multiple parties among EU member states including public health, law enforcement, consumers, and government revenues (EC, 2013).

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## APPENDIX

**Table A1.** Percentage distribution of manufactured and hand-rolled cigarette packs by place of purchase, health warning labels, and presence of tax stamp

Percentage (CI=95%)		
	Manufactured cigarettes N=351	Hand-rolled cigarettes N=14
<b>Place of purchase</b>		
In grocery stores (small independent grocery stores, mini/super/hyper markets), kiosks	91.5 (88.2, 94.0)	9.2 (0.8, 28.8)
In specialized tobacco shops	4.2 (2.5, 6.8)	26.7 (10.5, 54.5)
On the street, on the open air market, or from an independent/individual seller	3.5 (1.9, 5.7)	55.2 (31.9, 79.7)
<b>Health warning label presence</b>		
Health warning in local language	94.2 (91.5, 96.4)	16.1 (3.1, 38.5)
Health warning in foreign language	3.1 (1.7, 5.4)	4.6 (0.8, 28.8)
No health warnings	1.0 (0.2, 2.3)	79.3 (53.1, 93.6)
<b>Tax stamp presence</b>		
Local stamp	88.2 (84.6, 91.4)	16.1 (3.1, 38.5)
Foreign stamp	1.4 (0.5, 3.1)	4.6 (0.8, 28.8)
Stamp removed or destroyed	2.8 (1.5, 5.0)	0
Lack of stamp	3.3 (1.9, 5.7)	79.3 (53.1, 93.6)

**Table A2.** Percentage distribution of inspected packs of manufactured and hand-rolled cigarettes, according to the place of purchase and type of health warning label

	Manufactured cigarettes N=351			Hand-rolled cigarettes N=14		
	Percentage (95% CI)					
	Health warnings in local language	Health warnings in foreign language	No health warnings	Health warnings in local language	Health warnings in foreign language	No health warnings
Domestic grocery stores (small independent grocery stores, mini/super/hyper markets, kiosks)	91.8 (88.5, 94.4)	81.4 (53.3, 96.0)	75.6 (46.4, 100.0)	0	0	11.6 (1.0, 35.3)
The open air market, on the street from independent/individual sellers	3.0 (1.6, 5.3)	14.3 (4.0, 46.7)	24.4 (3.9, 82.3)	55.6 (6.1, 93.9)	100	52.6 (27.0, 80.0)
Domestic specialized tobacco shops	4.5 (2.7, 7.2)	0	0	44.4 (6.1, 93.9)	0	24.7 (8.3, 56.5)
In other countries (grocery stores, specialized tobacco shops, etc.)	0.4 (0.0, 1.4)	4.6 (0.0, 20.0)	0	0	0	0
Duty-free shops	0	0	0	0	0	11.2 (1.0, 35.3)
Total	100	100	100	100	100	100

**Table A3.** Percentage distribution of packs of manufactured and hand-rolled cigarettes, according to the place of purchase and type of tax stamp

	Manufactured cigarettes N=351				Hand-rolled cigarettes N=14			
	Percentage (95% CI)							
	Local stamp	Foreign stamp	Stamp removed or destroyed	Lack of stamp	Local stamp	Foreign stamp	Stamp removed or destroyed	Lack of stamp
Domestic grocery stores (small independent grocery stores, mini/super/hyper markets, kiosks)	93.0 (89.6, 95.4)	100.0	100.0	57.3 (31.2, 82.0)	0	0	0	11.6 (1.0, 35.3)
The open air market, on the street from independent/individual sellers	2.5 (1.2, 4.8)	0	0	38.4 (12.5, 61.2)	55.6 (6.1, 93.9)	100	0	52.6 (27.0, 80.0)
Domestic specialized tobacco shops	4.1 (2.4, 6.9)	0	0	0	44.4 (6.1, 93.9)	0	0	24.7 (8.3, 56.5)
In other countries (grocery stores, specialized tobacco shops, etc.)	0	0	0	4.3 (0.0, 18.5)	0	0	0	0
Duty-free shops	0	0	0	0	0	0	0	11.2 (1.0, 35.3)
Total	100	100	100	100	100	100	100	100

**Table A4.** Percentage distribution of packs of manufactured and hand-rolled cigarettes, according to health warning labels and tax stamp

	Manufactured cigarettes N= 351			Hand-rolled cigarettes N=14		
	Percentage (95% CI)					
	Health warnings in local language	Health warnings in foreign language	No health warnings	Health warnings in local language	Health warnings in foreign language	No health warnings
Local stamp	93.3 (90.3, 95.7)	12.1 (1.0, 35.3)	0	100	0	0
Foreign stamp	0.3 (0.0, 1.4)	37.7 (13.7, 65.2)	0	0	100	0
Stamp removed or destroyed	3.0 (1.6, 5.3)	0	0	0	0	0
Lack of stamp	0.8 (0.3, 2.4)	50.2 (27.0, 80.0)	100	0	0	100
Total	100	100	100	100	100	100

**Table A5.** Percentage distribution of current manufactured cigarette smokers who evade tobacco tax, by selected sociodemographic characteristics

	Tax stamp (N=17)		Health warning label (N=14)		Price 70% lower than the cheapest pack (N=3)	
	Percentage (95% CI)					
<b>Overall (N=351)</b>	<b>5.8 (3.6, 8.5)</b>					
<b>Overall</b>	<b>4.8</b>	<b>(3.0, 7.5)</b>	<b>4.1</b>	<b>(2.3, 6.4)</b>	<b>1.0</b>	<b>(0.2, 2.3)</b>
<b>Gender</b>						
Male	3.2	(1.3, 5.8)	2.7	(1.1, 5.2)	0.0	
Female	7.9	(3.9, 13.6)	6.9	(3.3, 12.5)	3.0	(0.7, 6.7)
<b>Type of residence</b>						
Urban	3.4	(1.2, 6.8)	2.4	(0.9, 5.9)	2.2	(0.5, 4.9)
Rural	5.9	(3.1, 9.7)	5.5	(3.1, 9.7)	0.0	
<b>Age</b>						
18-24	3.7	(0.7, 10.8)	3.2	(0.7, 10.8)	0.0	
25-44	4.1	(1.6, 7.6)	4.7	(2.0, 8.4)	0.6	(0.1, 2.9)
45-64	6.8	(3.0, 12.6)	4.0	(1.3, 8.8)	2.4	(0.8, 7.4)
65+	3.2	(0.4, 14.5)	3.2	(0.4, 14.5)	0.0	
<b>Education level</b>						
Primary or	5.0	(2.5, 9.6)	4.2	(1.6, 7.9)	1.7	(0.6, 5.1)
Secondary	4.1	(1.9, 8.2)	3.7	(1.6, 7.6)	0.6	(0.1, 2.9)
Higher	8.1	(1.4, 19.7)	6.2	(1.3, 18.1)	0.0	
<b>Smoking intensity</b>						
Light	3.8	(1.3, 8.5)	3.8	(1.3, 8.5)	0.9	(0.1, 4.2)
Standard	3.8	(1.6, 6.9)	3.7	(1.6, 6.9)	1.3	(0.4, 4.0)
Heavy	0.6	(0.0, 5.4)	7.0	(1.9, 16.7)	0.0	
Extra heavy	0.0		0.0		0.0	
<b>Household income (€/month)</b>						
400 or less	6.7	(2.7, 12.7)	4.2	(1.5, 9.8)	2.7	(0.9, 8.3)
401-800	0.0		0.0		1.0	(0.1, 4.7)
801-1,200	5.7	(1.7, 14.9)	5.1	(1.7, 14.9)	0.0	
1,201 or more	5.7	(0.6, 23.2)	7.3	(0.6, 23.2)	0.0	

**Table A6.** Packs of manufactured cigarettes with two or three characteristics of an illicit pack

Manufactured cigarettes <sup>17</sup> N= 20	
<b>Not appropriate tax stamp and no health warning label</b>	All three (No appropriate health warning label, no tax stamp, and less than 70% of the price of the cheapest pack)
<b>78.8 (53.3, 91.5)</b>	<b>0</b>

<sup>17</sup> Hand-rolled cigarettes are not included in this table, as table 3 shows that all illicit packs of hand-rolled cigarettes lack both health warning labels and tax stamps.

**Table A7.** Percentage distribution of current hand-rolled cigarette smokers who evade tax, by selected sociodemographic characteristics

	Tax stamp (N=12)		Health warning label (N=12)	
	Percentage (95% CI)			
<b>Overall (N=14)</b>	<b>83.9 (61.5, 96.9)</b>			
<b>Gender</b>				
Male	84.1	(59.1, 96.7)	84.1	(59.1, 96.7)
Female	82.5	(14.7, 100.0)	82.5	(14.7, 100.0)
<b>Type of residence</b>				
Urban	100.0		100.0	
Rural	74.4	(45.6, 95.1)	74.4	(45.6, 95.1)
<b>Age</b>				
18-24	0.0		0.0	
25-44	73.0	(35.2, 93.5)	73.0	(35.2, 93.5)
45-64	95.3	(62.1, 100.0)	95.3	(62.1, 100.0)
65+	100.0		100.0	
<b>Education level</b>				
Primary or less	100.0		100.0	
Secondary	39.4	(3.9, 82.3)	39.4	(3.9, 82.3)
Higher	0.0		0.0	
<b>Smoking intensity</b>				
Light	100.0		100.0	
Standard	100.0		100.0	
Heavy	0.0		0.0	
Extra heavy	0.0		0.0	
<b>Household income (€/month)</b>				
400 or less	80.0	(37.1, 97.7)	80.0	(37.1, 97.7)
401-800	83.7	(42.2, 98.1)	83.7	(42.2, 98.1)
801-1,200	0.0		0.0	
1,201 or more	0.0		0.0	

**Table A8.** Percentage distribution of illicit packs (manufactured cigarettes and hand-rolled) across municipalities in Kosovo

Municipalities <sup>18</sup> N=32	Percentage (95% CI)	Municipalities close to the border with:			
		Albania	North Macedonia	Montenegro	Serbia
Ferizaj	4.3 (0.3, 13.7)				
Fushe Kosove	8.5 (2.7, 23.0)				
Gjakove	3.9 (0.3,13.7)	X			
Gracanica	12.0 (4.4, 27.0)				
Istog	3.9 (0.3, 13.7)			X	X
Kacaniku	9.8 (2.7, 23.0)		X		
Kamenica	0.9 (0.0, 7.5)				X
Klina	1.0 (0.0, 7.5)				
Leposavic	2.8 (0.3, 13.7)				
Malisheva	4.2 (0.3, 13.7)				X
Mitrovica	8.3 (2.7, 23.0)				
Peja	3.4 (0.3, 13.7)			X	
Podujeva	4.0 (0.3, 13.7)				X
Prishtina	5.7 (1.3, 18.6)				X
Prizren	7.3 (1.3, 18.6)	X	X		
Skenderaj	4.1 (0.3, 13.7)				
Vitia	15.1 (6.2, 30.9)		X		
Zubin Potok	0.8 (0.0, 7.5)				
	<b>100.0</b>	<b>11.2</b>	<b>32.2</b>	<b>7.3</b>	<b>18.7</b>

<sup>18</sup> The table shows only those municipalities where the illicit packs (manufactured and hand-rolled cigarettes) were identified.