

Background

Creating effective tobacco control policies requires objective assessment of the size, causes, and characteristics of the illicit tobacco market. This policy brief is based on a research study that estimates the size and characteristics of the illicit tobacco market in Serbia for manufactured cigarettes (MC) and hand-rolled (HR) tobacco.¹ The research findings provide a solid foundation for the improvement of tobacco control policies and better enforcement of existing regulations in Serbia. The study uses data from the Survey on Tobacco Consumption in Southeastern Europe (STC-SEE),² conducted by the Institute of Economic Sciences in 2019.

Key Findings

- The Serbian MC market is predominantly legal. Illicit MC consumption amounts to 2.4 percent of the total MC market.
- The HR tobacco market has an extremely high degree of tax evasion, with around 90.7 percent of total consumption identified as illicit. Including both MC and HR tobacco, the overall share of illicit consumption totals 15.2 percent of the Serbian market.
- Almost half of the identified illicit packs of MC were bought at legal points of sale, whereas all illicit HR tobacco packs were purchased illegally in the “green market.” Identified illicit MC packs are considered “illicit whites,” or illicit MC that were legally produced often in tax jurisdictions other than Serbia but sold in Serbia without paying all required duties.
- Tax evasion is higher in municipalities on the border, indicating that proximity to the border is a relevant factor of illicit status. Analysis indicates that 11 out of the 13 cases of illicit MC packs were identified in the region of Southwestern Serbia, with four out of five municipalities having the shortest driving distances to Montenegro. With the exception of brands from North Macedonia, identified illicit MC brands are likely produced in jurisdictions with tax levels that are higher than those in Serbia.
- The availability of illicit MC and HR tobacco products reduces the effects of tobacco taxes on the lower-income population due to their relatively lower price. Older smokers (55 years and above) are more likely to consume illicit MC (6.9 percent) than smokers below 55 years of age (0.7 percent).

The Serbian MC market is predominantly legal, with MC consumption amounting to only 2.4 percent of the total market

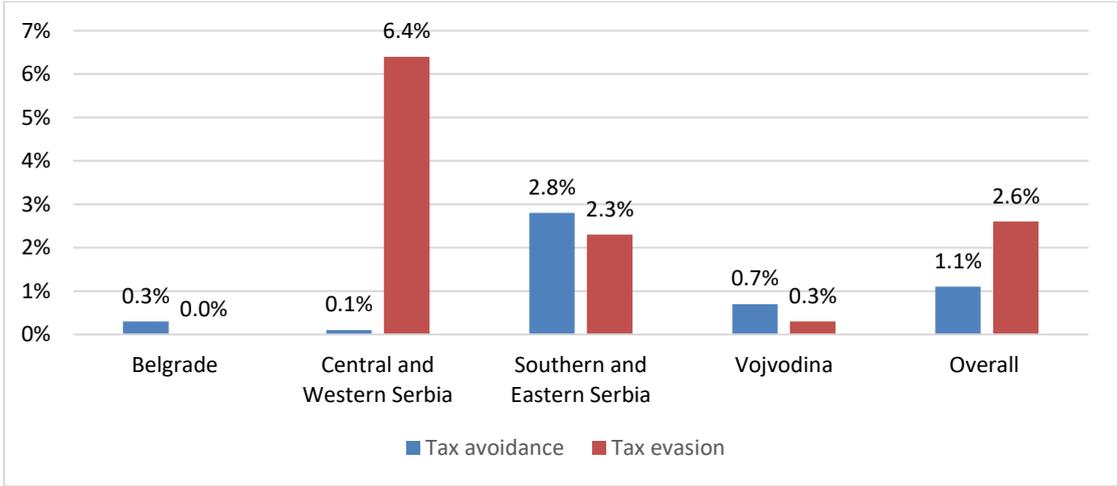
Research results confirm that most of the Serbian MC market is legal, with a relatively low share of illicit products identified and only 2.6 percent of current MC smokers consuming illicit MC. Taking into account smoking intensity, the share of illicit MC consumption accounts for 2.4 percent of the overall MC market. Although the overall share of illicit MC consumption is low, its level proves to be slightly

¹ Đukić, M., Jovanović, O., Vladislavljević, M., Jolović, N., & Zubović, J. (2020). *Study on tobacco tax avoidance and evasion in Serbia, 2019*. Institute of Economic Sciences, Belgrade, Serbia.

² <http://dcs.ien.bg.ac.rs/61/>

higher in regions bordering with Montenegro (central and western parts of the country), where more than 80 percent of all illicit packs are identified.

Figure 1. Percentage of MC smokers who evade and avoid taxes, overall and by region

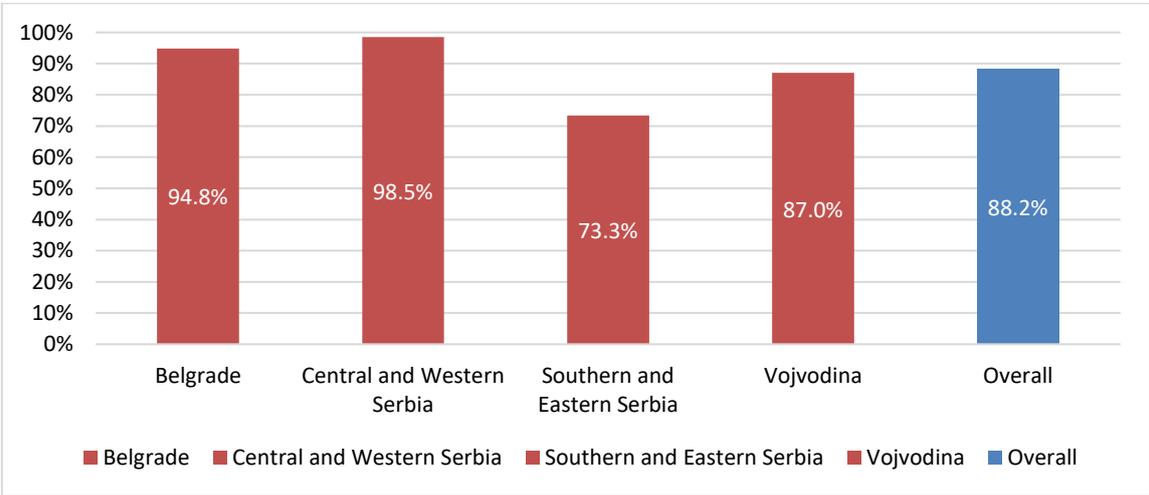


Source: Authors’ calculations based on data from STC-SEE 2019

The HR tobacco market has an extremely high degree of tax evasion, with around 90.7 percent illicit consumption

The HR tobacco market is almost completely illicit with 88.2 percent of current HR tobacco smokers evading tax, accounting for an estimated 90.7 percent of total HR tobacco consumption in Serbia.

Figure 2. Percentage of HR smokers who evade tax, overall and by region

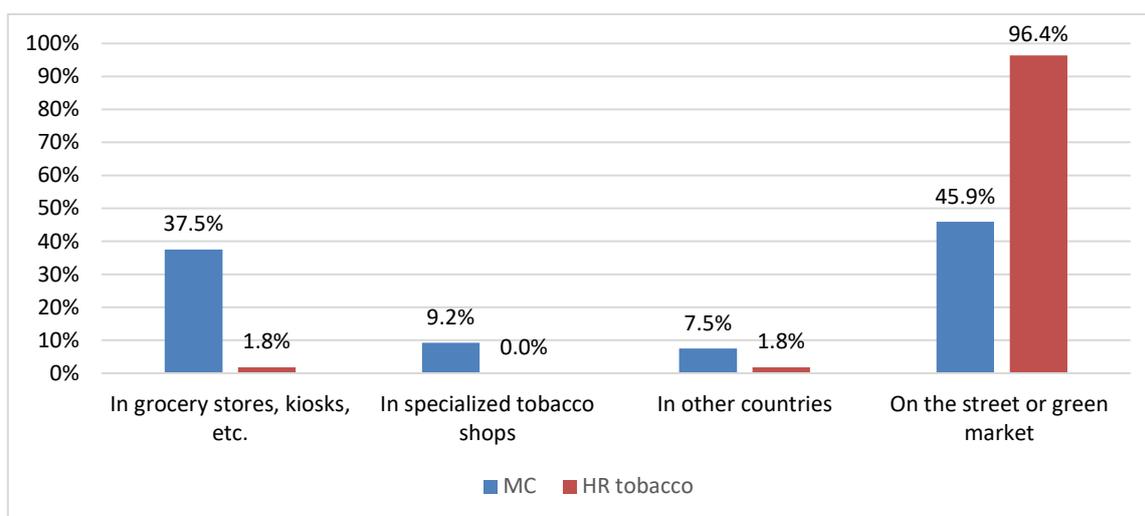


Source: Authors’ calculations based on data from STC-SEE 2019

Almost half of the identified illicit packs of MC were bought at legal points of sale, whereas all illicit HR tobacco packages were purchased illegally in the green market

While most illicit MC packs were identified in municipalities near the Montenegro border, illicit HR tobacco consumption is randomly distributed throughout the country, indicating that it is not related to proximity with neighboring countries. Almost every identified illicit HR package (96.4 percent) was bought in the green market (which is an illegal point of sale).

Figure 3. Percentage of illicit packs of MC and HR, by place of purchase



Source: Authors' calculations based on data from STC-SEE 2019

Evasion is higher in municipalities on the border, indicating that proximity to the border is a relevant factor of MC illicit status

Analysis indicates that 11 out of the 13 cases of illicit MC packs were identified in the region of Southwestern Serbia, with four out of five municipalities having the shortest driving distances to Montenegro. Proximity to the border, especially the national border with Montenegro, where evasion is overwhelmingly the highest in the region, is likely to be a factor affecting the probability of evasion. All identified MC illicit packs are considered illicit whites. These are legally produced MC, smuggled to Serbia either from China or neighboring countries, and sold in Serbia without a tax stamp.

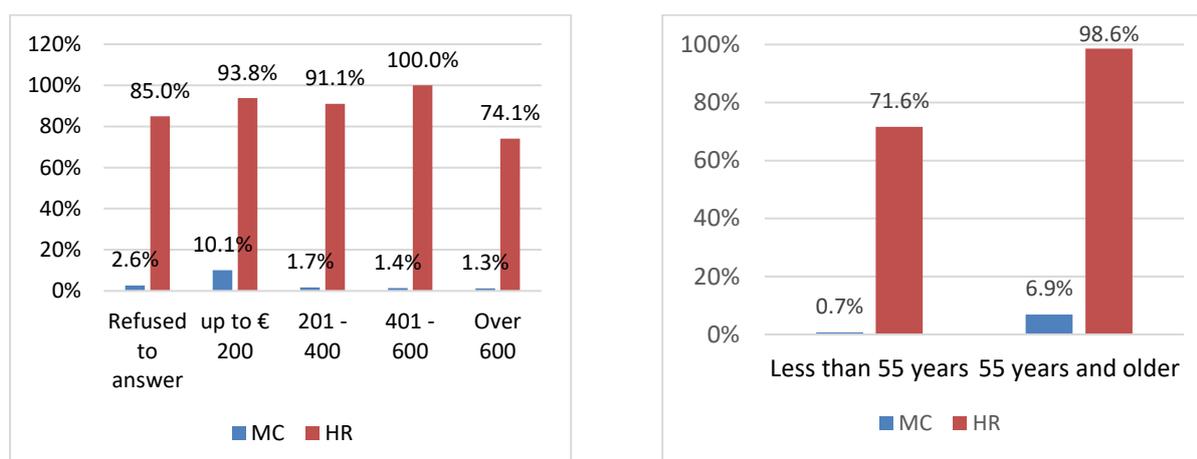
In total, 13 illicit packs were identified from six different brands smuggled into Serbia (Marilyn, Ashima, Trokadero, FM, Donatela, and Art). All identified illicit HR cigarette packages were unbranded/homemade tobacco purchased in the green market. With the exception of MC brands from North Macedonia, identified illicit MC brands are likely produced in jurisdictions with tax levels that are higher than those in Serbia (such as Bulgaria).

The probability of consuming illicit MC and HR tobacco is likely to be inversely correlated with household income, and older smokers (55 years and above) are more likely to consume both illicit MC and HR tobacco

Household income is likely to play a significant role regarding the consumption of illicit tobacco products. The share of consumers of illicit products is slightly higher in lower-income groups, particularly for MC and compared to the highest-income group (above €600).

Consumption of illicit tobacco products is considerably higher among older smokers (55 years and older). This finding applies for both MC and HR tobacco products. As for MC, the share of consumers of illicit products older than 55 years accounts for 6.9 percent, which is significantly higher compared to 0.7 percent among those younger than 55 years. Analyzing HR tobacco products, almost 9 out of 10 daily consumers use illicit products. The share of consumers of illicit HR tobacco products younger than 55 years is slightly lower (71.6 percent) than that of the older HR smokers.

Figure 4. Percentage of HR smokers who evade tax, by household income and age



Source: Authors' calculations based on data from STC-SEE 2019

Key Recommendations

- Strengthen the capacity of tobacco control administration as a key component of the tobacco control system.** In line with the WHO Protocol to Eliminate Illicit Trade in Tobacco Products (signed by the Serbian Government in 2017), Serbia should strengthen the capacity of the tobacco control system, supporting tobacco control administration in tackling illicit tobacco products and protecting tobacco control policies from the influence of the tobacco industry (Article 5.3 of the WHO FCTC). The latter is particularly important within the Serbian policy context, given the relatively close cooperation between the tobacco industry and Serbian authorities.
- Control the supply chain.** Given the current research confirming the widespread presence of illicit HR cigarettes (88.2 percent of the total HR prevalence), all of them being purchased in green markets, the Serbian government should secure law enforcement and impose stricter sanctions for each actor in the supply chain (growers, manufacturers, exporters/importers, wholesalers, and retailers). Adoption of new measures to tackle the illicit HR tobacco market should be considered, such as imposing an excise tax on raw tobacco and putting stamps on cured tobacco packages to ensure tracking.
- Strengthen control of tobacco product sales in (high-risk) border regions.** Although this research confirms a relatively low percentage of MC smokers in Serbia (2.6 percent) evade tax and only 2.4 percent of total MC consumption is illicit, it has been clearly shown that most of the identified illicit MC packs were found near the border with Montenegro. Since sales of illicit MC in Montenegro are relatively higher than in other Western Balkan countries,³ protection of the border with Montenegro should be prioritized.

About the project

The Institute of Economic Sciences in Belgrade, Serbia, is coordinating a regional network of researchers in Southeastern Europe on tobacco taxation. The project is funded by the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in Serbia. UIC is a partner of the Bloomberg Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies.

³ Đukić, M., Jovanović, O., Vladislavljević, M., Jolović, N., & Zubović, J. (2020). *Study on tobacco tax avoidance and evasion in Serbia, 2019*. Institute of Economic Sciences, Belgrade, Serbia.