



COUNTRY STUDY:
**BOSNIA AND
HERZEGOVINA**





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Views expressed in this study are those of the authors and do not necessarily represent those of the Institute of Economics, Zagreb. This study is part of the research project “Illegal Trade of Tobacco Products: Smuggling as Experienced along the Balkan Route – BalkanSmugg”, funded by PMI IMPACT – a global grant initiative by Philip Morris International (PMI) to support projects dedicated to fighting illegal trade and related crimes. In the performance of its research, the authors maintained full independence from PMI. The views and opinions expressed in this document are those of the authors and do not necessarily reflect the views of PMI.

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Key Findings

- Out of 43 percent of adult smoker population in Bosnia and Herzegovina, 80 percent buy tobacco products at authorized retailers. 88 percent smoke industrially manufactured cigarettes and 18 percent buy cut tobacco to roll and make their own cigarettes.
- Cut tobacco and industrially manufactured cigarettes are equally represented in the gray market purchases [about 60 percent].
- Two thirds of smokers in Bosnia and Herzegovina shifted to the gray market of tobacco products due to an increase in cigarette prices [66 percent]. For 97 percent of them, the main reason for buying tobacco products on gray market is their favorable price.
- Almost three fourths of buyers report that they would be willing to reduce their consumption of gray market cut tobacco if the price of legal cigarettes decreased. The affordability of legal tobacco products is the main factor that could motivate smokers to exit the gray market.
- Nine out of ten buyers on the gray market would look for a new place of purchase within the gray market if, for some reason, they could no longer buy illicit tobacco products at their usual place.
- The usual points of sale on the gray market are resellers on the street, and friends and acquaintances. Since the vast majority of all smokers make their purchases in the country, and only one percent abroad, it can be concluded that the tobacco gray market is functioning well in Bosnia and Herzegovina.
- About half of buyers report that the availability of both cigarettes and cut tobacco on the gray market has not changed in last two years. However, the share of smokers who rated the availability of cut tobacco as 'increasing' [35 percent] is overpassing the percentage of buyers who rated the availability of cut tobacco as 'decreasing' [20 percent]. Therefore, there are some indications of an upward trend in the supply of illicit cut tobacco in Bosnia and Herzegovina.
- Cigarettes account for 91 percent of total tobacco import to Bosnia and Herzegovina. Bosnia and Herzegovina is a net importer of tobacco products since the value of tobacco product imports is four times higher than the value of tobacco exports.
- Since the gray market and undeclared work are closely connected, an estimate was made regarding the supply and demand of undeclared work in Bosnia and Herzegovina. About 6 percent of respondents bought goods that they assumed were produced by undeclared work. Almost 5 percent of respondents received payment for undeclared work in the last 12 months. The citizens in their prime working age are more prone to participate in both the supply and demand side of undeclared work in Bosnia and Herzegovina.

- For the majority of citizens in Bosnia and Herzegovina [about 85 percent], transactions on the tobacco product gray market are unacceptable malpractices. In contrast, buying cut tobacco directly from farmers is considered acceptable for 55 percent of citizens. Buying tobacco products on the gray market is not acceptable for 60 percent of citizens.
- Two thirds of citizens in Bosnia and Herzegovina agree that the gray market tobacco products cause substantial damage to the state budget and almost 60 percent of them think that tobacco product smuggling is an integral part of organized crime.

1 Introduction

Illicit trade, gray market, and tobacco smuggling have been present in the Balkan region for a long time. The research project **Illegal Trade of Tobacco Products: Smuggling as Experienced Along the Balkan Route (BalkanSmugg)**, funded by the PMI IMPACT and implemented by the Institute of Economics, Zagreb from July 2017 to September 2019, assesses the illegal trade of cigarettes and other tobacco products in seven countries along the Balkan smuggling route.

The specific objective of the project is to produce a strong evidence base on the illegal trade of tobacco in Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia, and Kosovo. Therefore, the core of this research is represented by a survey assessment of smokers' attitudes and practices of buying cigarettes on the gray market and citizens' opinion regarding the illegal trade of cigarettes and other tobacco products. In 2018 we conducted a survey of 3,000 respondents per country, totaling 21,000 respondents net in the region.

BalkanSmugg Country Study: Bosnia and Herzegovina presents the key findings regarding Bosnia and Herzegovina as one of the countries of interest. It sheds light on smokers' habits and practices in buying cigarettes and cut tobacco, including also the experience of purchasing tobacco products on the gray market. The insight into the characteristics of the gray market, the typical purchase 'package', and how smokers rated the quality and accessibility of products, offer valuable first-hand information.

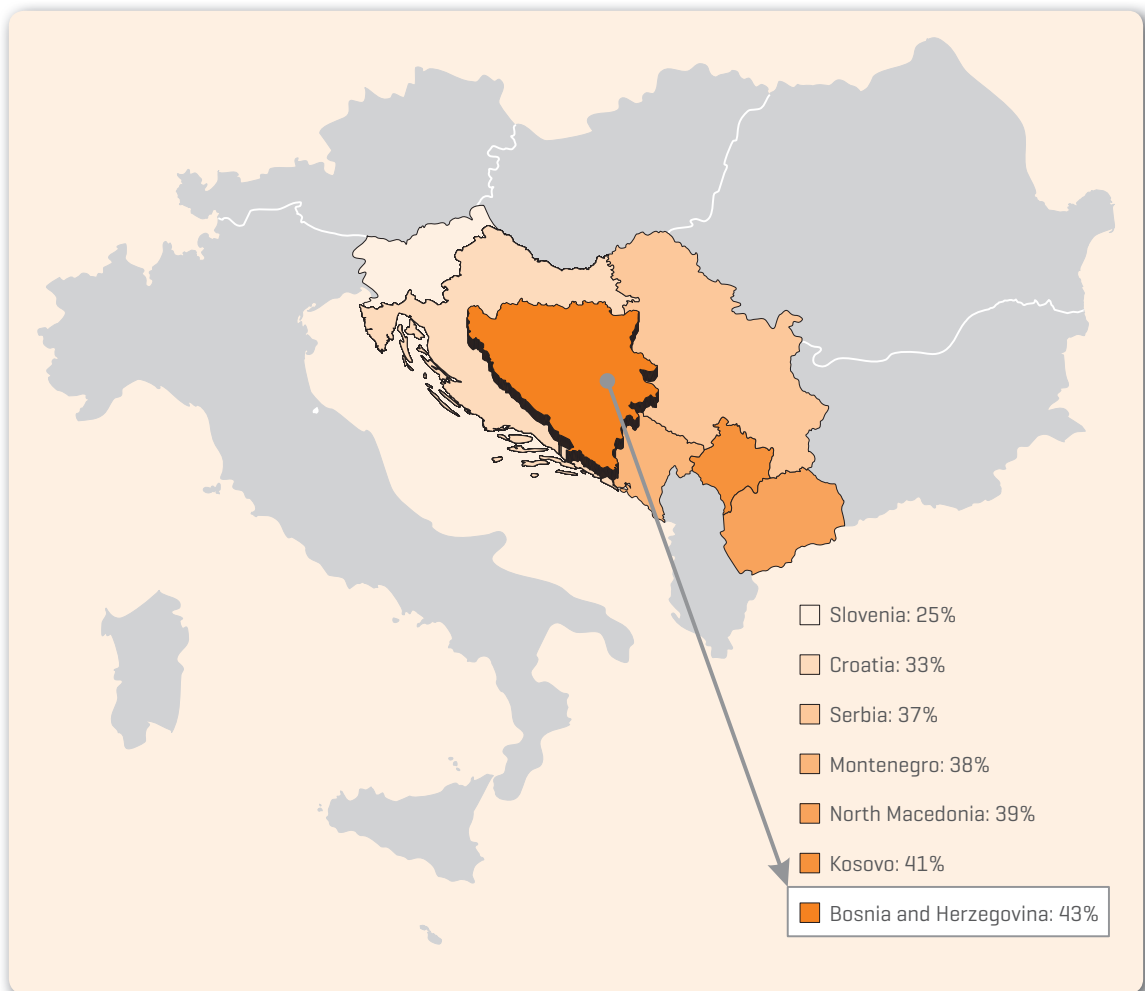
The study explores the public opinion on acceptable behavior related to the illicit trade of cigarettes, tobacco products, and perceptions regarding their negative effects, making the BalkanSmugg project the first all-encompassing study of the black market illegal trade in cigarettes and other tobacco products in the Balkan region that tackles the problem from both citizens' and tobacco consumers' point of view.

The results presented for Bosnia and Herzegovina are also compared with other observed countries in order to frame the regional context of the findings.

We hope that policy makers and stakeholders involved in this project will find the results inspiring and beneficial in the fight against illegal trade. The ultimate purpose of this study is to raise awareness about the harmfulness of illegal trade of cigarettes and other tobacco products in Bosnia and Herzegovina.

2 Smoking Habits

Figure 2.1 **Smoking prevalence, by country**



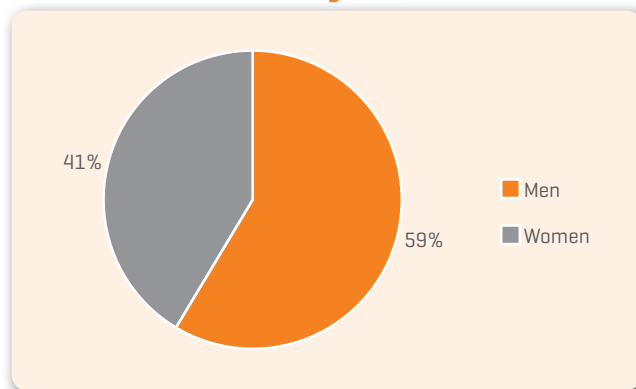
Source: Survey data.

Smoking prevalence in Bosnia and Herzegovina is 43 percent.

- Survey data revealed that smokers constitute more than two fifths of the adult population in Bosnia and Herzegovina [Figure 2.1]. Exactly 43 percent of surveyed individuals aged 18+ declared themselves as smokers, which is the highest smoking prevalence of all analyzed countries in the region.
- Smoking prevalence in Bosnia and Herzegovina is higher among the men, and there are almost 20 percentage points more men than women among smokers [Figure 2.2].

- The most popular tobacco products in Bosnia and Herzegovina are industrially manufactured cigarettes [Figure 2.3]. However, almost every fifth smoker uses cut tobacco to roll their own cigarettes. Other tobacco products, such as cigars, cigarillos, pipes, etc., are used by only 3 percent of smokers.
- Interestingly, **the share of cut tobacco smokers in Bosnia and Herzegovina [18 percent] is above the regional average [15 percent]**.

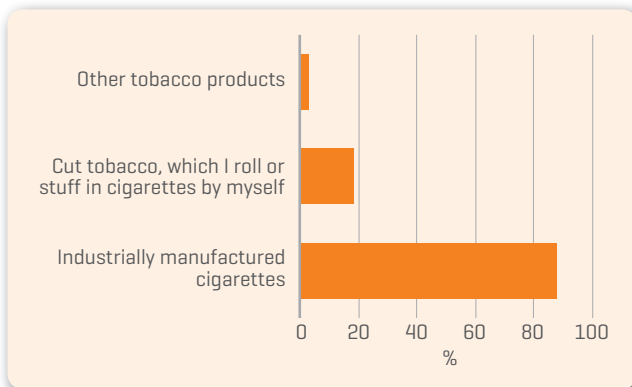
Figure 2.2 **Smoking prevalence by gender in Bosnia and Herzegovina**



Source: Survey data.

When compared with women, men smoke more tobacco products.

Figure 2.3 **Smoking by type of tobacco products**



Almost 90 percent of smokers use industrially manufactured cigarettes.

On average, when compared to analyzed countries, more smokers use cut tobacco in Bosnia and Herzegovina.

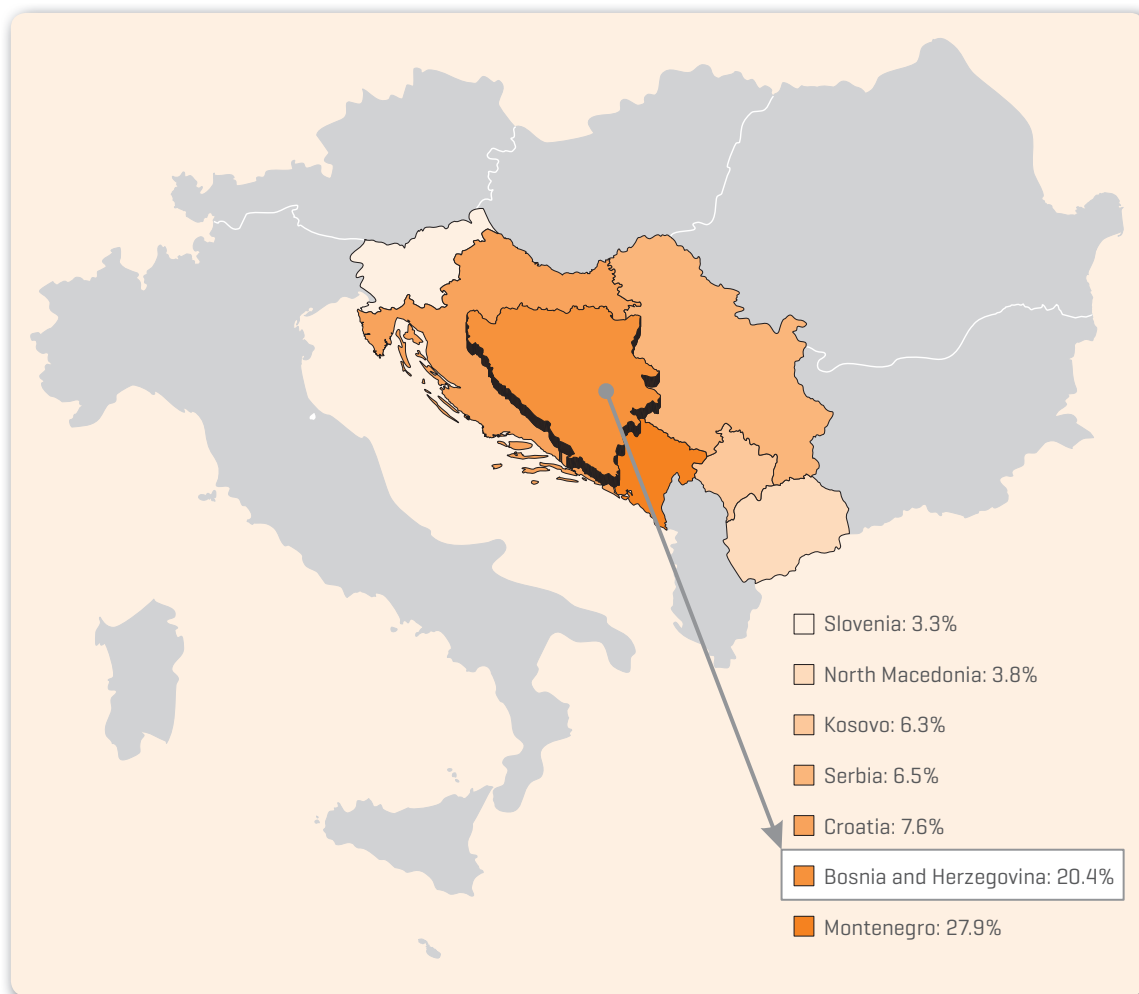
Notes: Multiple answers. In percentage of smokers.
Source: Survey data.

3 Buying Habits: Legal or Gray Markets

- Smokers in Bosnia and Herzegovina predominantly buy tobacco products at authorized retailers. However, more than 20 percent of smokers buy their tobacco products on the gray market, which is significantly above the regional average of 11 percent [Figure 3.1].
- **Cut tobacco and industrially manufactured cigarettes are equally represented in the gray market purchases.** About 59 percent of smokers who buy their tobacco on the gray market use unofficial suppliers to purchase cut tobacco as well as industrially manufactured cigarettes [Figure 3.2].
- The main channel of the gray market in Bosnia and Herzegovina, where smokers predominantly buy illicit tobacco products, are resellers on the street [67 percent] [Figure 3.3].
- Buying on the gray market is related with the price competitiveness of tobacco products otherwise available in the regular stores. Two thirds of smokers in Bosnia and Herzegovina shifted to gray market of tobacco products due to an increase in cigarette prices [66 percent] [Figure 3.4].
- When explaining why they buy tobacco products on the gray market, 97 percent of smokers report **a more favorable price as the main reason behind their purchase.**

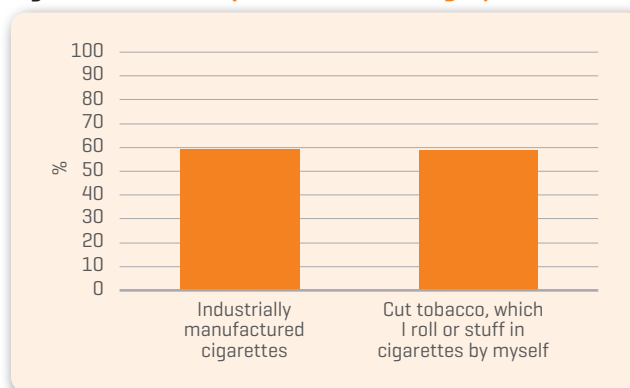
20 percent of smokers are buying on the grey market.

Figure 3.1 **Share of smokers buying on the gray market, by country**



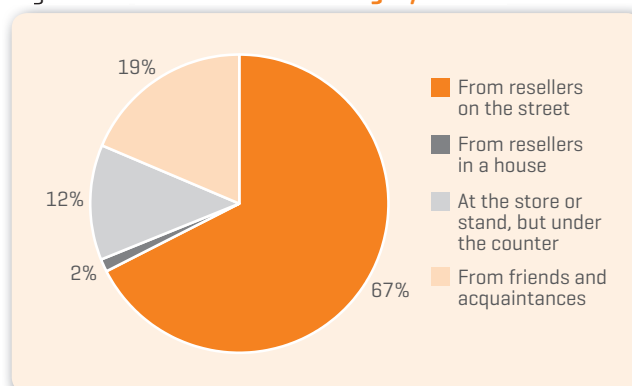
Source: Survey data.

Figure 3.2 Tobacco products from the gray market



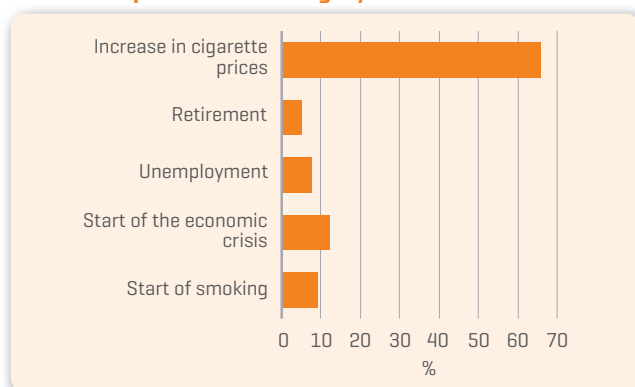
Note: Multiple answers.
Source: Survey data.

Figure 3.3 Points of sale on the gray market



Source: Survey data.

Figure 3.4 Reasons why smokers buy tobacco products on the gray market



Source: Survey data.

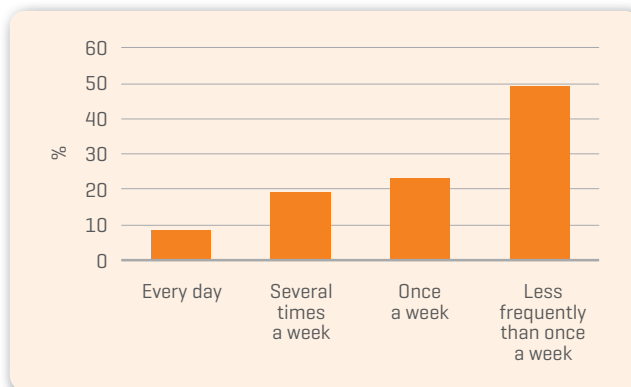
4

Availability of Cigarettes and Cut Tobacco on the Gray Market

- Almost 50 percent of smokers buy on the gray market less frequently than once a week. About 23 percent of smokers buy on the gray market on a weekly basis, while another 20 percent of them buy several times a week [Figure 4.1].
- Recent trends note a difference in the availability of cigarettes and cut tobacco on the gray market: more buyers note the increasing availability of cut tobacco, compared to the availability of cigarettes on gray market [Figure 4.2].
- **Every fourth smoker rates cigarettes as 'less available' on the gray market today** compared to two years ago, and almost a half of smokers rate its availability at the same level as two years ago.
- An increased availability of cigarettes on the gray market today compared to two years ago is more frequently observed in the region than in Bosnia and Herzegovina.
- **Every fifth smoker rates cut tobacco as 'less available' on the gray market today** compared to two years ago, and 45 percent of smokers rates its availability at the same level as two years ago.
- An increased availability of cut tobacco on gray market is observed in Bosnia and Herzegovina at similar level as in the region.

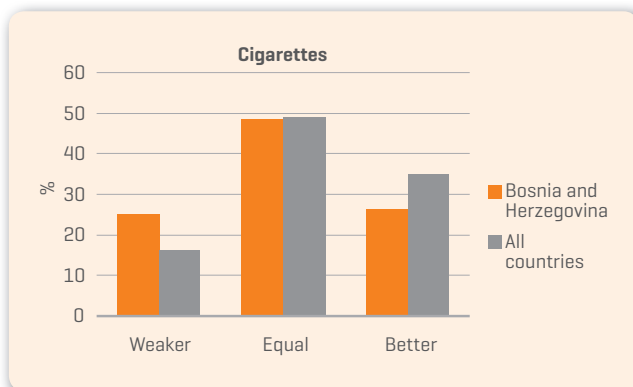
A perceived trend of increasing availability of tobacco products on the grey market in Bosnia and Herzegovina is more evident for cut tobacco than for cigarettes.

Figure 4.1 **Frequency of buying on the gray market**



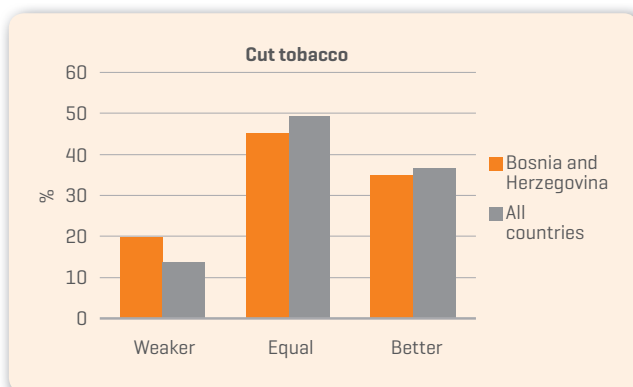
Source: Survey data.

Figure 4.2 **Trends in the availability of tobacco products on the gray market**



Compared to two years ago:

25 percent of smokers state that the availability of cigarettes on gray market dropped.



20 percent of smokers state that the availability of cut tobacco on the gray market dropped.

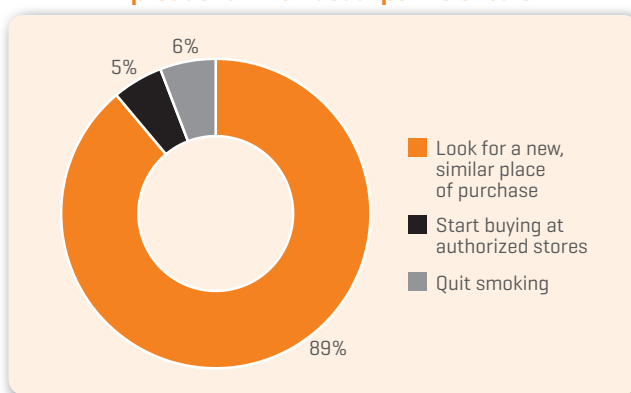
Note: Compared to two years ago.
Source: Survey data.

5 Exiting Gray Market

- Buyers on the gray market were asked what they would do if they could no longer buy tobacco products at their usual place [Figure 5.1]. Almost 90 percent would look for a new place of purchase within the gray market, which means that as long as the gray market exists, it will remain a preferred place of purchase for the majority of smokers involved in illicit trade in Bosnia and Herzegovina.
- The remaining smokers would stop smoking (6 percent) or they would switch to the legal market of tobacco products (5 percent).
- Main motivational factors that influence the exit from the gray market are predominantly related to economic reasons: 67 percent of buyers would exit the gray market in case of a cigarette price decrease on the legal market, and 60 percent report that they would exit the gray market if their living standard improved. Additional one-third of smokers buying on the gray market would stop buying illicit tobacco products only if they made a decision to quit smoking.
- Introducing severe punishments for buyers would motivate only one percent of smokers to stop buying at gray market [Figure 5.2].

90 percent of buyers on the grey market would remain loyal to illicit points of sales.

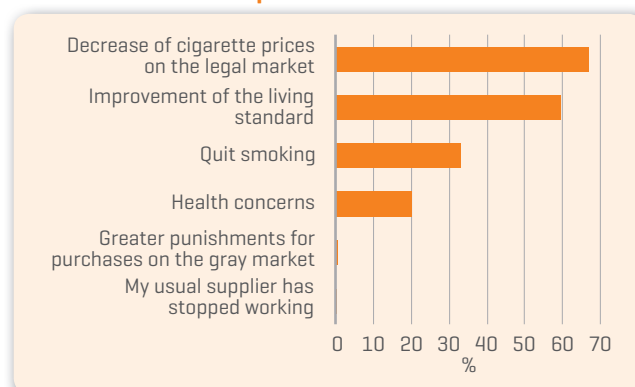
Figure 5.1 Preferred alternatives for smokers who could no longer buy illicit tobacco product at their usual points of sale



Source: Survey data.

If the usual place of illicit purchase becomes unavailable, only 5 percent of smokers report the willingness to switch to a legal market.

Figure 5.2 Motivation for exiting the gray market of tobacco products



Note: Multiple answers.
Source: Survey data.

The affordability of legal tobacco products would motivate smokers to exit the gray market.

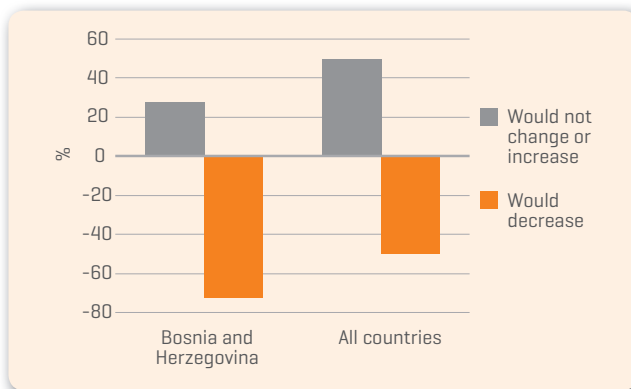
6

Price Sensitivity of Illicit Tobacco Products Consumption

- If the price of cigarettes became equal on the legal and gray market, 72 percent of buyers report that they would decrease their consumption of illicit cigarettes [Figure 6.1].
- Due to lower prices of legal cigarettes, a decreased consumption of cigarettes on the gray market is more evident in Bosnia and Herzegovina when compared with the region.
- Almost 72 percent of buyers would reduce their consumption of cut tobacco on the gray market if the price of legal cigarettes decreased [Figure 6.2]. This indicates that smokers in Bosnia and Herzegovina tend to substitute industrially manufactured cigarettes on the legal market with cut tobacco on the gray market.

Consumption of illicit tobacco products is sensitive to price changes of legally purchased cigarettes.

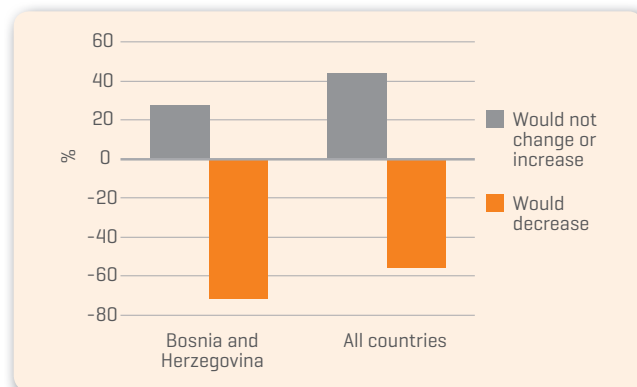
Figure 6.1 **Price sensitivity of illicit cigarettes**



Source: Survey data.

72 percent of consumers would decrease the consumption of illicit cigarettes if the price of legally purchased cigarettes decreased and became equal to the price of cigarettes bought on the gray market.

Figure 6.2 **Consumption of illegal cut tobacco**



Source: Survey data.

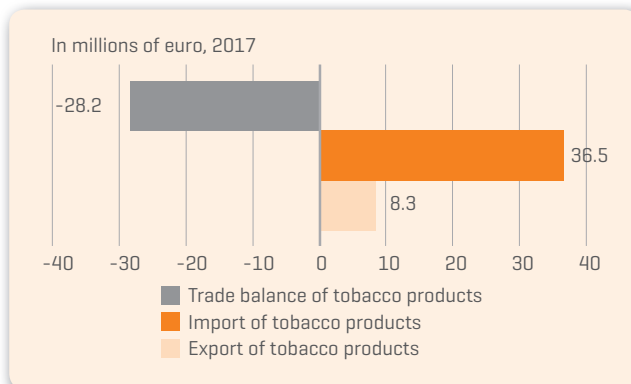
Almost 72 percent of consumers would decrease the consumption of illicit cut tobacco if the price of legally purchased cigarettes decreased and became equal to the price of cut tobacco on the gray market.

7 International Trade of Tobacco Products

Bosnia and Herzegovina is a net importer of tobacco products. Cigarettes account for 91 percent of total tobacco imports.

- Survey results indicate that **smokers in Bosnia and Herzegovina mainly purchase tobacco products at selling points within the country (99 percent)**. Among one percent of smokers who buy tobacco products abroad, two thirds prefer to go to Croatia. Other foreign buying markets are countries in the region as well: North Macedonia [12 percent], Serbia [6 percent], and Slovenia [6 percent].
- Bosnia and Herzegovina is a net importer of tobacco products. Despite the rich tradition in tobacco production, Bosnia and Herzegovina imported EUR 36.5 million of tobacco products in 2017 and exported EUR 8.3, so the negative trade balance was 28.2 million EUR [Figure 7.1].
- Cigarettes account for 77 percent of tobacco exports, which makes them the main export tobacco product, followed by unmanufactured tobacco [Figure 7.2].

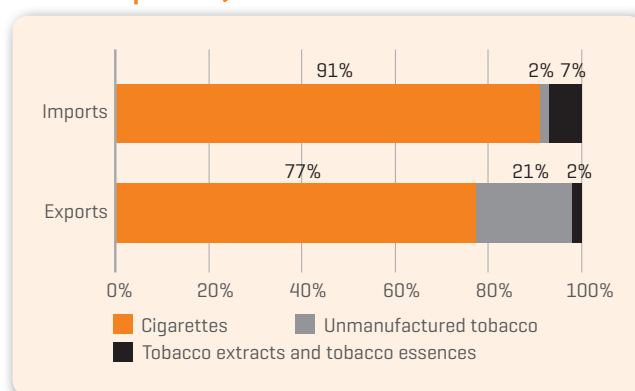
Figure 7.1 **Tobacco trade of Bosnia and Herzegovina**



Source: Author's calculations based on UN Comtrade and ITC statistics.

Bosnia and Herzegovina trade balance of tobacco products is negative.

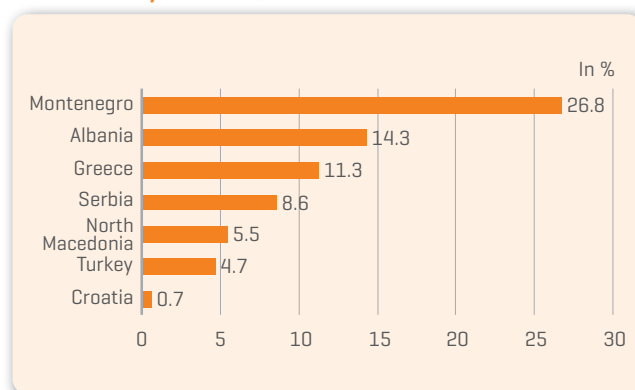
Figure 7.2 Exports and imports by type of tobacco product, 2017



Source: Author's calculations based on UN Comtrade and ITC statistics.

- The regional market is the most important export destination for Bosnia and Herzegovina tobacco products.** In 2017, one quarter of Bosnia and Herzegovina tobacco products exports was to Montenegro. Other important export destinations with over a 10 percent share in tobacco exports are Albania and Greece [Figure 7.3].

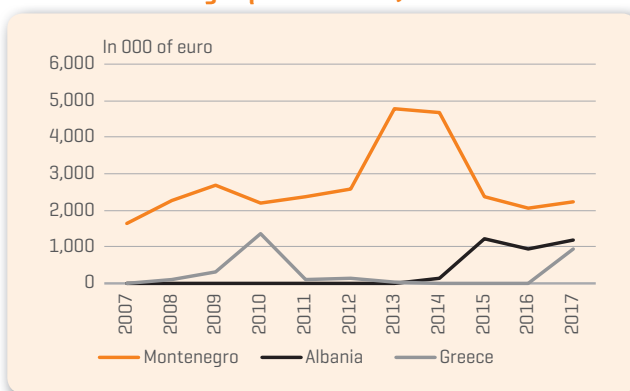
Figure 7.3 Bosnia and Herzegovina tobacco exports by markets, 2017



The main tobacco imports come from Serbia and the main export destination is Montenegro.

Source: Author's calculations based on UN Comtrade and ITC statistics.

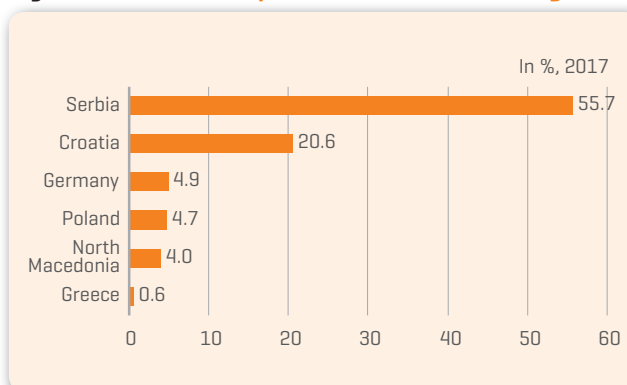
Figure 7.4 **Bosnia and Herzegovina tobacco exports to leading export markets, trends 2007-2017**



Source: Author's calculations based on UN Comtrade and ITC statistics.

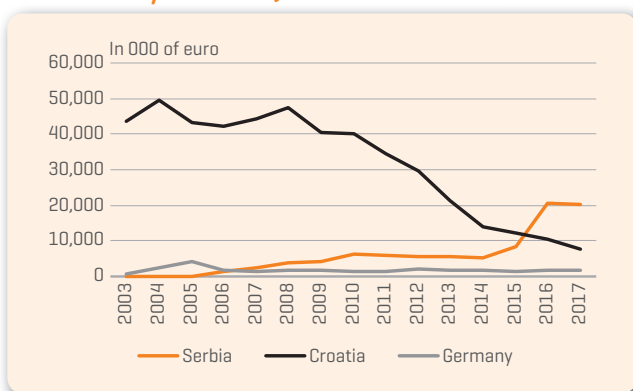
- However, exports to Montenegro have been declining, and exports to Albania have been increasing since 2014. Interestingly, exports to Greece have been sharply increasing recently, but exports are still at a low level [Figure 7.4].
- Imports from Serbia have been rising in the last four years [Figure 7.6] and over a half of tobacco imports to Bosnia and Herzegovina in 2017 are from Serbia [Figure 7.5]. The second important country for Bosnia and Herzegovina tobacco imports is Croatia [20 percent of imports], and once huge imports from Croatia have decreased six times in the last decade.

Figure 7.5 **Tobacco imports of Bosnia and Herzegovina**



Source: Author's calculations based on UN Comtrade and ITC statistics.

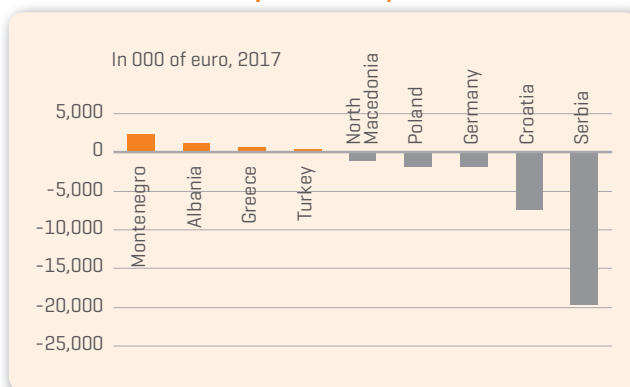
Figure 7.6 **Bosnia and Herzegovina tobacco imports by countries, trends 2003-2017**



Source: Author's calculations based on UN Comtrade and ITC statistics.

- As a net importer of tobacco products, Bosnia and Herzegovina has the highest negative trade balance of EUR 20 million with Serbia. The significant negative trade balance is observed with Croatia as well [Figure 7.7].

Figure 7.7 **Bosnia and Herzegovina trade balance in tobacco products, by countries**



Source: Author's calculations based on UN Comtrade and ITC statistics.

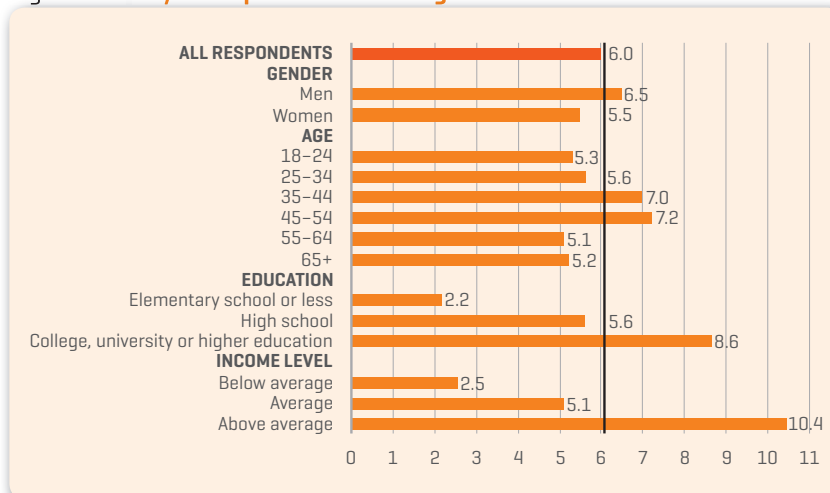
Tobacco trade with countries in the region is important.

8 Undeclared Work

Almost 5 percent of adult citizens in Bosnia and Herzegovina received income from undeclared work in the last 12 months, while 6 percent purchased goods they believe were produced by undeclared work.

- When seen through the prism of tax evasion, the tobacco gray market is a part of the shadow economy due to undeclared work. Smugglers, sellers and resellers of tobacco products on the gray market earn unreported income due to undeclared work.
- The **extent of undeclared work in Bosnia and Herzegovina** is assessed through the demand and supply side of the survey.
- **About 6 percent of adult population in Bosnia and Herzegovina report to have bought products from people whose origin of income was not fully reported** to tax or social security institutions [Figure 8.1]
- Propensity to acquire products delivered by units engaged in undeclared work is slightly higher for men [6.5 percent vs. 5.5 percent recorded for women]. Demand for products delivered by units engaged in undeclared work is most pronounced for the population in their prime working age, i.e. age groups 35-44 and 45-54.
- Contrary to previous studies, where undeclared work is usually found to act as a social buffer, survey results for Bosnia and Herzegovina indicate that **higher educated individuals with an above-average income, are more likely to acquire goods and services related to undeclared work.**

Figure 8.1 **Buyers of products that might be the result of undeclared work**



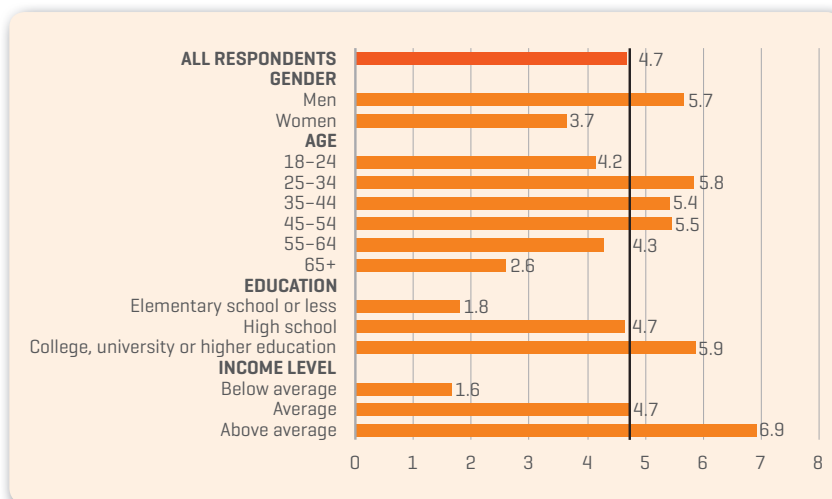
Buyers of products related to undeclared work are higher educated and wealthier individuals.

Note: The percentage of persons who acquired a product they believe originated from undeclared work.

Source: Survey data.

- According to self-declared statements of survey respondents, **almost 5 percent of the population in Bosnia and Herzegovina over the age 18 acquired extra income through undeclared labor** activity in the past 12 months [Figure 8.2].
- As in the case of the demand side of undeclared work, **the tendency to engage in undeclared labor is more pronounced for men, individuals with a higher education** as well as for the population receiving an above-average income.
- Participation of individuals with elementary school education or less in undeclared labor is below average, which indicates that **more complex skills increase the potential to find a secondary job**, not only in the regular but also in the hidden part of the economy.

Figure 8.2 **Income received for undeclared activities in the past 12 months**



The citizens in their prime working age are the main suppliers of undeclared work in Bosnia and Herzegovina. One out of 18 persons aged 25-55 received compensation for undeclared work in the last 12 months.

Note: Individuals who, in addition to their regular labor activity, earned extra income through undeclared activities in the past 12 months.

Source: Survey data.

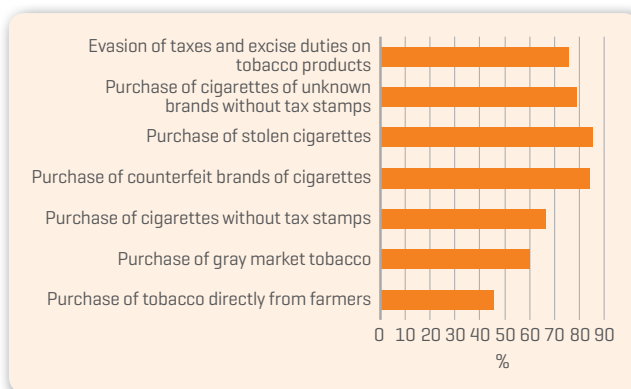
9

Unacceptability of Certain Practices in Illicit Tobacco Trade

- The majority of citizens in Bosnia and Herzegovina, around 85 percent, think that it is mostly unacceptable or completely **unacceptable to purchase stolen cigarettes** and **counterfeit** brands of cigarettes (Figure 9.1), cigarettes of **unknown brands** without tax stamps and **counterfeit** brands of cigarettes. Activities on the tobacco product gray market, which are related to other forms of crime, are the less acceptable practices.
- Citizens of Bosnia and Herzegovina also have a negative public opinion, although to a lesser extent, toward the malpractice of purchasing cigarettes of unknown brands without tax stamps or toward evading taxes and excise duties on tobacco products.
- For about two thirds of citizens, purchasing cigarettes without tax stamps, as well as purchasing tobacco products on the gray market are not acceptable activities.
- On the other side, about 55 percent citizens in Bosnia and Herzegovina think that it is acceptable to buy tobacco directly from farmers. Considering all analyzed practices, citizens of Bosnia and Herzegovina positively view the tobacco buyers' connection with farmers.

There is an overall negative public opinion on illicit tobacco trade, except regarding buying cut tobacco directly from farmers.

Figure 9.1 **Unacceptability of certain practices in illicit tobacco**



Source: Survey data.

Purchasing tobacco products on the gray market is not acceptable for 60 percent of citizens.

55 percent approve buying tobacco products directly from farmers.

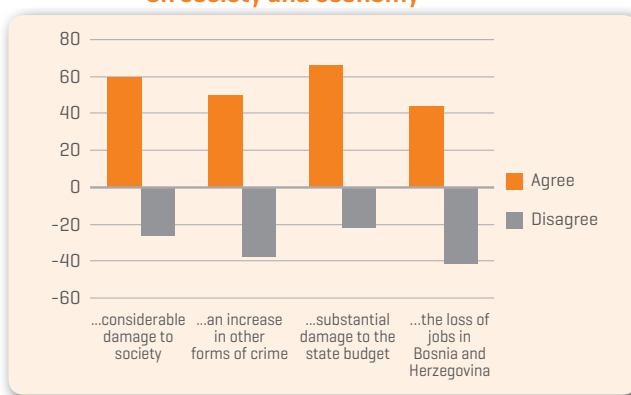
10

Public Perceptions and Opinions about the Tobacco Gray Market

- About 66 percent of citizens of Bosnia and Herzegovina agree that the tobacco gray market causes **substantial damages to the state budget**, and about 60 percent of them think that it also causes considerable damages to society [Figure 10.1].
- Every second respondent recognizes that there is a link between the tobacco gray market and other forms of crime and believes **that the tobacco gray market causes an increase in other forms of crime**.
- Less than half of citizens, 44 percent of them, agree that the tobacco gray market is responsible for job losses in Bosnia and Herzegovina.
- The majority of respondents in Bosnia and Herzegovina (59 percent) have a negative perception regarding tobacco product smuggling and believe it represents an integral part of organized crime [Figure 10.2].

In general, the majority of citizens of Bosnia and Herzegovina recognize the negative effects of the tobacco gray market.

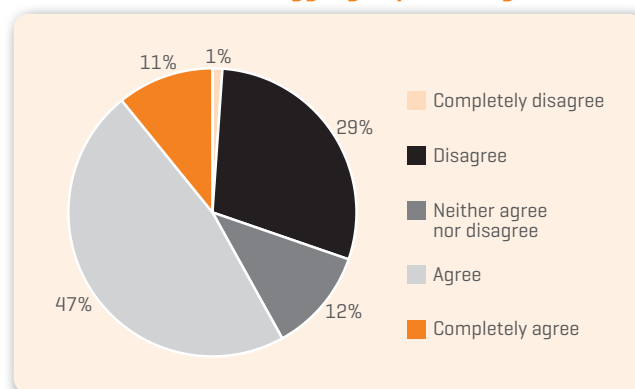
Figure 10.1 Respondents' perception regarding tobacco gray market's impact on society and economy



Lost revenues in the state budget and lost jobs due to the gray market.

Source: Survey data.

Figure 10.2 Respondents' views of cigarettes and tobacco smuggling as part of organized crime



59 percent of citizens of Bosnia and Herzegovina think that tobacco product smuggling is an organized crime.

Source: Survey data.

Appendix

Table A1 **Survey details**

Survey period	February–April 2018
Target population	Resident population of Bosnia and Herzegovina: age group 18+, with smokers quota proportional to the country's smoking prevalence rate (55.5 percent for men, 55.8 percent for women) http://www.zzjzfbih.ba/wp-content/uploads/2009/02/Studija-o-stanju-zdravlja-odraslog-stanovni%C5%A1tva-FBiH-2012-BH.pdf
Sample design	Random sampling Nationally representative sample
Quality control	Data collection quality control was done by re-contacting the respondents and cross-checking answers to selected questions with answers from the initial interview A minimum of 25 percent of questionnaires were controlled per interviewers Logic checks conducted on the final dataset
Net sample size	3,000
Response rate	27.1 percent
Method	CATI [Computer Assisted Telephone Interviewing]

