

# STRICTER ENFORCEMENT OF LAWS ON TOBACCO CONTROL AND ADOPTION OF ADVANCED MECHANISMS FOR CONTROLLING TAX EVASION ARE NEEDED IN KOSOVO

## Introduction

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.<sup>i</sup> However, tobacco tax evasion and avoidance directly undermine these effects. Kosovo's legislation on tobacco, namely the Law on Production, Collection, Processing and Trading of Tobacco and the Law on Tobacco Control cover almost all areas recommended by the World Health Organization Framework Convention on Tobacco Control's (WHO FCTC) Protocol to Eliminate Illicit Trade in Tobacco Products,<sup>ii</sup> but the findings of this research show that stricter enforcement and more comprehensive legislation is necessary in order to tackle the issue of tobacco tax evasion.

This policy brief 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>iii</sup> For the purpose of this study only current adult smokers (daily and less than daily) were included in the analysis, comprising a total sample size of 364 respondents. Given that tobacco prevalence in Kosovo is quite high (36.4 percent)<sup>iv</sup> and 8.9 percent of current smokers of manufactured and hand-rolled cigarettes evade tobacco taxes, the results of this study can inform government policies to simultaneously curb tobacco consumption and prevent tax evasion in Kosovo.

## Key Findings

- Overall, 8.9 percent of current smokers (of manufactured and hand-rolled cigarettes) evade taxes on 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 products 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. They can also be purchased at open air markets and from independent sellers on the street, both of which 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.

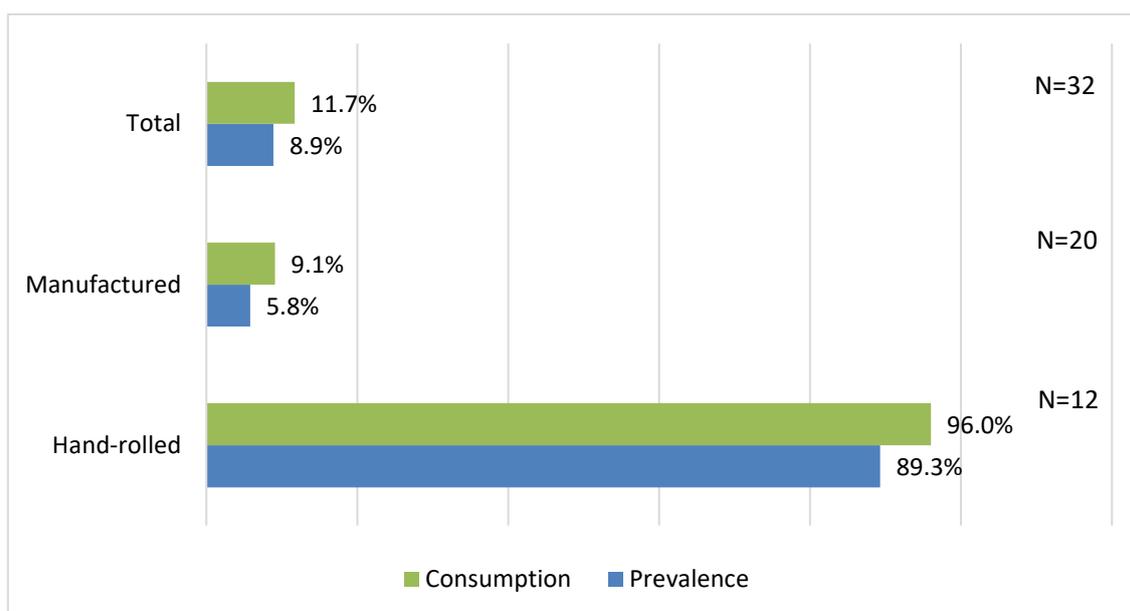
## Policy Recommendations

- Implement effective measures to control the whole supply chain of tobacco products to protect from leaks in tax collection, as currently a significant percentage of illicit cigarette packs are purchased in grocery stores.
- 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.
- Exclude individual independent sellers from the right to obtain a license to sell tobacco products. Empower inspectors to confiscate tobacco products from independent sellers on the street and in open air markets.
- Strengthen the capacity of the tax administration system to reduce opportunities for tax evasion, paying particular attention to border crossings with North Macedonia, Serbia, and Albania.
- Improve control of tobacco tax evasion by imposing a digitalized tracking and tracing system for tax stamps.

## Size of Tobacco Tax Evasion in Kosovo

The overall prevalence of illicit packs among manufactured and hand-rolled cigarettes is 8.9 percent, while 11.7 percent of overall consumption (of both manufactured or hand-rolled cigarettes) is illicit (Figure 1). While 5.8 percent of current manufactured cigarette 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, while 96.0 percent of total hand-rolled tobacco consumption is illicit.

**Figure 1.** Most hand-rolled cigarette smokers evade tax and most hand-rolled cigarette consumption is illicit

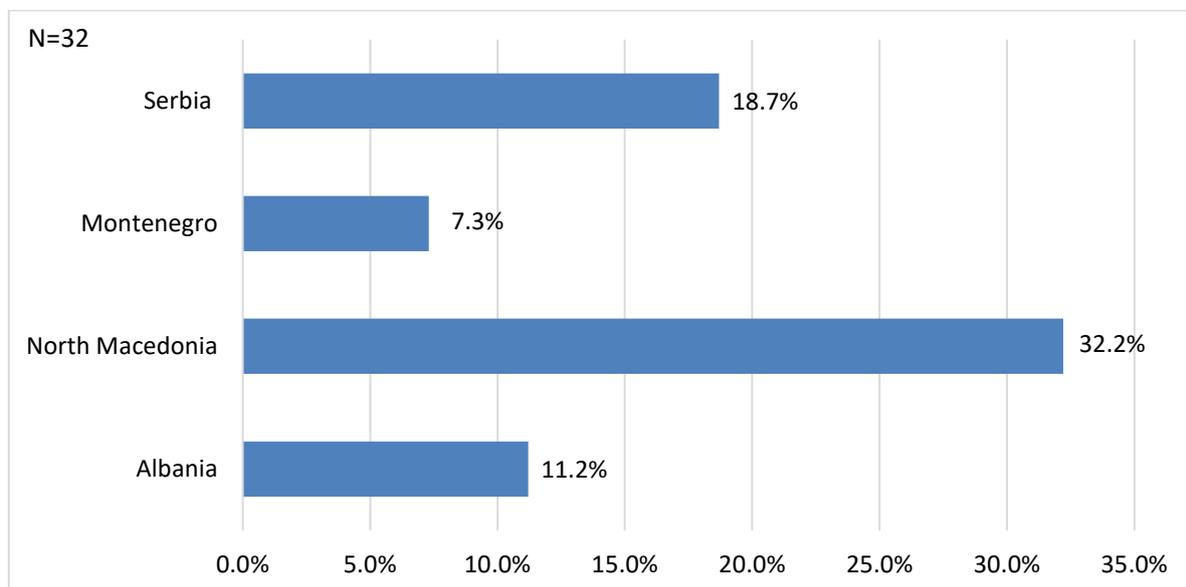


Source: Authors' calculations using STC-SEE data for Kosovo

About half of illicit manufactured and hand-rolled cigarette packs come from Serbia and have Serbian tax stamps (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.<sup>v</sup> Based on the pictures surveyors took of respondents’ packs as part of STC-SEE, these include brands such as Ashima (China), King and Ibiza (Bulgaria) and Monus (Serbia), which all come from jurisdictions with higher cigarette taxes or prices than in Kosovo.<sup>vi</sup> According to SELEC (2020), the brand Ashima represents 17 percent of all manufactured cigarettes reported as illegal.

Most illicit packs in this survey come from municipalities bordering North Macedonia (32.2 percent) and Serbia (18.7 percent) (Figure 2), while 41.8 percent were identified in municipalities not close to any neighboring country.

**Figure 2.** 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

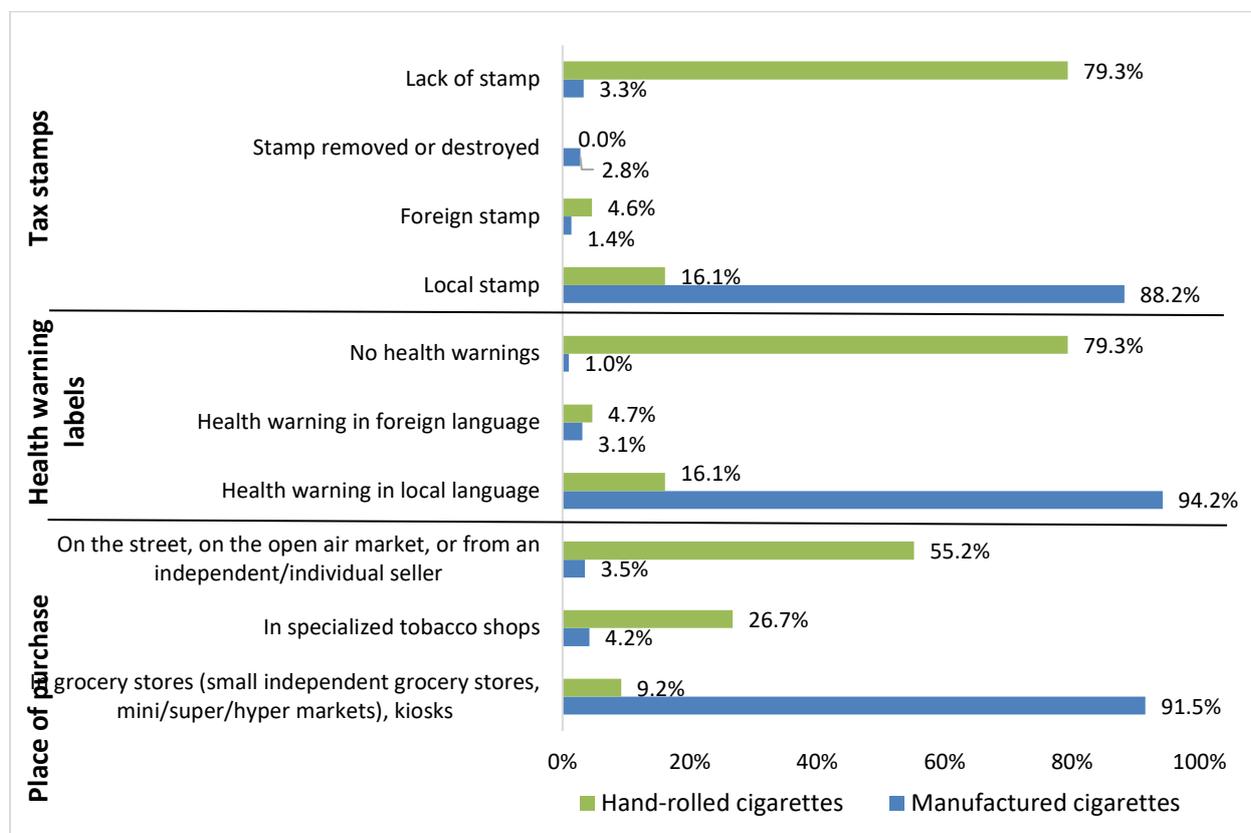
## Characteristics of Packs of Manufactured and Hand-rolled Cigarettes in the Kosovo Tobacco Market

The majority of current smokers of manufactured cigarettes (91.5 percent) purchased their last pack in grocery stores and kiosks, while 55.2 percent of hand-rolled cigarette smokers purchased theirs from independent individual sellers on the street or in open air markets (Figure 3). More than 94 percent of inspected manufactured cigarette packs contain health warning labels in the local language, while four out of five hand-rolled packs do not have health warnings. While only 3.3 percent of inspected manufactured cigarette packs do not have a tax stamp, 79.3 percent of hand-rolled cigarette packs do not have a tax stamp.

The majority of inspected manufactured cigarette packs with local tax stamps (93.0 percent) and local health warning labels (91.8 percent) were purchased in domestic grocery stores. However, most packs of manufactured cigarettes with a foreign tax label, no tax label, a foreign health warning label, or no health warning label were also purchased in local grocery

stores. Moreover, 12.1 percent of manufactured cigarette packs with foreign health warning labels had a local tax stamp.

**Figure 3.** Most manufactured packs of cigarettes are purchased at grocery stores, while most hand-rolled packs of cigarettes are purchased on the street or in open air markets



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

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<sup>i</sup> Contreary, K. A. (2015). Economic impact of tobacco price increases through taxation. *American Journal of Preventive Medicine*, 49(5), 800–808. doi: 10.1016/j.amepre.2015.04.02

<sup>ii</sup> WHO FCTC. (2013). *Protocol to eliminate illicit trade in tobacco products*. World Health Organization: Geneva, Switzerland.

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

<sup>iv</sup> Ibid.

<sup>v</sup> Ross, H., Vellios, N., Clegg Smith, K., Ferguson, J., & Cohen, J. E. (2016). A closer look at 'cheap white' cigarettes. *Tobacco Control*, 25:527–531. doi:10.1136/tobaccocontrol-2015-052540

<sup>vi</sup> American Cancer Society, Inc., & Vital Strategies. (2019, September 20). *Cigarette prices*. The tobacco atlas. <https://tobaccoatlas.org/data-visualization/cigarette-prices/>