

COUNTRY STUDY:
KOSOVO





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Key Findings

- Out of 41 percent of adult population of smokers in Kosovo, 94 percent purchase tobacco products at authorized stores. 99 percent smoke industrially manufactured cigarettes and 4 percent buy cut tobacco to roll and make their own cigarettes.
- Nine out of ten buyers on the gray market purchase industrially manufactured cigarettes; this makes cigarettes a major illicit tobacco product in Kosovo.
- Smokers shifted to the gray market of tobacco products because of convenience, and two thirds of them purchase daily on the gray market.
- A total of 87 percent of smokers buying on the gray market state that the main reason why they started to buy on the gray market is easier purchase, and 12 percent of smokers report that a more favorable price of tobacco products is the main motive for buying on the gray market.
- Half of buyers would exit the gray market only if they quit smoking. Otherwise, as long as the gray market exists, it will remain the preferred place of purchase for the majority of smokers involved in illicit trade in Kosovo. Introducing severe punishments would motivate 30 percent of smokers to shift to the legal market, and price difference is a less important factor in Kosovo than in the region.
- 75 percent of buyers would reduce their consumption of cut tobacco on the gray market if the price of legal cigarettes would decrease. This indicates that for the majority of buyers, the gray market cut tobacco is a substitute for the industrially manufactured cigarettes on the legal market in Kosovo. On the contrary, only 30 percent of consumers would decrease the consumption of illicit cigarettes if the price of cigarettes became equal on the legal and gray market.
- Six 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 not buy illicit tobacco products at their usual place.
- The most common points of sale on the gray market are resellers on the street, followed by stores selling tobacco products under the counter. Since all smokers make their purchases in the country, it can be concluded that the tobacco gray market is functioning well in Kosovo.
- The availability of tobacco products on the gray market increased in the last two years. Since 42 percent of smokers rate the availability of cigarettes on gray market as 'increasing', and 20 percent of smokers rate the availability of cut tobacco on the gray market as 'increasing', there are no indications of a downward trend in the supply of illicit tobacco products in Kosovo.
- Kosovo is an absolute net importer of tobacco products and the negative tobacco trade balance equals the value of tobacco imports, about EUR 62 million in 2017.

- Since the gray market and undeclared work are closely connected, an estimate was made regarding the supply and demand of undeclared work in Kosovo. About 4 percent of respondents bought goods that they assumed were produced by undeclared work. Less than one percent of respondents received payment for undeclared work in last 12 months. Older, low-income population is reluctant to declare any participation in both the supply and the demand side of undeclared work in Kosovo.
- There is a strong public consensus in Kosovo that illicit trade is harmful. For the majority of citizens in Kosovo (above 90 percent), transactions on the tobacco product gray market are unacceptable malpractices, and buying tobacco products on the gray market is not acceptable for 68 percent of citizens.
- Two thirds of individuals in Kosovo agree that gray market tobacco products cause substantial damage to the state budget and that tobacco product smuggling is an integral part of organized crime.

1 Introduction

Illicit trade, gray market, and tobacco smuggling have been present for a long time in the Balkans region. 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 the survey of 3,000 respondents per country, totaling 21,000 respondents net in the region.

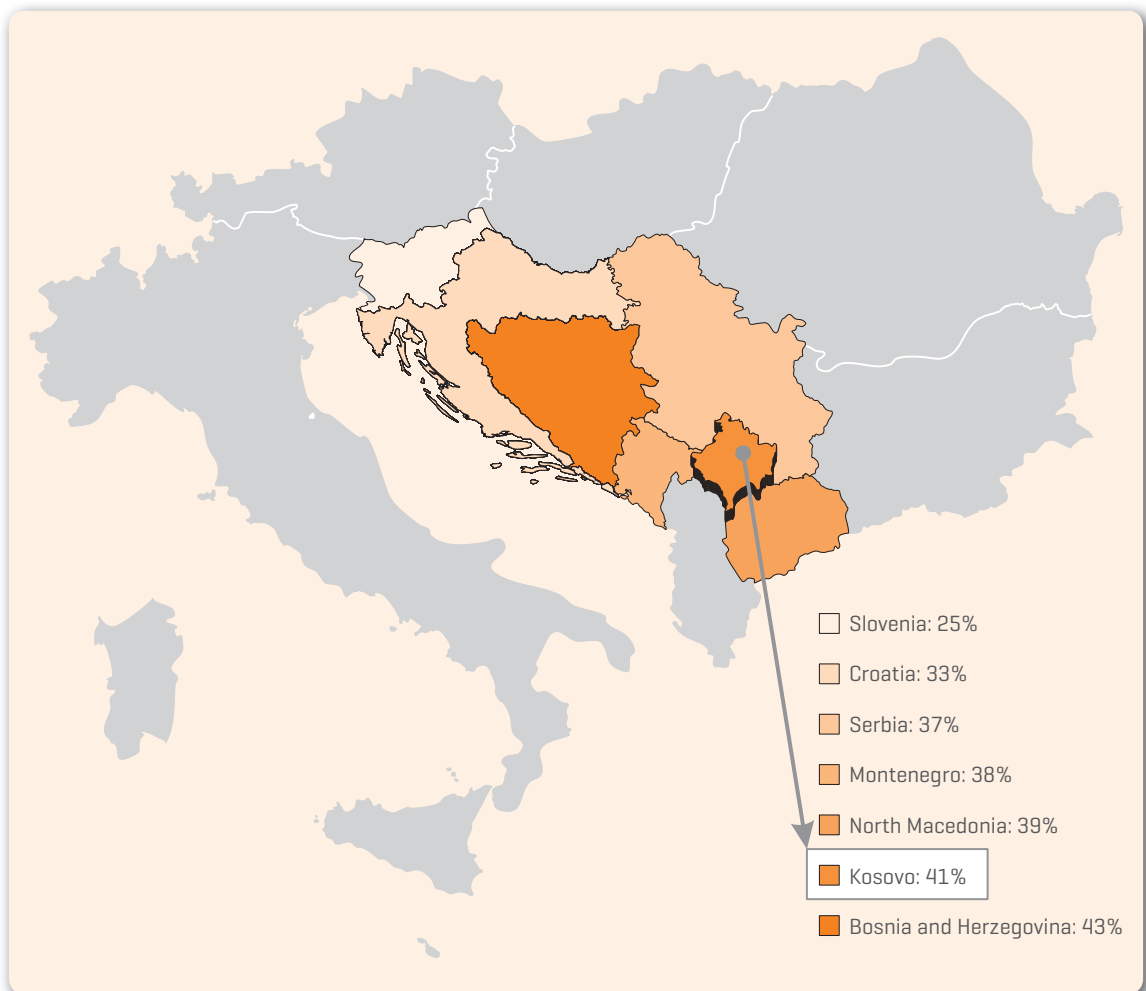
BalkanSmugg Country Study: Kosovo presents the key findings regarding Kosovo as one of the countries of interest. It sheds light to the smokers' habits and practices in buying cigarettes and cut tobacco, including the experience of purchasing tobacco products at the gray market. The insight in the characteristics 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 Kosovo are also compared with other observed countries, in order to frame the regional context of the findings.

We hope that the 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 Kosovo.

2 Smoking Habits

Figure 2.1 **Smoking prevalence, by country**



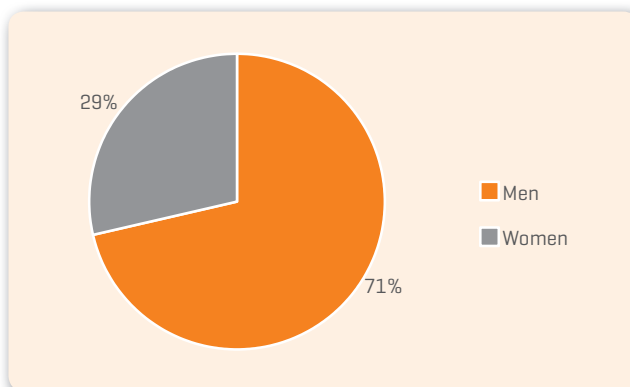
Source: Survey data.

**Smoking prevalence in
Kosovo is 41 percent.**

- Survey data revealed that four out of ten surveyed individuals are smokers (Figure 2.1). Namely, 41 percent of adult population aged 18+ declared themselves as smokers, which is above the average smoking prevalence of all analyzed countries in the region [36 percent].
- The habit of smoking is unequally distributed among men and women in Kosovo: there are more than twice male smokers than there are female smokers. **Almost three quarters of the adult male population in Kosovo smokes** (Figure 2.2).

- By far the most popular tobacco product in Kosovo are industrially manufactured cigarettes (Figure 2.3), used by 99 percent of smokers. Some smokers obviously combine cigarettes with cut tobacco, hence, cut tobacco is used by less than 4 percent of smokers who roll and make their own cigarettes.

Figure 2.2 **Smoking prevalence by gender in Kosovo**

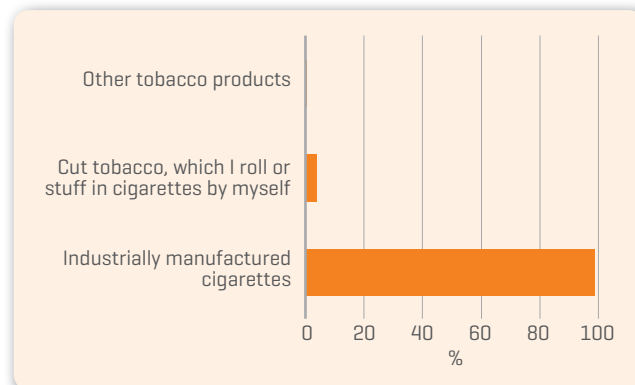


Source: Survey data.

Male smoking prevalence is very high.

99 percent of smokers use industrially manufactured cigarettes.

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



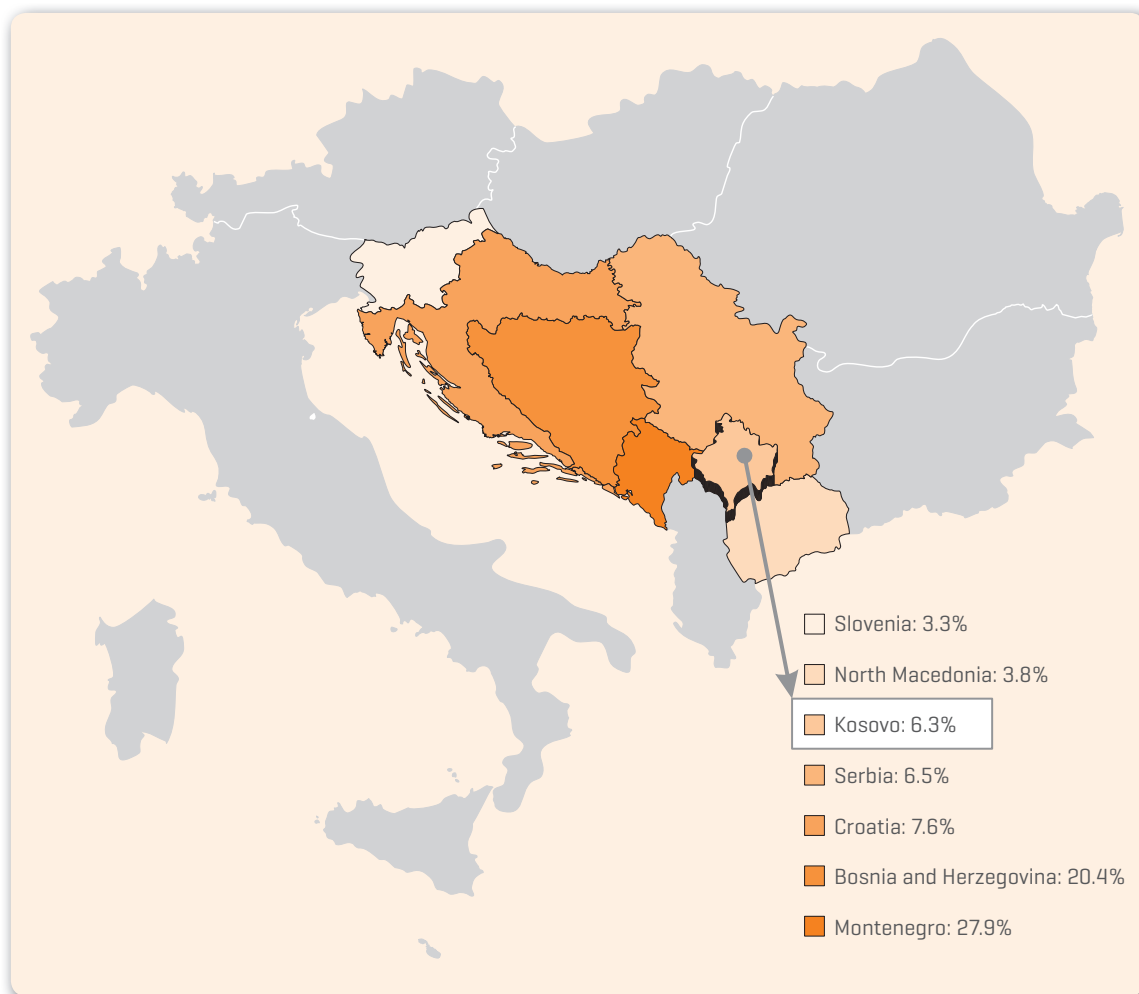
Note: multiple answers. In percentage of smokers.
Source: Survey data.

3 Buying Habits: Legal or Gray Markets – Illicit Trade

- Smokers in Kosovo predominantly buy tobacco products at authorized retailers. Slightly more than 6 percent of smokers buy their tobacco products on the gray market, which is below the regional average of 11 percent [Figure 3.1].
- In line with the smoking habits, industrially manufactured cigarettes are the main product bought on the gray market. Almost 96 percent of smokers who buy their tobacco on the gray market use unofficial suppliers to purchase cut tobacco, and 8 percent of them buy industrially manufactured cigarettes [Figure 3.2].
- The main channel of the Kosovo gray market where smokers predominantly buy illicit tobacco products are resellers on the street (73 percent). 23 percent of smokers buy illegal tobacco products under the counter in stores when buying on the gray market in Kosovo. Friends and acquaintances are not suppliers of tobacco products in Kosovo, as opposed to other countries in the region [Figure 3.3].
- A total of 87 percent of smokers buying on the gray market report that the main reason why they started buying on the gray market is easier purchase, compared to other countries where the decisive factor is a more favorable price of tobacco products. In Kosovo, 12 percent of smokers claim that the main motive for buying at the gray market is a more favorable price of tobacco products.
- Buying on the gray market is not related with the price competitiveness of tobacco products otherwise available in regular stores. Smokers in Kosovo have not shifted to the gray market of tobacco products because of cigarettes becoming more expensive or for other economic reasons. The large majority of smokers of illicit tobacco products (94 percent) have been purchasing on the gray market since they've started smoking [Figure 3.4].

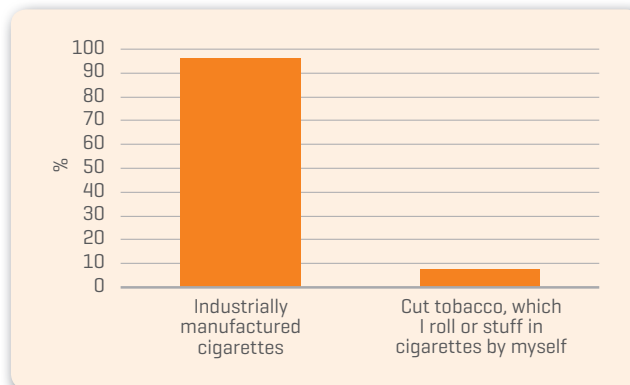
6 percent of smokers are buying on the gray market.

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



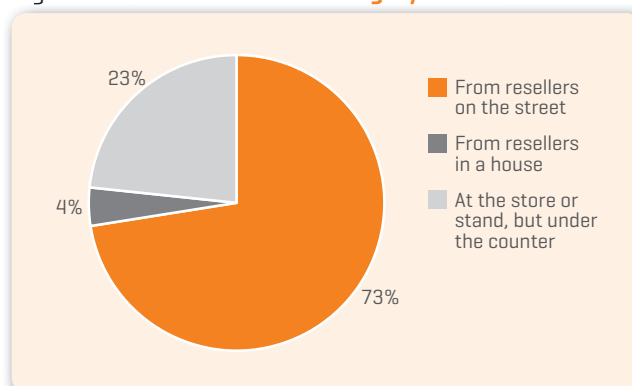
Source: Survey data.

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.

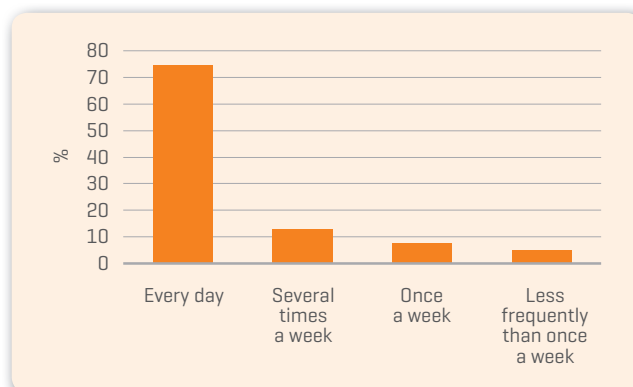
4

Availability of Cigarettes and Cut Tobacco on the Gray Market

- The majority of smokers (75 percent) buy on gray market every day (Figure 4.1).
- The availability of tobacco products on gray market is stable or getting better (Figure 4.2).
- **Over 40 percent of smokers rate cigarettes as 'more available' on gray market today** compared to two years ago, and almost 60 percent of smokers see no changes in their availability on the gray market for the same period.
- An increased availability of cigarettes on gray market today, compared to two years ago, is more frequently observed in Kosovo than in the region.
- **The availability of cut tobacco on the gray market today is stable compared to two years ago**, reports almost 72 percent of smokers buying on the gray market. Every fifth buyer of cut tobacco on the gray market rates cut tobacco as 'more available'.
- Unlike the availability of cigarettes, an increased availability of cut tobacco on the gray market is less frequently observed in Kosovo than in the region.

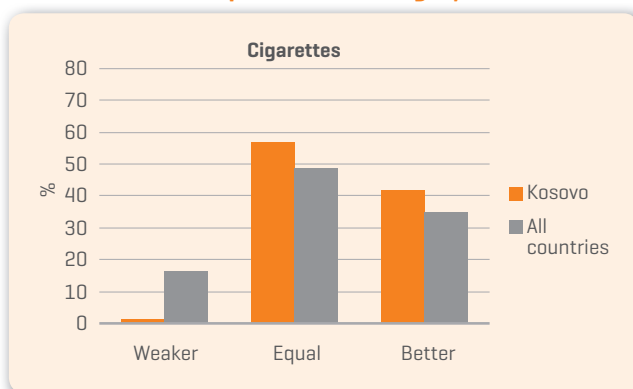
A perceived trend of increasing availability of tobacco products on the gray market in Kosovo is more evident for cigarettes than for cut tobacco.

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



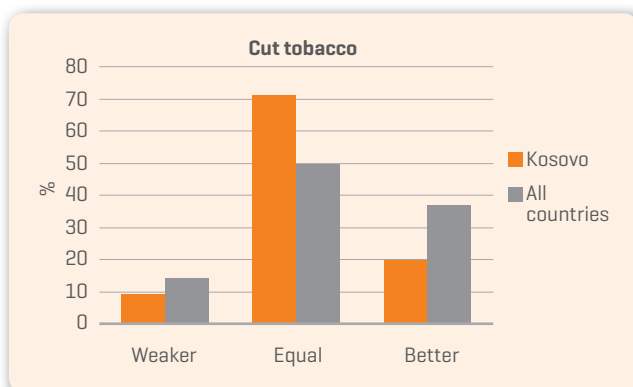
Source: Survey data.

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



Compared to two years ago:

42 percent of smokers state that the availability of cigarettes on the gray market increased.



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

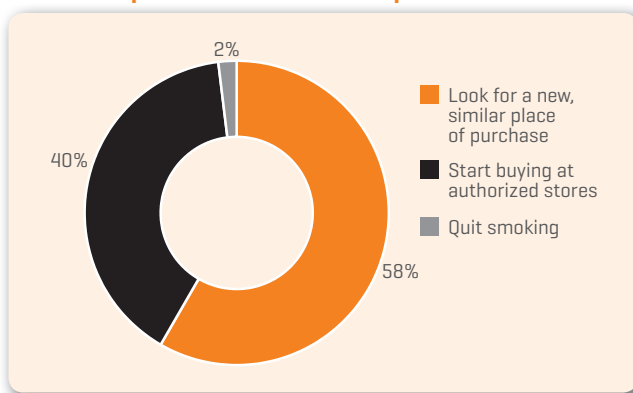
Note: Compared to two years ago.
Source: Survey data.

5 Exiting the 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 60 percent would look for a new place of purchase within the gray market, meaning that as long as the gray market exists, it will remain the preferred place of purchase for the majority of smokers involved in illicit trade in Kosovo.
- However, four out of ten smokers buying on the gray market would switch to the legal market of tobacco products (40 percent). Only two percent would rather stop smoking.
- The motivation to exit the gray market of tobacco products differs among smokers in Kosovo. **Half of the buyers would exit the gray market only if they quit smoking.**
- The second main motivational factor for exiting the gray market is related to economic reasons: 43 percent would exit the gray market in case their **life standard improved**. One third would do so if **cigarette prices on the legal market decrease**.
- Introducing severe punishments for buyers would motivate additional third of smokers to stop buying on the gray market [Figure 5.2].

40 percent of buyers on the gray market would switch to the legal market if their illicit points of sale would no longer be available.

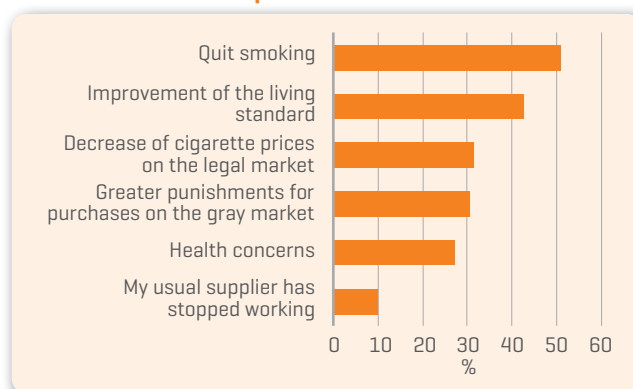
Figure 5.1 Preferred alternatives for smokers who could no longer buy illicit tobacco products at their usual points of sale



If the usual place of illicit purchase becomes unavailable, a considerable share of smokers report the willingness to switch to the legal market.

Source: Survey data.

Figure 5.2 Motivation for exiting the gray market of tobacco products



Greater punishment would motivate over 30 percent of smokers to exit the gray market.

Note: Multiple answers.
Source: Survey data.

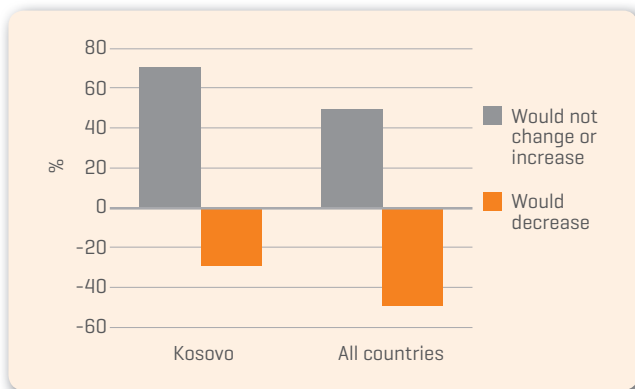
6

Price Sensitivity of Illicit Tobacco Product Consumption

- **If the price of cigarettes became equal on the legal and gray market, only 30 percent of buyers report that they would decrease their consumption of illicit cigarettes** [Figure 6.1].
- A decreased consumption of cigarettes on the gray market due to lower prices of legal cigarettes is less evident in Kosovo when compared with the region. A high share [70 percent] of smokers who would not change their consumption of illicit cigarettes - even if illicit tobacco products were available at the price equal to the price of legally sold cigarettes, is far above the regional average.
- There is a drastic decrease in consumption of cut tobacco: 75 percent of buyers would reduce their consumption of cut tobacco on the gray market if price of legal cigarettes would decrease [Figure 6.2]. Price sensitivity is higher in Kosovo than in the region.
- This indicates that for the majority of buyers, cut tobacco on the gray market and industrially manufactured cigarettes on legal market are substitutes in Kosovo.
- **Smokers in Kosovo tend to substitute legal cigarettes with cheaper cut tobacco on gray market.**

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

Figure 6.1 **Price sensitivity of illicit cigarettes**

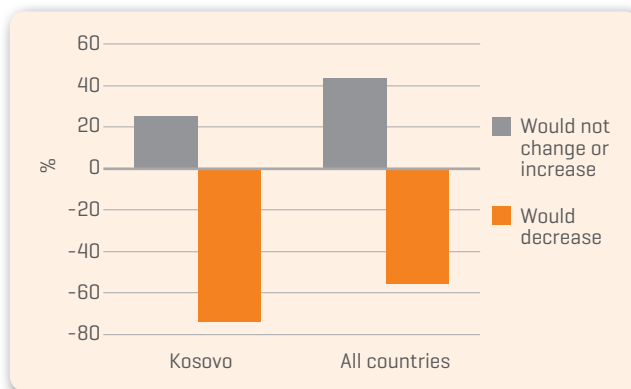


Source: Survey data.

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

Kosovo smokers tend to substitute legal cigarettes with cheaper cut tobacco on gray market.

Figure 6.2 **Consumption of illegal cut tobacco**



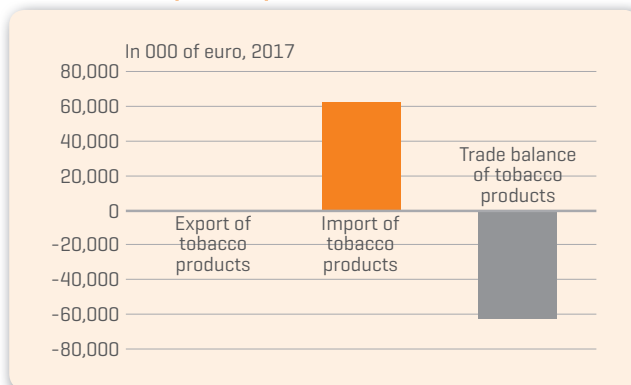
Source: Survey data.

7 International Trade of Tobacco Products

Kosovo does not export tobacco products, making its tobacco trade balance negative.

- Survey results indicate that **Kosovo smokers purchase tobacco products at selling points within country.**
- **Kosovo is a net importer of tobacco products and its exports equal zero** [Figure 7.1].
- According to the latest available data, tobacco product imports decreased from 2013 to 2015. Since then, tobacco imports have been increasing and in 2017 have reached about EUR 62 million [Figure 7.2].
- Due to the lack of data, no analysis of the tobacco trade structure and main trading partners is available.

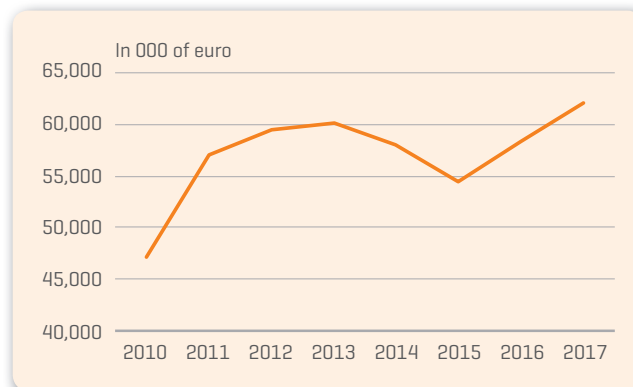
Figure 7.1 **Tobacco trade of Kosovo**
- Export, import and trade balance



Source: ITC calculations based on UN COMTRADE and ITC statistics.

Kosovo trade balance of tobacco is equal to the value of tobacco imports.

Figure 7.2 **Import of tobacco in Kosovo, 2010-2017**



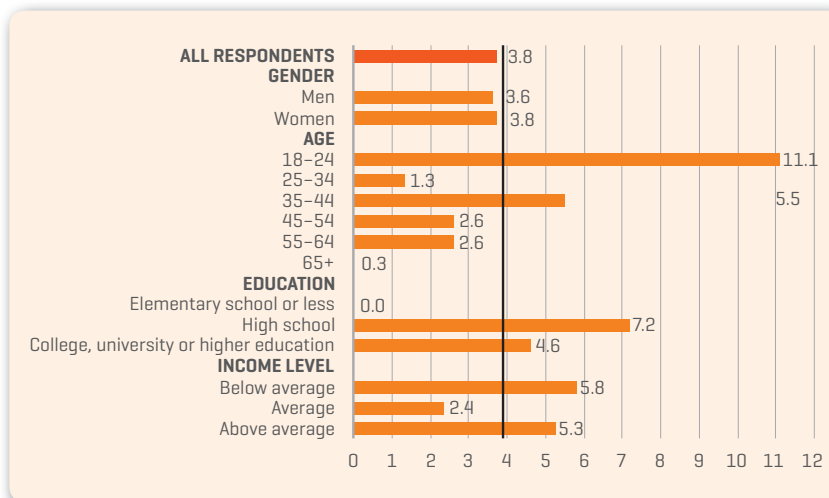
Source: ITC calculations based on UN COMTRADE and ITC statistics.

8 Undeclared Work

Less than 1 percent of adult population in Kosovo received income from undeclared work in the last 12 months, while almost 4 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 Kosovo** is assessed through the demand and supply side of the survey.
- **Almost 4 percent of adult Kosovo population report to have purchased some products** from people whose **income origin**, they believe, **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 not significantly different between male and female population. Demand for products delivered by units engaged in undeclared work is the most pronounced for the population in age group 18-24, where one out of nine persons have been involved in the purchase of products assumed to be delivered by the undeclared work sector.
- An interesting fact arising from the survey results for Kosovo is that **no respondent with elementary school education or less reported that they participate in the demand for UDW products.**

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



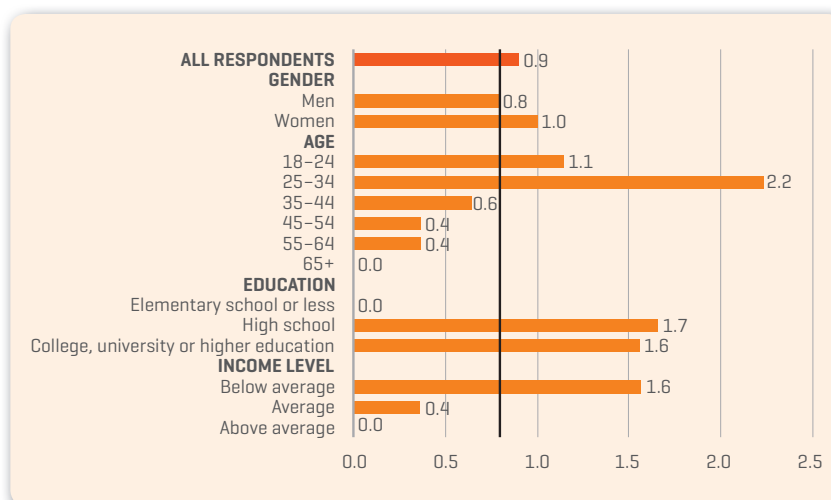
Buyers of products related to undeclared work are younger persons with high school education.

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

Source: Survey data.

- According to self-declared statements of survey respondents, **less than 1 percent of the Kosovo population over the age of 18, acquired extra income through undeclared labor** activity in the past 12 months [Figure 8.2].
- **The propensity to supply undeclared work is the highest for the population in age group 25-34 receiving below average income.**
- As in the case with the demand for UDW goods, **no respondent with elementary school education or less reported to be paid for undeclared activities** in the last 12 months.
- The difference between the demand and supply side of undeclared work could indicate a lack of trust in the confidentiality and anonymity of the survey resulting in a potential downward bias of the actual participation rate in undeclared work.

Figure 8.2 **Income from undeclared work activities in the past 12 months**



The population in age group 25-34 is the main supplier of undeclared work in Kosovo. There is zero rate of older, low-educated population participating in undeclared work.

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

Source: Survey data.

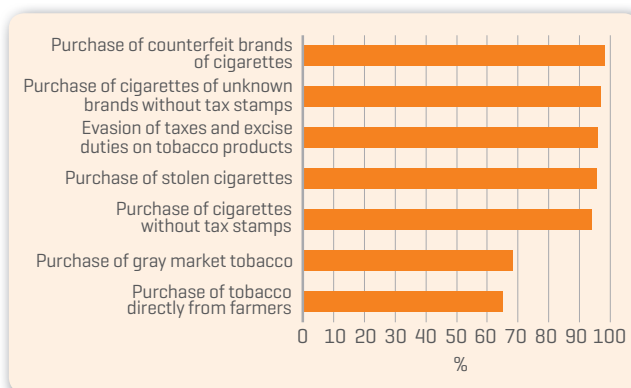
9

Unacceptability of Certain Practices in Illicit Tobacco Trade

- The vast majority of Kosovo citizens thinks that it is mostly **unacceptable or completely unacceptable to purchase counterfeit cigarettes** (98 percent), cigarettes of unknown brands without tax stamps (97 percent) **or stolen cigarettes** (96 percent). 96 percent of Kosovo citizens have a negative opinion toward the evading taxes and excise duties on tobacco products (Figure 9.1).
- Purchasing cigarettes without tax stamps falls in the category of widely recognized malpractices, and is unacceptable for 94 percent of citizens.
- According to the opinion of 68 percent of citizens, purchasing tobacco products on the gray market is not acceptable. The public condemning the gray market of tobacco products to a lesser degree is not in line with the almost zero acceptability of other malpractices, since all of them are connected to the gray market of tobacco products.
- Two thirds of Kosovo citizens think that it is also not acceptable to buy tobacco directly from farmers.

There is a strong negative public opinion regarding illicit tobacco trade.

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



Source: Survey data.

The public of Kosovo strongly condemns purchasing counterfeit cigarettes, cigarettes without tax stamps, or stolen cigarettes.

Purchasing tobacco products on the gray market is generally not acceptable for 68 percent of citizens.

Thirty-five percent of citizens approve buying tobacco directly from farmers.

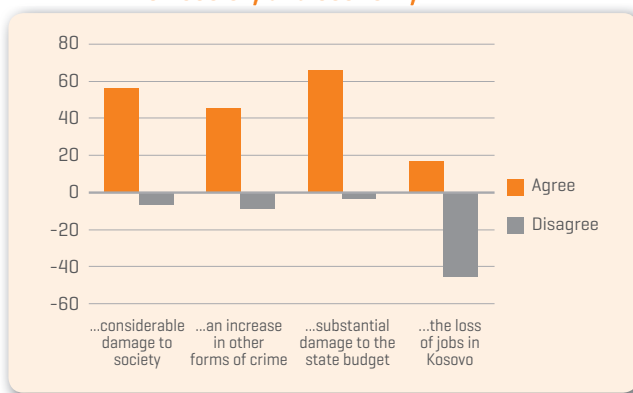
10

Public Perceptions and Opinions about the Tobacco Gray Market

- Two thirds of Kosovo citizens agree that the tobacco gray market causes **substantial damages to the state budget** and 56 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 tobacco gray market and other forms of crime and believes **that the tobacco gray market causes an increase in other forms of crime.**
- About 45 percent of citizens think that the **tobacco gray market is not responsible for job losses** in Kosovo.
- The majority of respondents in Kosovo (66 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 Kosovo citizens recognize the negative effects of the tobacco gray market.

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

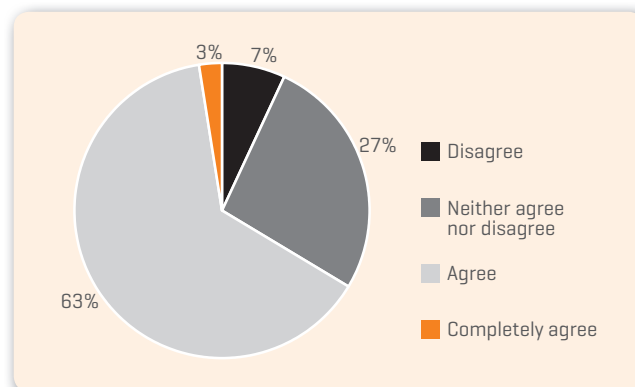


Source: Survey data.

Lost revenues in the state budget due to the gray market.

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

Two thirds of Kosovo citizens 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 Kosovo: age group 18+, with smokers quota proportional to the country’s smoking prevalence rate [35.2 percent for men, 16.3 percent for women] Smoking Behaviors in Kosovo: Results of Steps Survey; https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5504541/
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 interviewer Logic checks conducted on the final dataset
Net sample size	3,000
Response rate	62.0 percent
Method	CATI [Computer Assisted Telephone Interviewing]

