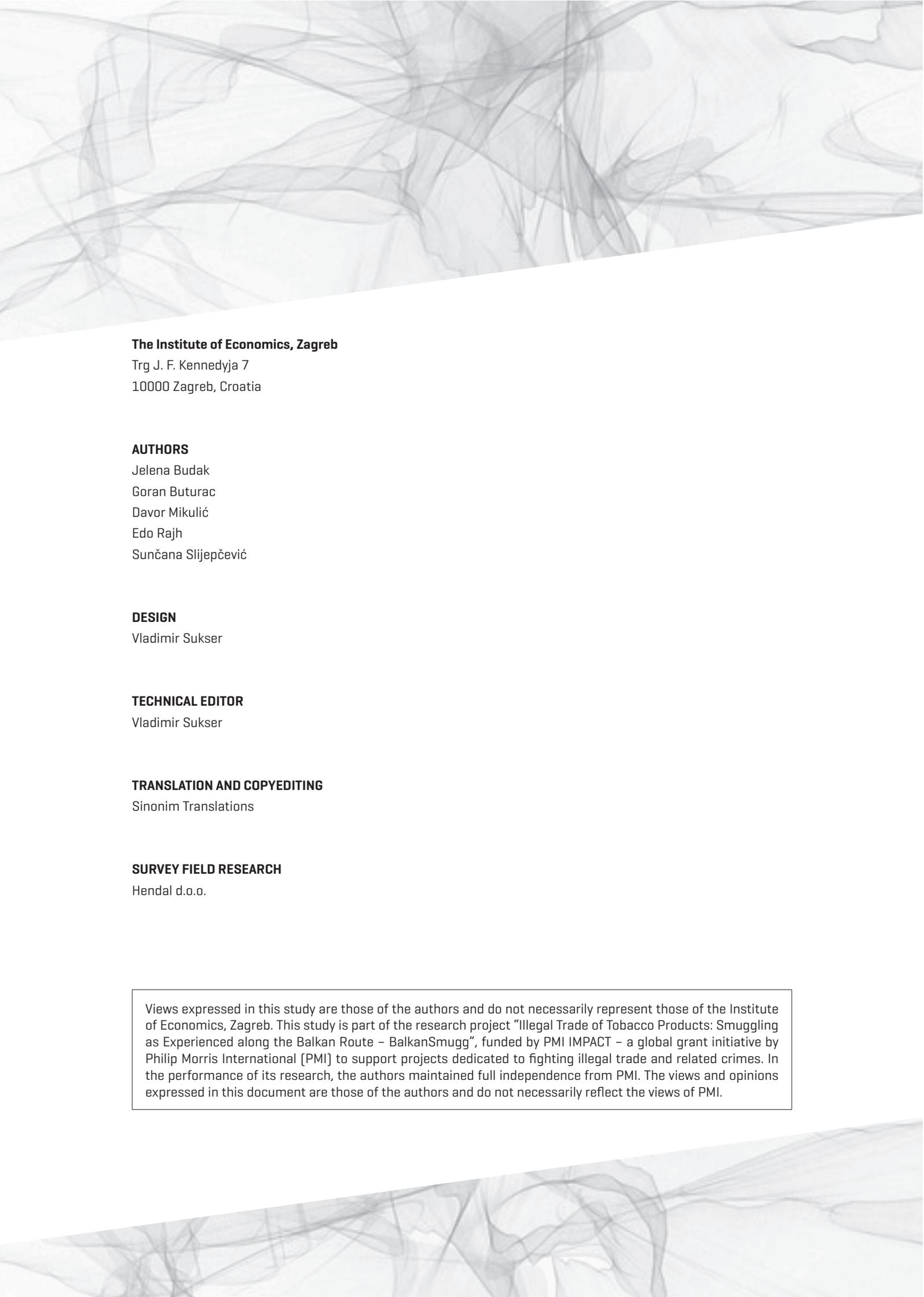




COUNTRY STUDY:
MONTENEGRO

**Balkan
Smugg**

Illegal Trade of Tobacco Products:
Smuggling along the Balkan Route



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Key Findings

- Out of 38 percent of the adult smoker population in Montenegro, 72 percent purchase tobacco products at authorized retailers. 79 percent smoke industrially manufactured cigarettes, and 22 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 50 percent).
- More than one-third of smokers in Montenegro shifted to the gray market of tobacco products due to an increase in cigarette prices (36 percent), and almost the same share of smokers shifted to the gray market since they started smoking (37 percent). For 89 percent of them, the main reason for buying tobacco products on the gray market is their favorable price.
- Eight out of ten buyers on 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, friends and acquaintances, and resellers that visit buyers in their homes.
- 40 percent of buyers report that the availability of both cigarettes and cut tobacco on the gray market has not changed in the past two years. The share of respondents who rated the availability of cut tobacco as 'increasing' is almost the same as the share of respondents who rated the availability of cigarettes as 'increasing' (50 percent). At the same time, 10 percent of respondents rated the availability of both cut tobacco and cigarettes on the gray market as 'decreasing'. Therefore, there are some indications of an upward trend in the supply of illicit tobacco products in Montenegro.
- Cigarettes account for almost 99 percent of total import of tobacco products in Montenegro. Montenegro is a net importer of tobacco products. It has a negative trade balance in tobacco products since the value of imports is 19 times higher than the value of exports of tobacco products.
- Since the gray market and undeclared work are closely connected, an estimate was made regarding the supply and demand of undeclared work in Montenegro. Almost 22 percent of respondents bought goods that they assumed were produced by undeclared work. Only 2.3 percent of respondents received payment for undeclared work in the last 12 months. Older, low-income population is less prone to participate in both the supply and the demand side of undeclared work in Montenegro.



- For the majority of citizens of Montenegro [about 80 percent] transactions on the tobacco product gray market are unacceptable malpractices. Purchasing tobacco products on the gray market is not acceptable for 68 percent of citizens.

- Almost 60 percent of citizens of Montenegro agree that gray market tobacco products cause substantial damage to the state budget and almost 57 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 Balkans 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 tobacco illegal trade 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: Montenegro presents the key findings regarding Montenegro as one of the countries of interest. It sheds light to the 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.

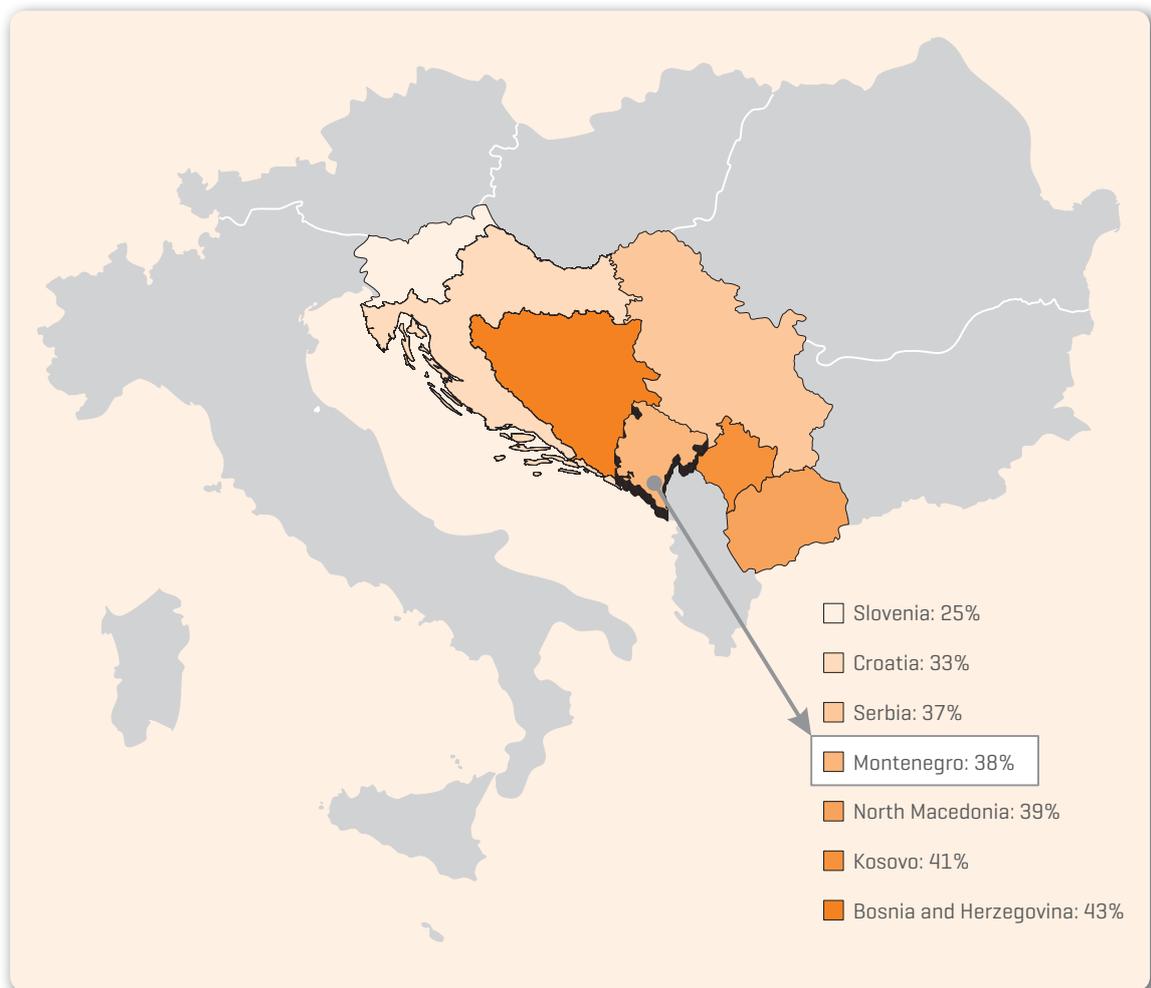
The study explores the public opinion on acceptable behavior related to the illicit trade of cigarettes and tobacco products and perceptions regarding their negative effects are explored, making the BalkanSmugg project the first all-encompassing study of the black market illegal trade in cigarettes and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

The results are presented for Montenegro and 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 Montenegro.

2 Smoking Habits

Figure 2.1 **Smoking prevalence, by country**



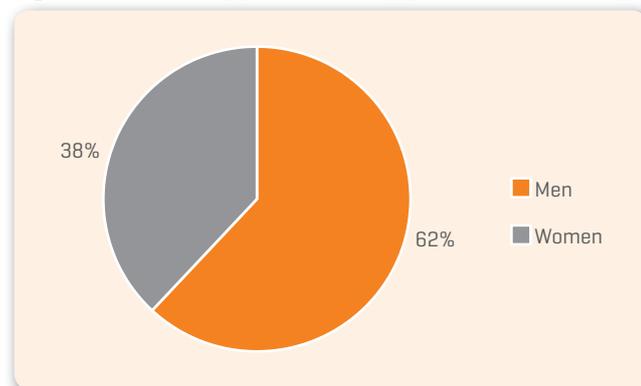
Source: Survey data.

Smoking prevalence in Montenegro is 38 percent.

- Survey data revealed that smokers constitute almost two fifths of adult population of Montenegro (Figure 2.1). Exactly 38 percent of surveyed individuals aged 18+ declared themselves as smokers, which is slightly above the average smoking prevalence in all analyzed countries in the region [36 percent].
- Smoking prevalence in Montenegro is higher among men; almost two thirds of smokers are men (Figure 2.2).
- The most popular tobacco products in Montenegro are industrially manufactured cigarettes (Figure 2.3). However, more than every fifth smoker uses cut tobacco to roll their own cigarettes. Other tobacco products, such as cigars, cigarillos, pipes, etc., are used by less than 1 percent of smokers.
- Interestingly, **the share of cut tobacco smokers in Montenegro (22 percent) is above the regional average (15 percent)**.

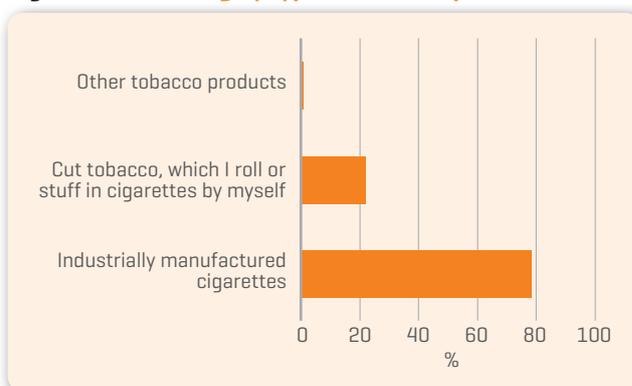
When compared with women, men smoke more tobacco products.

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



Source: Survey data.

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



Almost 80 percent of smokers use industrially manufactured cigarettes.

More smokers use cut tobacco in Montenegro than in all other analyzed countries on average.

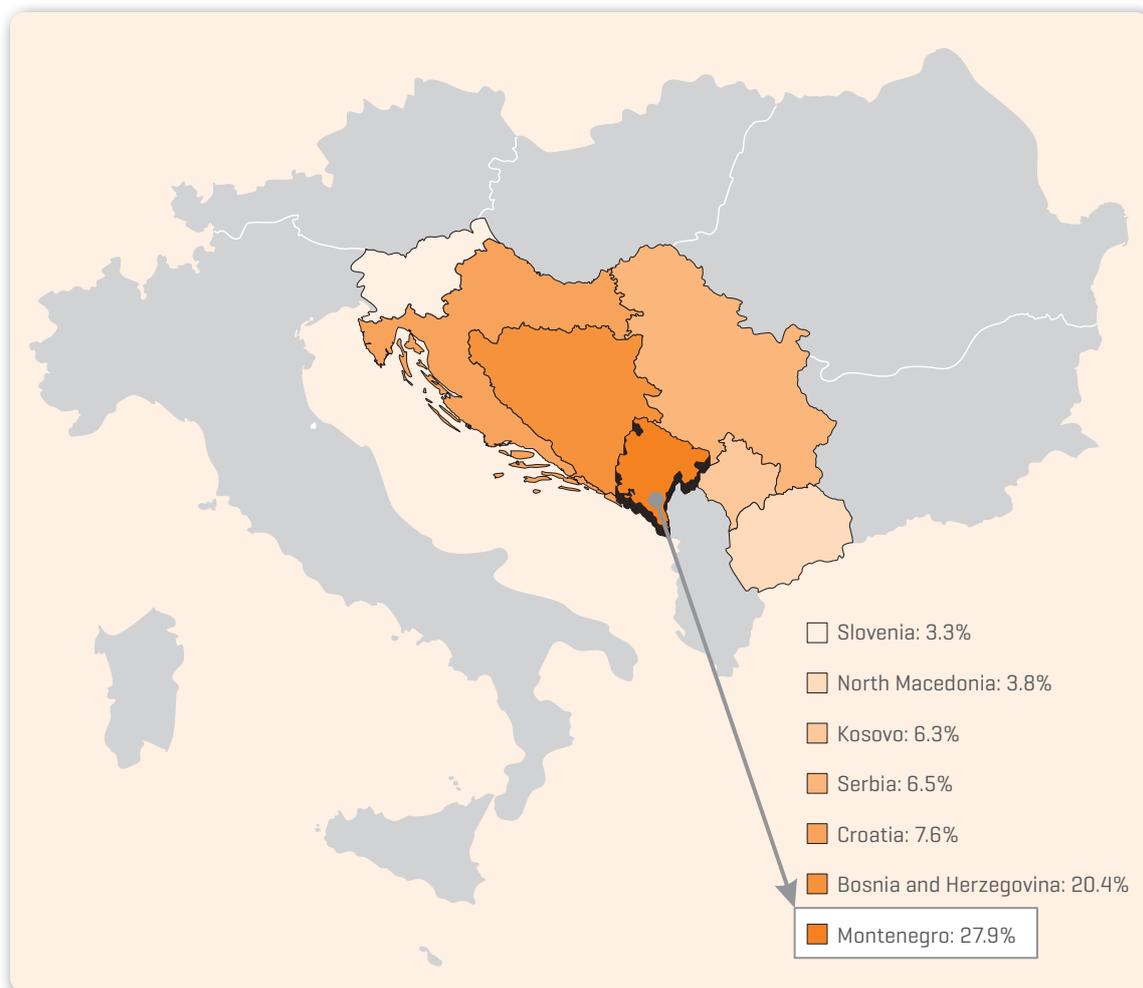
Notes: Multiple answers. In percentage of smokers.
Source: Survey data.

3 Buying Habits: Legal or Gray Markets

- Smokers in Montenegro mainly buy tobacco products at authorized retailers. However, around 28 percent of smokers buy their tobacco products on the gray market, which is significantly above the regional average of 11 percent and the highest share of tobacco gray market in the region [Figure 3.1].
- **Cut tobacco and industrially manufactured cigarettes are almost equally represented in gray market purchases (Figure 3.2).**
- The main channels of the gray market in Montenegro where smokers predominantly buy illicit tobacco products are resellers on the street (58 percent), friends and acquaintances (20 percent) and resellers that sell tobacco products to smokers in their homes (19 percent) [Figure 3.3].
- More than one third of smokers in Montenegro shifted to the gray market of tobacco products due to an increase in cigarette prices (36 percent), but at the same time, almost the same share of smokers have been buying tobacco products on the gray market since they started smoking [Figure 3.4].
- When explaining why they buy tobacco products on the gray market, 89 percent of smokers report **a more favorable price as the main reason behind their purchase.**

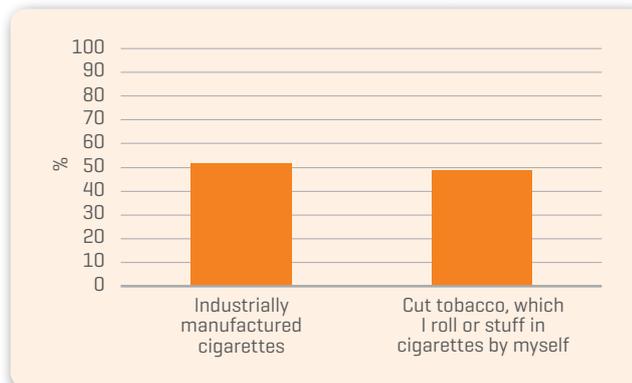
28 percent of smokers are buying on the gray market.

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



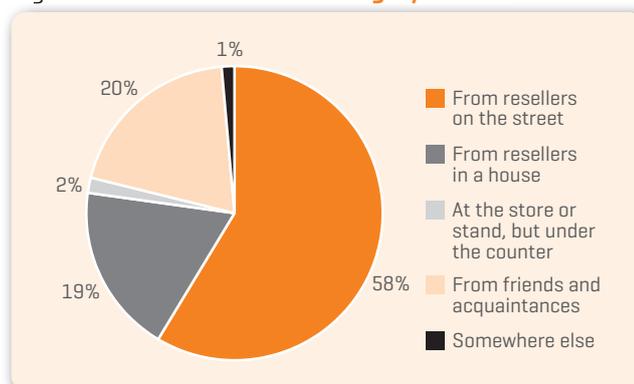
Source: Survey data.

Figure 3.2 Tobacco products from the gray market



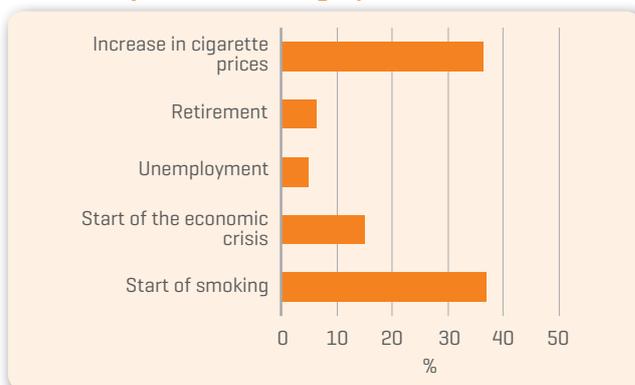
Note: Multiple answers.
Source: Survey data.

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.

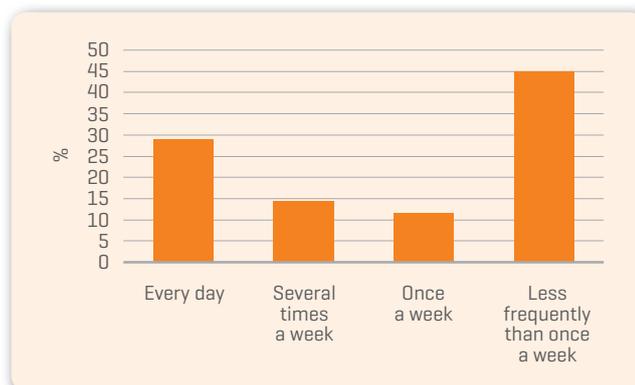
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Availability of Cigarettes and Cut Tobacco on the Gray Market

- Almost 50 percent of smokers buy on gray market less frequently than once a week. At the same time, almost one third of smokers buy on the gray market on a daily basis [Figure 4.1].
- There is almost no difference between cigarettes and cut tobacco when it comes to their availability on gray market. 50 percent of respondents stated that the availability of cigarettes and cut tobacco on the gray market is better than it was two years ago [Figure 4.2].
- **Every tenth smoker rated cigarettes and cut tobacco as 'less available' on the gray market today** compared to two years ago.
- An increased availability of cigarettes and cut tobacco on the gray market today compared to two years ago is more evident in Montenegro than in the region.

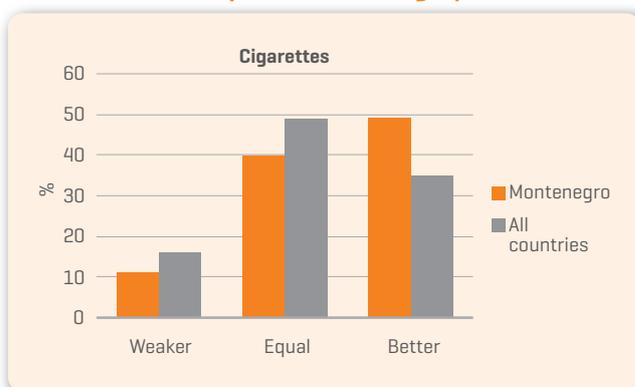
A perceived trend of increasing availability of tobacco products on the gray market in Montenegro is above the regional average.

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



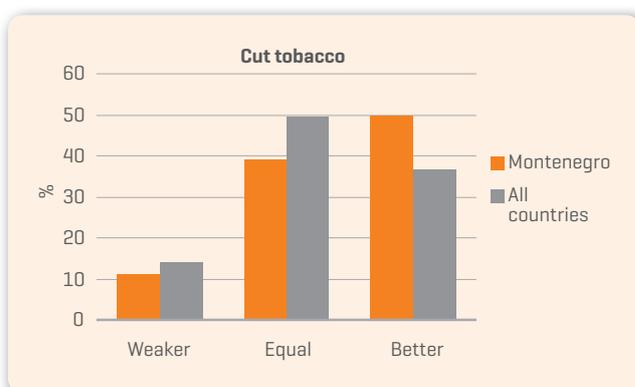
Source: Survey data.

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



Compared to two years ago:

11 percent of smokers state that the availability of cigarettes on gray market decreased.



11 percent of smokers state that the availability of cut tobacco on the gray market decreased.

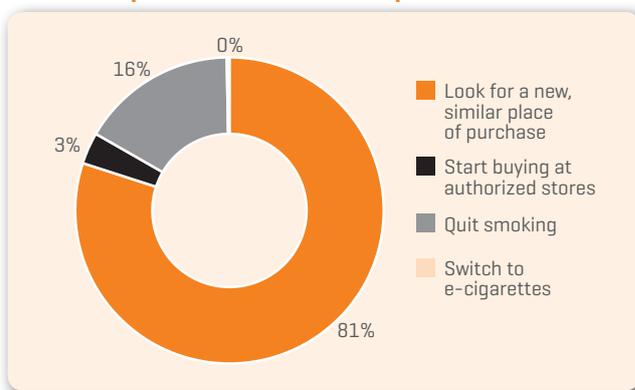
Note: Compared to two years ago.
Source: Survey data.

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]. 81 percent of them would look for a new, similar 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 Montenegro.
- The rest of the smokers reported that they would stop smoking [16 percent] or they would switch to the legal market of tobacco products [3 percent].
- The main motivational factors for exiting the gray market are predominantly related to economic reasons: **78 percent of buyers would exit the gray market if their life standard improved**. Also, 33 percent of buyers would stop buying illicit tobacco products only if they quit smoking.
- Introducing severe punishments for buyers would motivate only one percent of smokers to stop buying on the gray market [Figure 5.2].

The level of loyalty to preferred illicit points of sales is high in Montenegro.

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



If the usual place of illicit purchase becomes unavailable, only 3 percent 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



Improvement of the living standard would motivate smokers to exit the gray market.

Note: Multiple answers.
Source: Survey data.

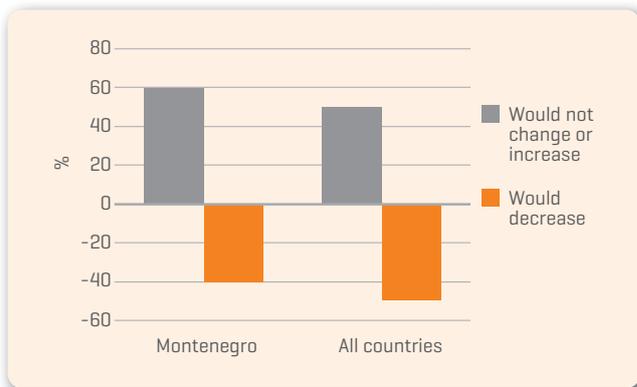
6

Price Sensitivity of Illicit Tobacco Products Consumption

- If the price of cigarettes became equal on the legal and gray market, 40 percent of buyers report that they would decrease their consumption of illicit cigarettes. [Figure 6.1].
- Almost 42 percent of buyers would reduce their consumption of cut tobacco on the gray market if the price of legal cigarettes decreased [Figure 6.2].
- Due to lower prices of legal cigarettes, a decreased consumption of cigarettes and cut tobacco on the gray market is more evident in Montenegro when compared with the region.

Consumption of illicit tobacco products in Montenegro is less sensitive to price changes of legally purchased cigarettes than in the region.

Figure 6.1 **Price sensitivity of illicit cigarettes**



Source: Survey data.

40 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.

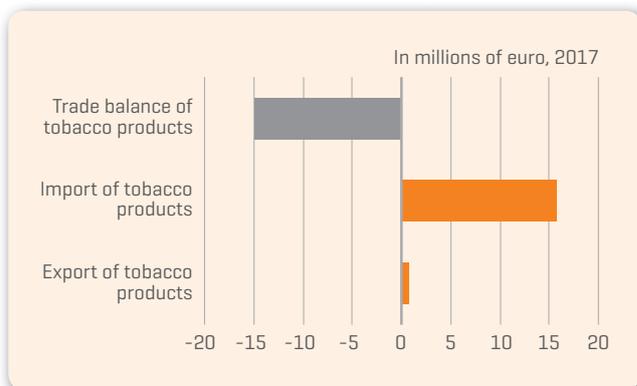
Almost 42 percent of consumers would decrease the consumption of illicit cut tobacco if the price of legally purchased cigarettes decreased and became equal to the price of cut tobacco on the gray market.

7 International Trade of Tobacco Products

Montenegro is a net importer of tobacco products. Cigarettes account for almost 99 percent of total tobacco imports in Montenegro.

- Survey results indicate that **smokers in Montenegro purchase tobacco products at selling points within the country** (100 percent).
- Montenegro imports much more tobacco products than it exports. Montenegro imported EUR 15.7 million of tobacco products in 2017 and exported only EUR 825 thousand in 2017. Thus, Montenegro finished the 2017 with a negative trade balance amounting to EUR 14.9 million (Figure 7.1).
- Cigarettes (42 percent) and unmanufactured tobacco (34 percent) are the main exported tobacco products in Montenegro (Figure 7.2).

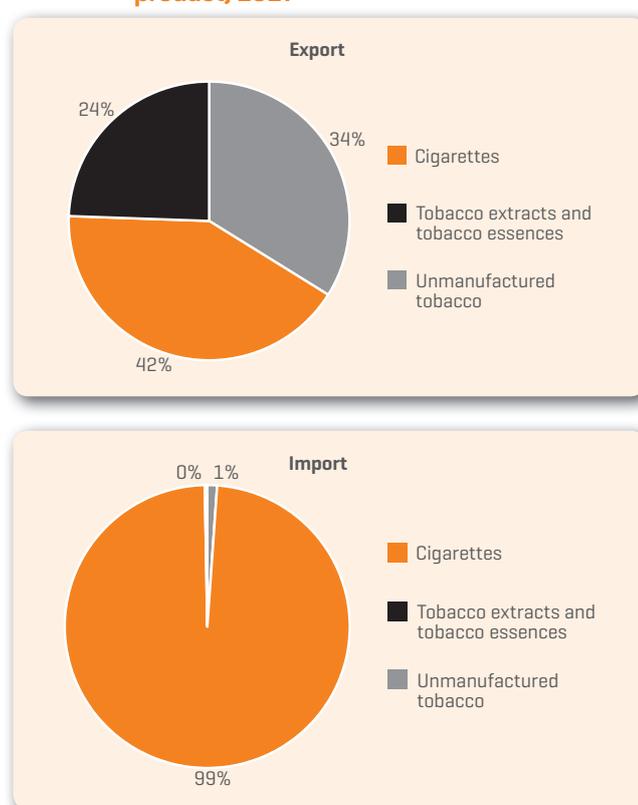
Figure 7.1 **Tobacco trade of Montenegro**



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

Trade balance of tobacco products is negative.

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

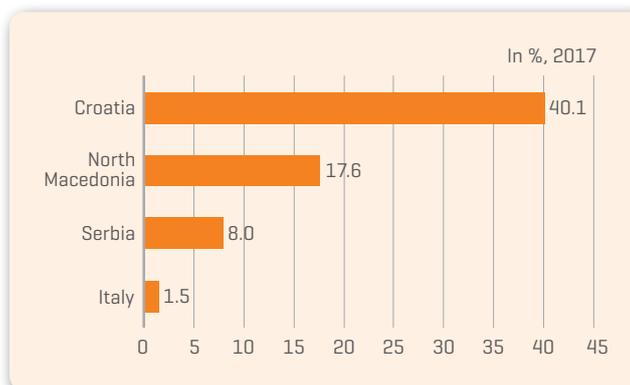


Source: Author's calculations based on UN Comtrade and ITC statistics.

- Although the export of tobacco products in Montenegro is very low, **the regional market is the most important export destination for tobacco products**. In 2017, 40 percent of tobacco product exports was to Croatia and 18 percent to North Macedonia [Figure 7.3.]. Export to Serbia was significantly lower in 2017 than it was in 2006, but during 2017 Montenegro started exporting to Serbia again.
- Imports from the three main markets [Serbia, Greece and the Russian Federation] have been recently rising again. Montenegro imports almost 60 percent of tobacco products from Serbia. Compared to 2006, import of tobacco products from Serbia increased almost four times.

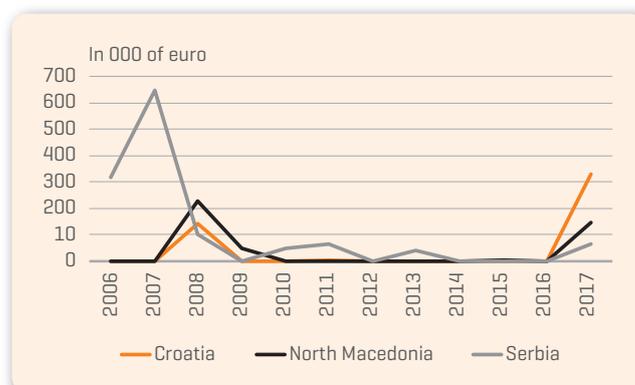
The main tobacco imports come from Serbia and the main export destination is Croatia.

Figure 7.3 **Montenegro tobacco exports by markets in 2017**



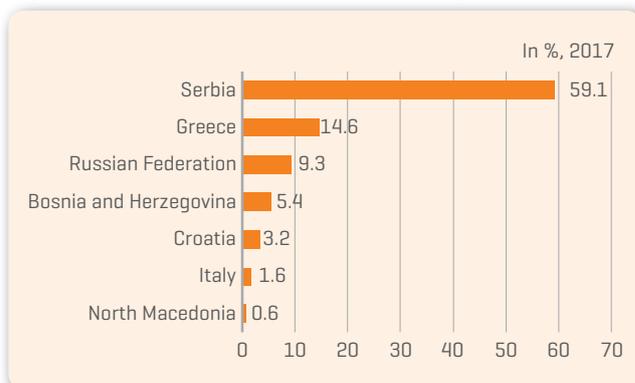
Source: Author's calculations based on UN Comtrade and ITC statistics.

Figure 7.4 **Montenegro tobacco exports to leading export markets, trends 2006-2017**



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

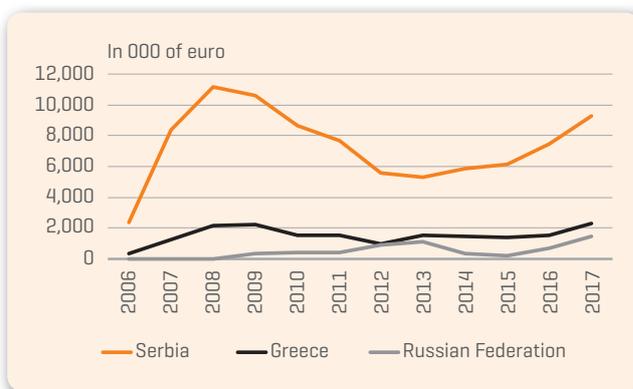
Figure 7.5 **Tobacco imports of Montenegro**



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

Generally, compared to the other countries in the region, export of tobacco products in Montenegro is at a low level.

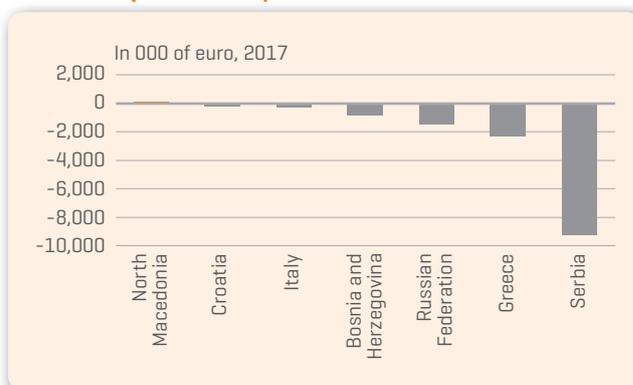
Figure 7.6 **Montenegro tobacco imports by countries, trends 2006-2017**



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

- As a net importer of tobacco products, Montenegro has the highest negative trade balance of EUR 9 million with Serbia. A significant negative trade balance is observed with Greece and the Russian Federation as well [Figure 7.7].

Figure 7.7 **Montenegro trade balance in tobacco products, by countries**



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

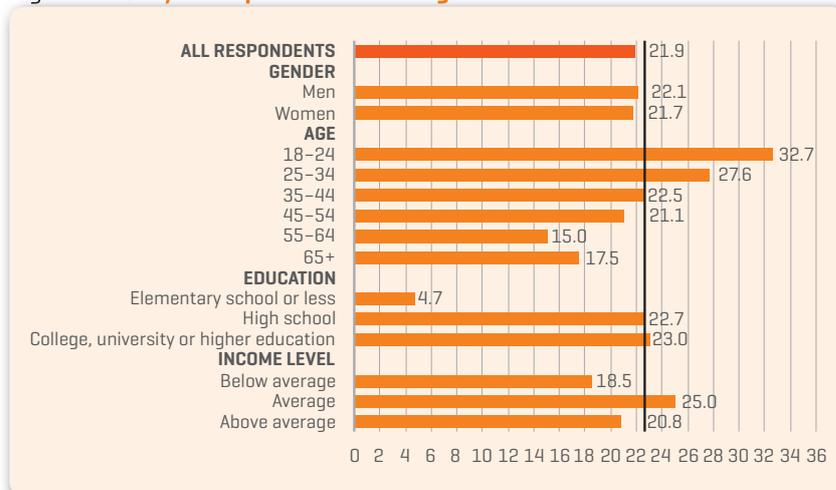
The regional tobacco trade is important, and Montenegro is mostly the importer of tobacco products from the countries in the region.

8 Undeclared Work

Only 2.3 percent of adult citizens of Montenegro received income from undeclared work in the last 12 months, while 22 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 Montenegro** is assessed through the demand and supply side of the survey.
- **22 percent of adult population of Montenegro bought products from people whose income, 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 for men and women. Demand for products delivered by units engaged in undeclared work is most pronounced for the population in age group 18-24, where one third of the population purchased products assumed to be provided by the undeclared work sector.
- Survey results for Montenegro indicate that **higher educated individuals are more likely to acquire goods and services related to undeclared work compared to the population with elementary school education or less.**

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



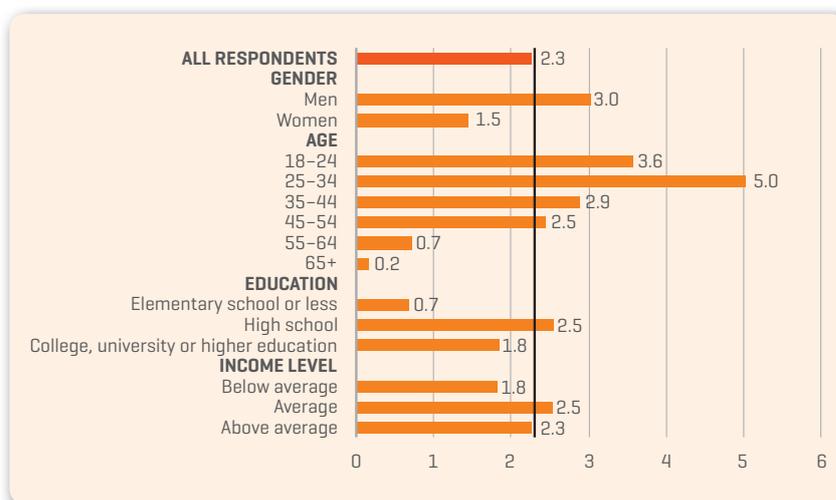
Buyers of products related to undeclared work are higher educated individuals with an average income.

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, **only 2.3 percent of the population of Montenegro over the age of 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 the highest for young population receiving average income.**
- Less than 1 percent of individuals with elementary school or less declared their participation in undeclared labor.
- The huge 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 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 Montenegro. One out of twenty individuals aged 25-34 received compensation for undeclared work in the past 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.

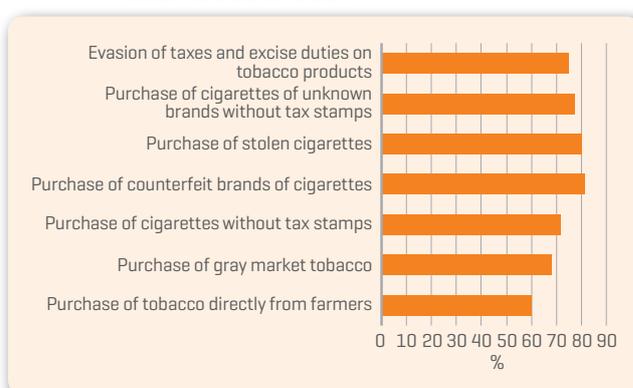
9

Unacceptability of Certain Practices in Illicit Tobacco Trade

- The majority of citizens of Montenegro think that it is mostly unacceptable or completely **unacceptable to purchase counterfeit brands of cigarettes** (81 percent), stolen cigarettes (80 percent), and cigarettes of **unknown brands** without tax stamps (78 percent) (Figure 9.1).
- Citizens of Montenegro also have a negative public opinion, although to a lesser extent, toward the malpractice of evading taxes and excise duties on tobacco products, purchasing cigarettes without tax stamps, and purchasing gray market tobacco.
- The practice of **purchasing tobacco directly from farmers** is considered to be the least unacceptable practice (60 percent).

There is an overall negative public opinion regarding illicit tobacco trade.

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



Source: Survey data.

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

10

Public Perceptions and Opinions about the Tobacco Gray Market

- About 59 percent of citizens of Montenegro agree that the tobacco gray market causes **considerable damages to society**, and about 58 percent of them think that the tobacco gray market also causes **substantial damages to the state budget** [Figure 10.1].
- Every second respondent recognizes that there is a link between the tobacco gray market and other forms of crime, and thinks **that the tobacco gray market causes an increase in other forms of crime**.
- One third of citizens agree that the tobacco gray market is responsible for job losses in Montenegro.
- The majority of respondents in Montenegro (56 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 Montenegro recognize the negative effects of the tobacco grey market.

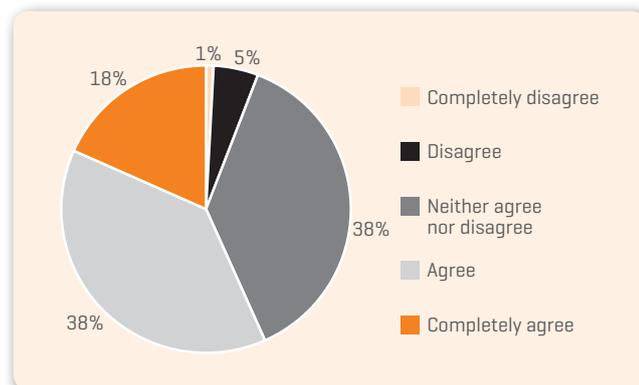
Figure 10.1 Respondents' perception regarding tobacco gray market's impact on society and economy



Source: Survey data.

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

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



56 percent of citizens of Montenegro 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 Montenegro: age group 18+, with smokers quota proportional to the country’s smoking prevalence rate [34.6 percent for men, 20.2 percent for women] http://www.tobaccoatlas.org/country-data/montenegro/
Sample design	Random sampling Nationally representative sample
Quality control	Data collection quality control is 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	44.6 percent
Method	CATI [Computer Assisted Telephone Interviewing]

