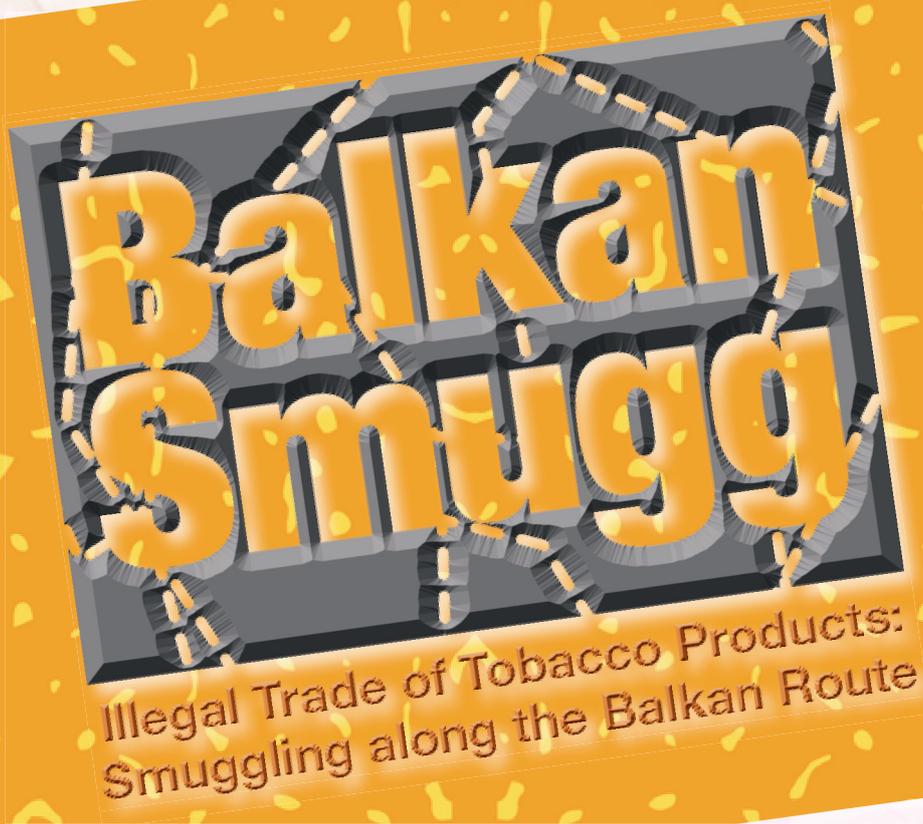
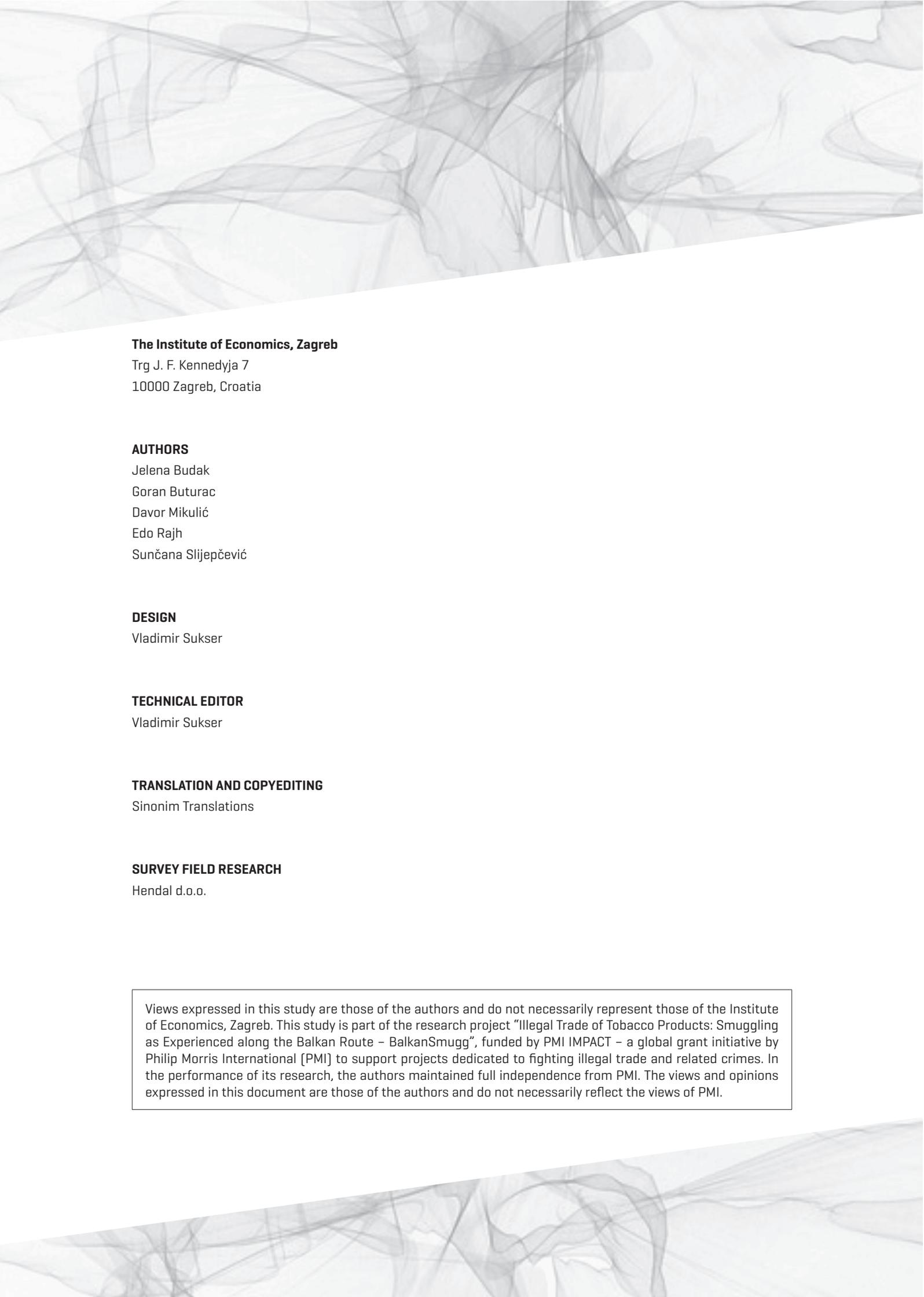


COUNTRY STUDY:
SERBIA





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Key Findings

- Out of 37 percent of the adult smoker population in Serbia, 91 percent smoke industrially manufactured cigarettes and 12 percent buy cut tobacco to roll and make their own cigarettes. 93 percent of smokers purchase tobacco products at authorized stores and 6.5 percent on the gray market.
- Eight out of ten buyers on the gray market purchase cut tobacco. This makes cut tobacco the major illicit tobacco product in Serbia. 25 percent of smokers on the gray market purchase industrially manufactured cigarettes.
- Serbian smokers shifted to the gray market of tobacco products due to an increase in cigarette prices (61 percent) and since the beginning of the economic crisis (23 percent). For 96 percent of them, the main reason for buying tobacco products on the gray market is their favorable price.
- Two thirds of buyers report that they would be willing to reduce their consumption of gray market cut tobacco if their life standard improved and half of them would shift to the legal market if the price of legal cigarettes decreased. Affordability of legal tobacco products would motivate smokers to exit the gray market. Otherwise, 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 Serbia. However, introducing greater punishments would prevent 11 percent of smokers from continuing to buy on the gray market.
- Seven 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 usual points of sale on the gray market are resellers on the street (75 percent). One in ten buyers on the gray market purchase from friends and acquaintances. Since 99.7 percent of all smokers make their purchases in the country, it can be concluded that the gray market of tobacco products is functioning well in Serbia, even for everyday purchases. Most of the smokers frequently purchase on the gray market: at least once a week or more often, and 17 percent of smokers buy on a daily basis.
- 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' is overpassing the percentage of buyers sharing the same opinion regarding cigarettes. Therefore, there are some indications of an upwards trend in the supply of illicit cut tobacco in Serbia.
- Since Serbia is a producer and a net exporter of tobacco products, 99.7 percent of smokers buy tobacco products in Serbia.

- Cigarettes account for 83 percent of total Serbian tobacco export, and unmanufactured tobacco accounts for 60 percent of tobacco import. Exports to Japan and Hong Kong, China, holding a total of 23 percent of Serbian tobacco exports, and imports from Russia, holding 20 percent of tobacco imports, confirm that Serbian main tobacco trading partners come outside the EU.
- Since gray market and undeclared work are closely connected, an estimate was made regarding the supply and demand of undeclared work in Serbia. About 9 percent of respondents bought goods they assumed were produced by undeclared work. Almost 4 percent of respondents received payment for undeclared work in the last 12 months. A younger, better educated population is more prone to participate in both the supply and the demand side of undeclared work in Serbia.
- For the vast majority of Serbian citizens (about 80 percent), transactions on the tobacco product gray market are unacceptable malpractices. The purchase of tobacco products on the gray market is not acceptable for 72 percent of citizens.
- Seven out of ten individuals in Serbia agree that the gray market tobacco products cause substantial damages to the state budget. 73 percent of citizens believe that tobacco product smuggling is an integral part of organized crime and every sixth person believes that gray market tobacco products cause an increase in other forms of 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: Serbia presents the key findings regarding Serbia 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.

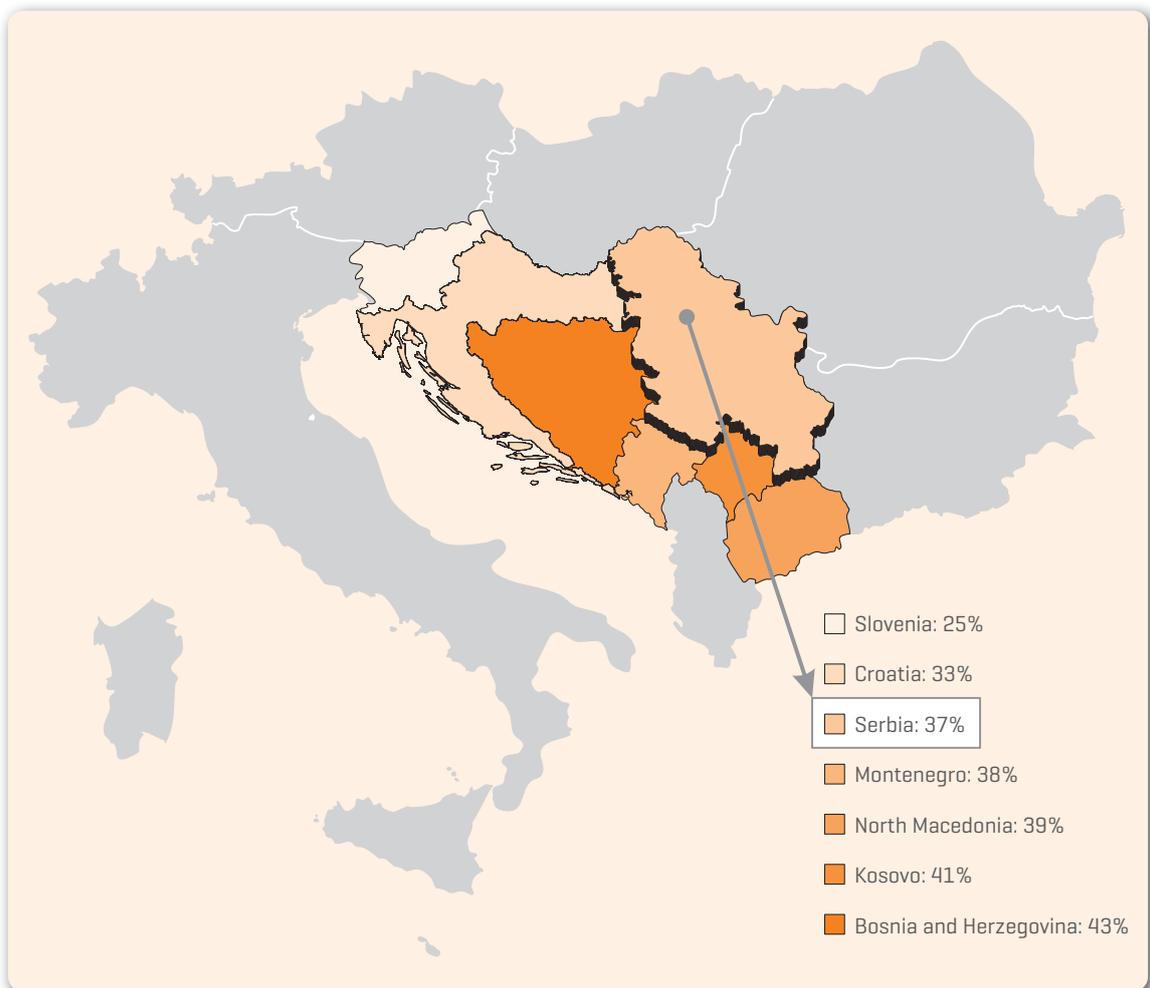
The study explores the public opinion on acceptable behavior related to the illicit trade of cigarettes, tobacco products, and perceptions regarding their negative effects, making the BalkanSmugg project the first all-encompassing study of the black market illegal trade in cigarettes and other tobacco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

The results presented for Serbia 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 Serbia.

2 Smoking Habits

Figure 2.1 **Smoking prevalence, by country**



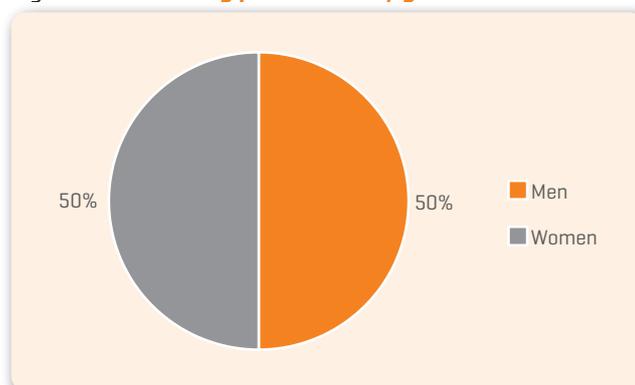
Source: Survey data.

Smoking prevalence in Serbia is 37 percent.

- Survey data showed that smokers constitute 37 percent of the adult population in Serbia [Figure 2.1]. This is slightly above the average of all analyzed countries in the region where smoking prevalence among surveyed individuals aged 18+ is 36 percent.
- Smoking prevalence in Serbia is exactly equally distributed among adult men and women: 50 percent of smokers are men and 50 percent are women [Figure 2.2].
- By far the most popular tobacco product in Serbia are industrially manufactured cigarettes [Figure 2.3]. 12 percent of smokers use cut tobacco to roll their own cigarettes. Other tobacco products, such as cigars, cigarillos, pipes, etc., are used by less than 3 percent of smokers.
- **The share of cigarette smokers in Serbia [91 percent] is above the regional average [88 percent].**

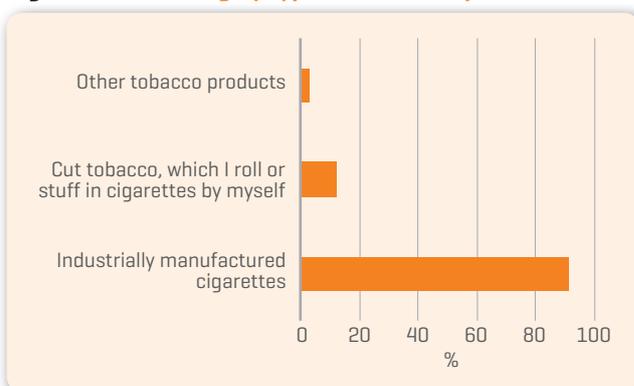
Figure 2.2 **Smoking prevalence by gender in Serbia**

There is an equal number of male and female smokers in Serbia.



Source: Survey data.

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



Over 90 percent of smokers use industrially manufactured cigarettes.

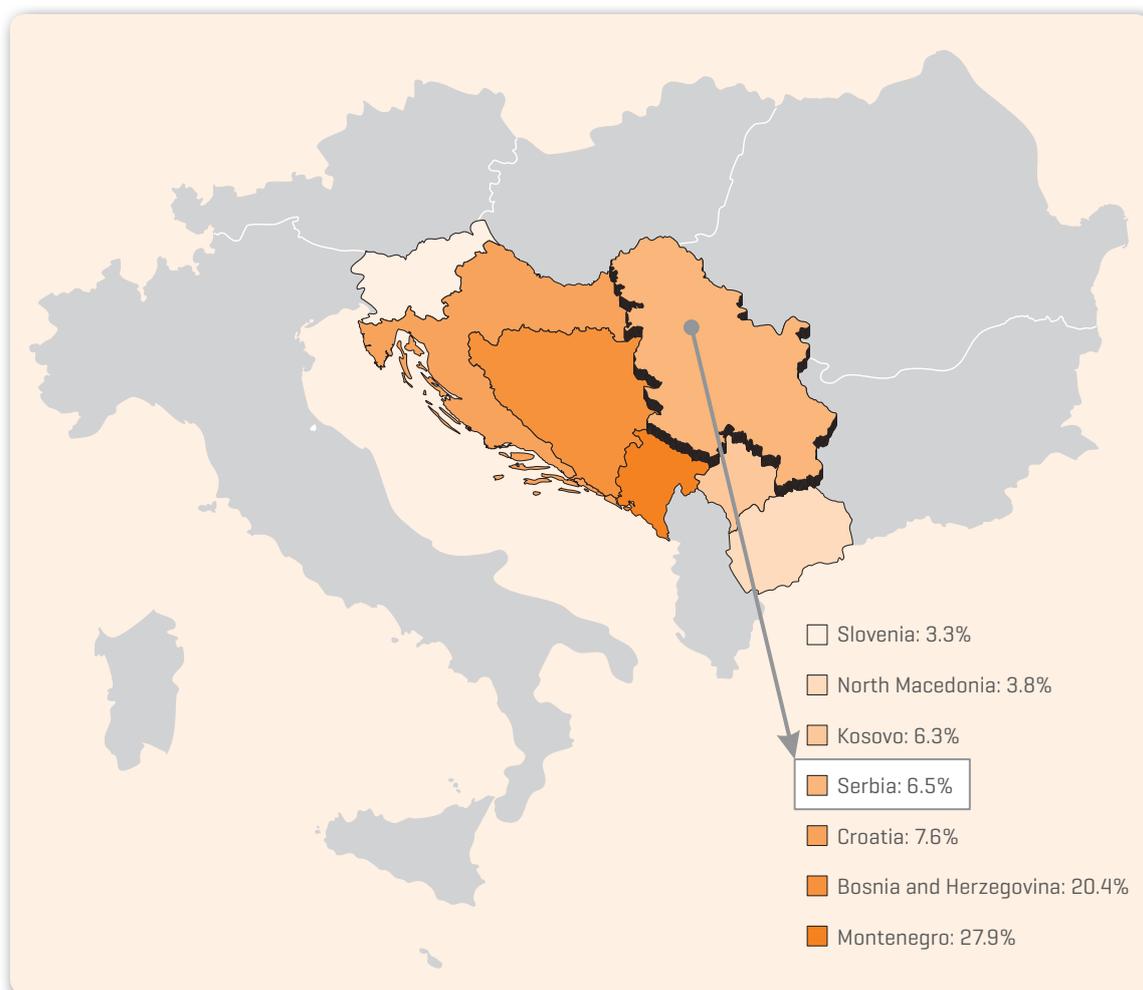
Notes: Multiple answers. In percentage of smokers.
Source: Survey data.

3 Buying Habits: Legal or Gray Markets

- Smokers in Serbia predominantly buy tobacco products at authorized retailers. 6.5 percent of smokers buy their tobacco products on the gray market, which is below the regional average of 11 percent [Figure 3.1].
- **Cut tobacco is the main product bought on the gray market.** Over 80 percent of smokers who buy their tobacco on the gray market use unofficial suppliers to purchase cut tobacco, and 25 percent of them buy industrially manufactured cigarettes [Figure 3.2]. Obviously, some buyers purchase both cigarettes and cut tobacco on the gray market.
- The main channel of the Serbian gray market, where smokers predominantly buy illicit tobacco products are resellers on the street [75 percent] and friends and acquaintances [10 percent] [Figure 3.3].
- Buying on the gray market is related with the price competitiveness of tobacco products otherwise available in regular stores. Serbian smokers shifted to a gray market of tobacco products due to an increase in cigarette prices [61 percent] and since the beginning of economic crisis [23 percent] i.e. for purely economic reasons [Figure 3.4].
- When explaining why they buy tobacco products on the gray market, 96 percent of smokers report **a more favorable price as main reason behind their purchase.**

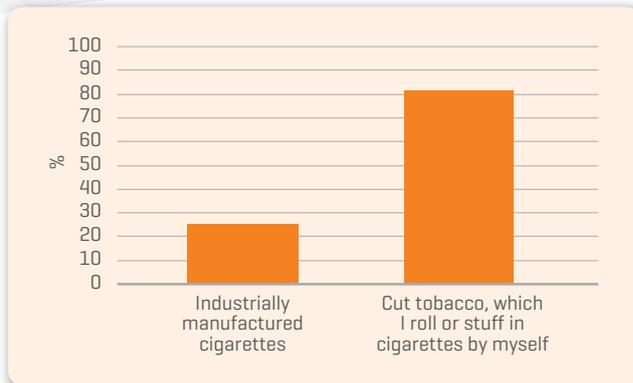
Over 6 percent of smokers are buying on the gray market.

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



Source: Survey data.

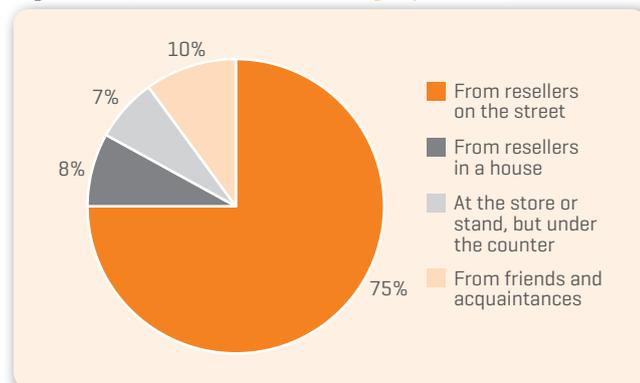
Figure 3.2 Tobacco products from the gray market



Note: Multiple answers.
Source: Survey data.

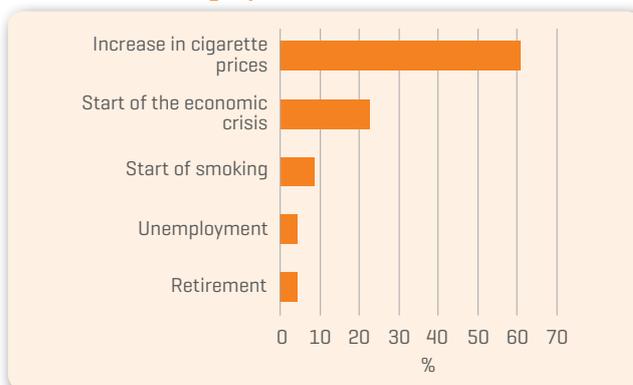
Figure 3.3 Points of sale on the gray market

Three out of four buyers on the gray market buy their supply of tobacco products from resellers on the street.



Source: Survey data.

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



Source: Survey data.

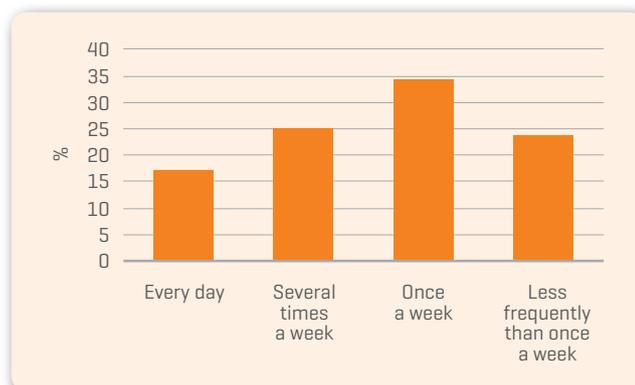
4

Availability of Cigarettes and Cut Tobacco on the Gray Market

- The majority of smokers buy on the gray market once or several times a week, and 17 percent of them gray market tobacco products every day [Figure 4.1]. **Frequent transactions on the gray market** of tobacco products present an everyday routine for smokers in Serbia who purchase on the gray market.
- Recent trends note a difference in the availability of cigarettes and cut tobacco on the gray market: **over half of smokers rated tobacco products as equally available on the gray market today as they were two years ago.**
- Apart from the buyers who rated the availability as stable, there are buyers who think the availability of tobacco products is increasing, especially of cut tobacco. However, there is a small proportion of buyers who see the current availability of cigarettes and cut tobacco on the gray market as 'decreasing' compared to two years ago [Figure 4.2].
- An increased availability of cigarettes on the gray market today, compared to two years ago, is more frequently observed in the region than in Serbia.
- An increased availability of cut tobacco on the gray market is similarly observed in Serbia and in the region.

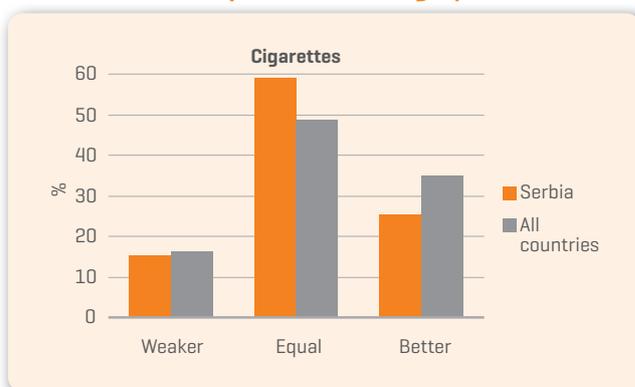
A perceived trend of decreasing availability of tobacco products on the gray market in Serbia is more evident for cigarettes than for cut tobacco.

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



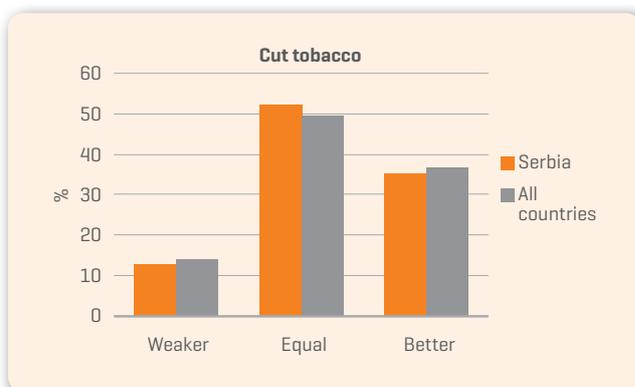
Source: Survey data.

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



Compared to two years ago:

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



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

The number of buyers who perceived an increased availability of illicit tobacco products in Serbia is below the regional average.

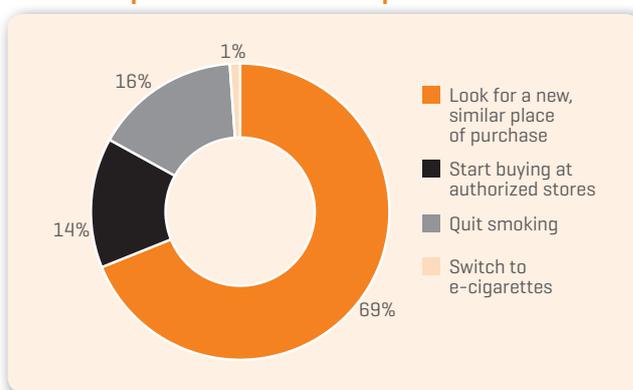
Note: Compared to two years ago.
Source: Survey data.

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 70 percent would look for a new place of purchase within the gray market, which means that as long as gray market exists, it will remain a preferred place of purchase for the majority of smokers involved in illicit trade in Serbia.
- It is interesting to note that smokers [16 percent] are more likely to stop smoking instead of making a shift to the legal market of tobacco products [14 percent].
- Main motivational factors that influence the exit from the gray market are predominantly related to economic reasons: **52 percent of buyers would exit the gray market if cigarette prices on legal market decrease**, while two thirds report that they would exit the gray market if their living standard improved. The additional one-third of smokers buying on the gray market report that they would stop buying illicit tobacco products only if they made a decision to quit smoking.
- Introducing severe punishments for buyers would motivate 11 percent of smokers to stop buying at the gray market [Figure 5.2].

70 percent of buyers on the gray 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



If the usual place of illicit purchase becomes unavailable, 14 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



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

Note: Multiple answers.
Source: Survey data.

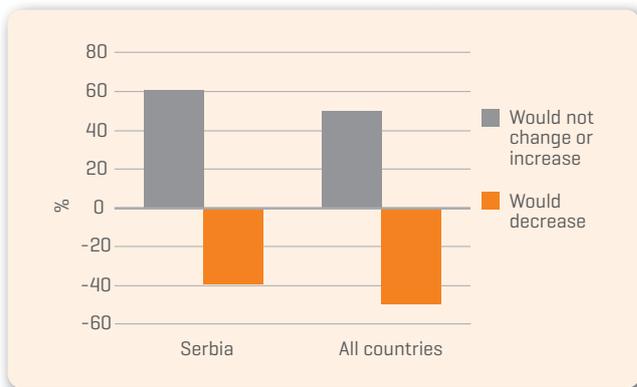
6

Price Sensitivity of Illicit Tobacco Products Consumption

- If the price of cigarettes became equal on the legal and gray market, almost 40 percent of buyers report that they would decrease their consumption of illicit cigarettes. [Figure 6.1].
- Despite the hypothetical lower prices of legal cigarettes, a stable or even increased consumption of cigarettes on the gray market is more evident in Serbia when compared with the region.
- 50 percent of buyers state that they would reduce their consumption of cut tobacco on the gray market if the price of legal cigarettes decreased [Figure 6.2]. This indicates that cut tobacco on the gray market and industrially manufactured cigarettes on the legal market are substitutes for smokers in Serbia.
- **Smokers in Serbia tend to substitute legal cigarettes with cheaper gray market cut tobacco more than with illicit cigarettes.**

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

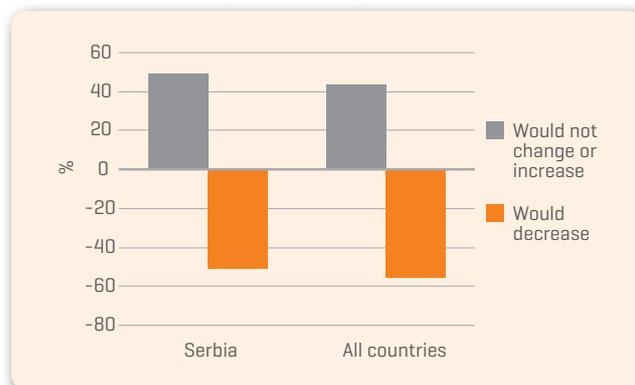
Figure 6.1 **Price sensitivity of illicit cigarettes**



Source: Survey data.

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.

Every second consumer 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

Serbia is a net exporter of tobacco products, and cigarettes account for 83 percent of total Serbian tobacco exports. The main export destination is Japan, and the main import partner is the Russian Federation.

- Survey results indicate that **Serbian smokers mainly purchase tobacco products at selling points within the country** [99.7 percent].
- Serbia has a rich tradition in the production and export tobacco products. In 2017, Serbia exported EUR 255 million of tobacco products and the trade surplus was EUR 80 million [Figure 7.1].
- The main exported tobacco products are cigarettes [83 percent of exports, by tobacco product], and the main imported tobacco product is unmanufactured tobacco [59 percent of imports], as shown in Figure 7.2.

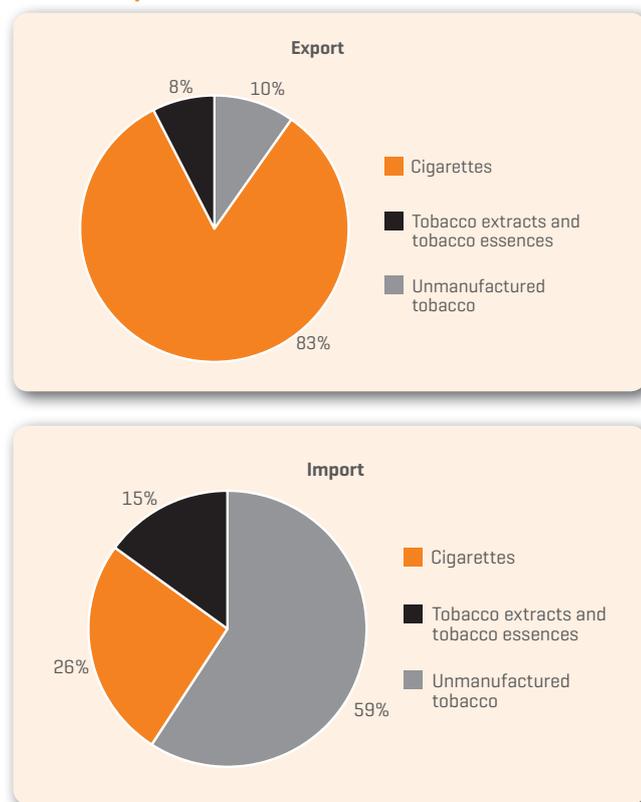
Figure 7.1 **Serbian tobacco trade**



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

Serbian trade balance of tobacco products is positive.

Figure 7.2 Exports and imports by types of tobacco products, 2017



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

- Serbia imports unmanufactured tobacco and exports industrially manufactured cigarettes.
- **Japan is the most important export destination for Serbian tobacco products**, followed by Hong Kong, China. Almost 20 percent of tobacco **imports originates from the Russian Federation** [Figure 7.3]. Tobacco trade with countries in the region is insignificant.

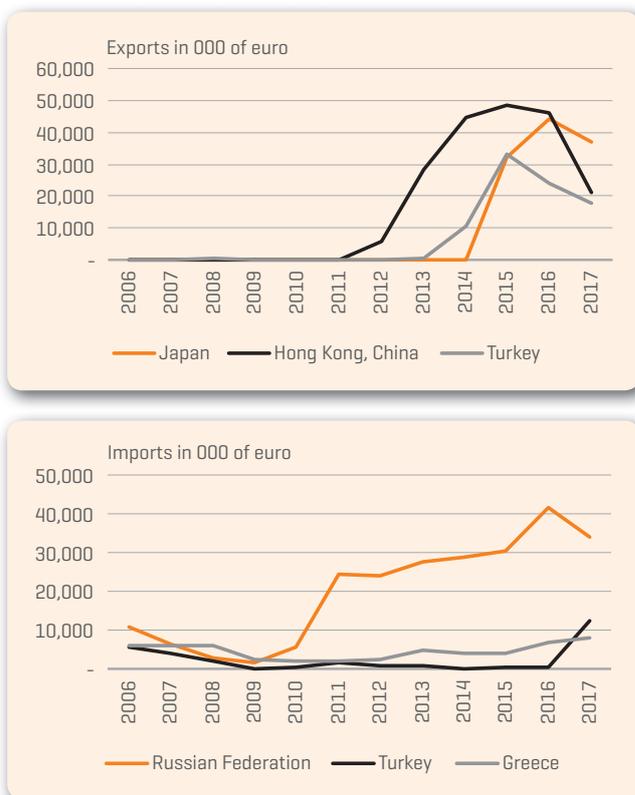
Figure 7.3 **Serbian tobacco exports and imports by markets, 2017**



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

- The value of exports to Far East countries and Turkey decreased compared to last two years (Figure 7.4). The sharpest decline in tobacco exports is observed for Hong Kong and China because the exports were cut by half (from EUR 48 million in 2015 to EUR 21 million in 2017). Regarding imports, Turkey only recently gained the position of the second main tobacco product import partner, second only to the Russian Federation.
- Serbia has the highest positive trade balance of EUR 37 million with Japan. The negative trade balance is observed with Greece and the Russian Federation (Figure 7.5). Namely, these two countries, occupying the 10th and 11th rank in Serbian tobacco exports, are the top tobacco import countries in 2017.

Figure 7.4 **Serbian main tobacco trade partners, trends 2006-2017**



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

Figure 7.5 **Serbian trade balance in tobacco products by countries**



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

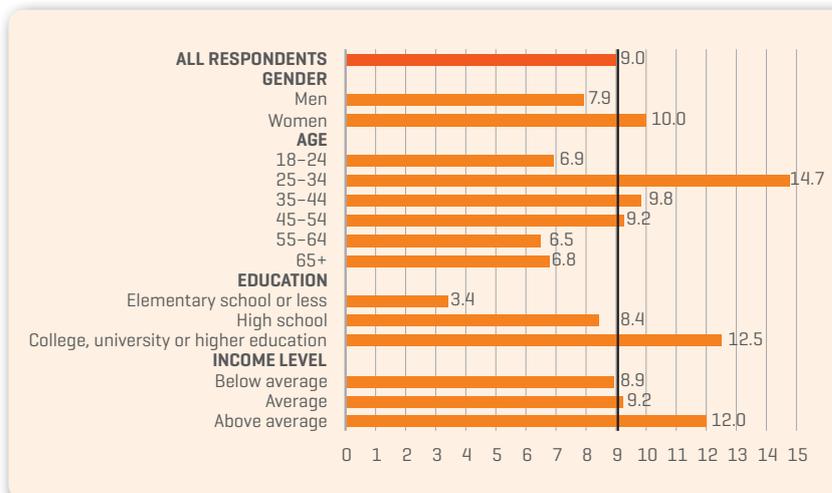
Tobacco imports from the Russian Federation are almost triple the amount of tobacco imports from Turkey.

8 Undeclared Work

Almost 4 percent of adult Serbian population received income from undeclared work in the last 12 months, while about 9 percent had 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 Serbia** is assessed through the demand and supply side of the survey.
- **About 9 percent of adult Serbian 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 higher for women [10 percent vs. 7.9 percent recorded for men]. Demand for products delivered by units engaged in undeclared work is most pronounced for population in age group 25-34.
- Contrary to previous studies, where undeclared work is usually found to act as a social buffer, survey results for Serbia 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**

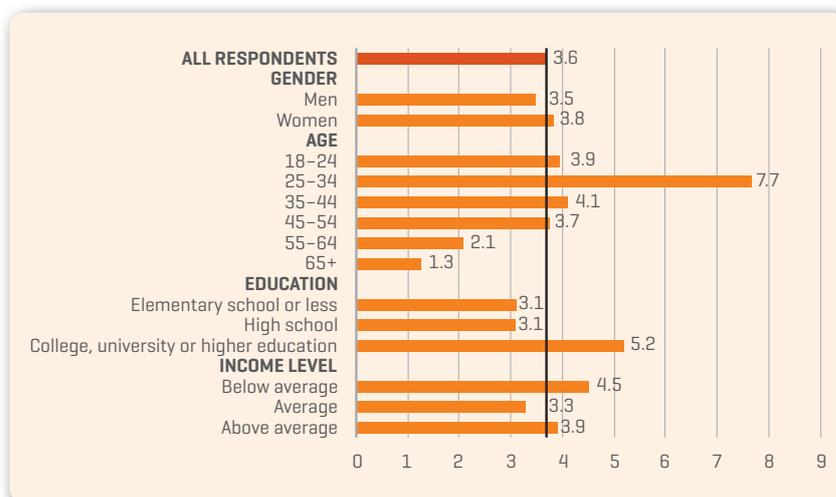


Buyers of products related to undeclared work are higher educated and wealthier individuals.

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

- According to self-declared statements of survey respondents, **almost 4 percent of the Serbian population 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 more pronounced for women and highly educated population.**
- Participation of individuals with elementary school in undeclared labor is significantly lower compared to the participation of individuals with college, university or higher education.

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 Serbia, with out of thirteen individuals receiving compensation for undeclared work in last 12 months period.

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

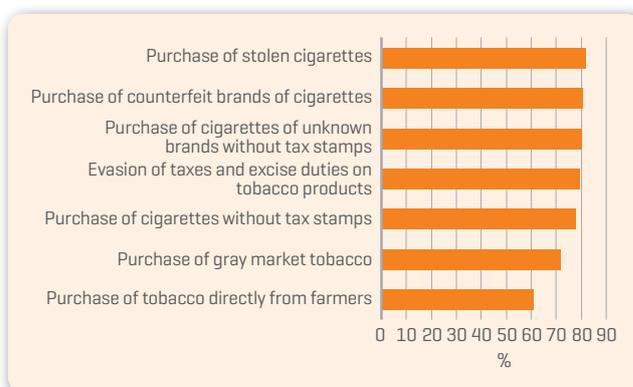
9

Unacceptability of Certain Practices in Illicit Tobacco Trade

- The majority of Serbian citizens, around 80 percent, think that it is mostly **unacceptable or completely unacceptable to purchase stolen cigarettes, counterfeit brands of cigarettes and cigarettes of unknown brands** (Figure 9.1).
- Serbian citizens also have a negative public opinion about evading taxes and excise duties on tobacco products and about the malpractice of purchasing cigarettes without tax stamps.
- **Purchasing tobacco products on the gray market is not acceptable** for 72 percent of citizens.
- 60 percent of Serbian citizens think that it is unacceptable 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.

Purchasing tobacco products on the gray market is not acceptable for 72 percent of citizens.

Almost 40 percent approve buying tobacco directly from farmers.

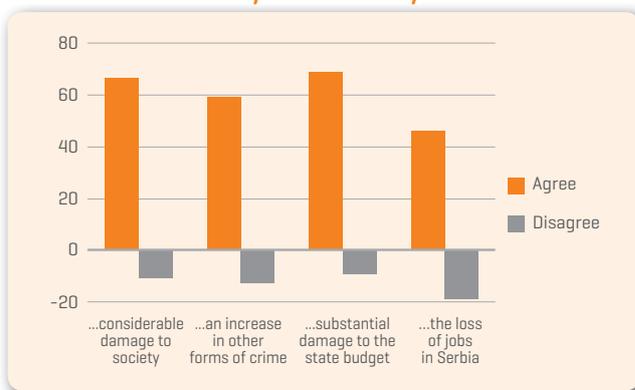
10

Public Perceptions and Opinions about the Gray Market

- Almost 70 percent of Serbian citizens agree that the tobacco gray market causes **substantial damages to the state budget** and about two thirds of them think that it also causes considerable damages to society (Figure 10.1).
- 59 percent of respondents recognize 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.**
- Less than half of Serbian citizens, 46 percent of them, agree that the tobacco gray market is responsible for job losses in Serbia.
- The majority of respondents in Serbia (73 percent) have a negative perception regarding tobacco product smuggling and believe it represents an integral part of organized crime (Figure 10.2).

In In general, the majority of Serbian 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

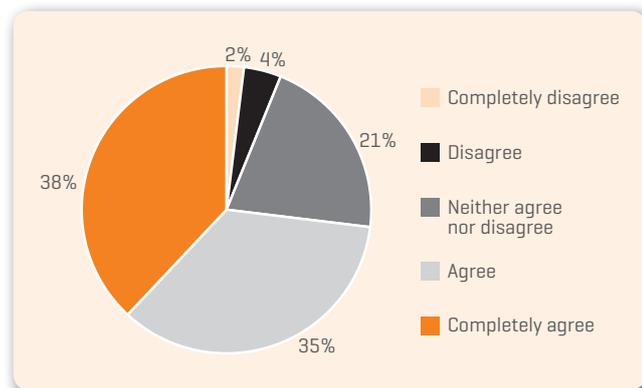


Source: Survey data.

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

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

Almost 3/4 of Serbian 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 Serbia: age group 18+, with smokers quota proportional to the country's smoking prevalence rate [39 percent for men, 27 percent for women] http://www.batut.org.rs/download/izdvajamo/duvan/Rezultati%20istrazivanja%20duvanski%20dim%202017.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 interviewer Logic checks conducted on the final dataset
Net sample size	3,000
Response rate	25.1 percent
Method	CATI [Computer Assisted Telephone Interviewing]

