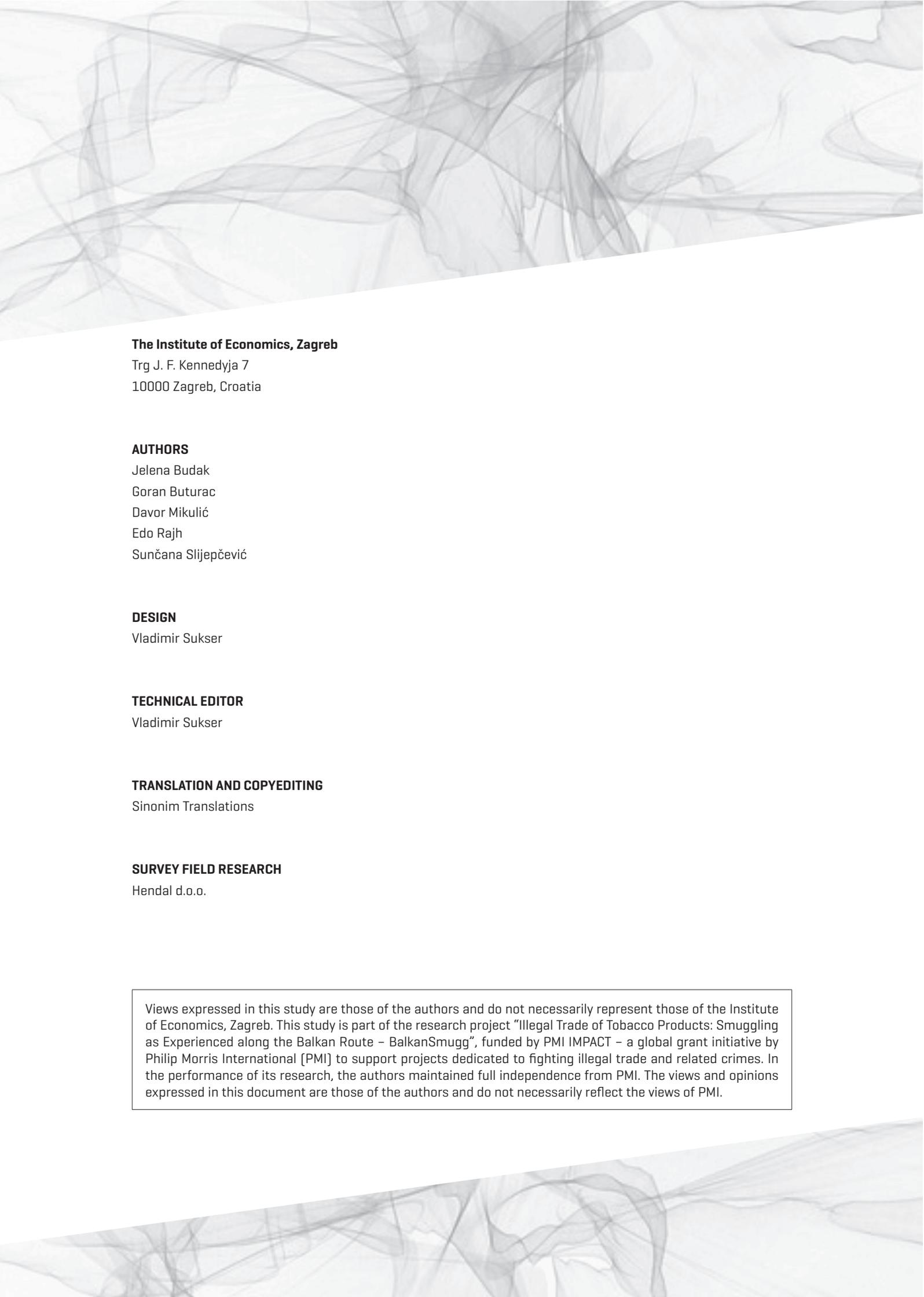


COUNTRY STUDY:
SLOVENIA

**Balkan
Smugg**

Illegal Trade of Tobacco Products:
Smuggling along the Balkan Route



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Key Findings

- Out of 25 percent of the adult smoker population in Slovenia, 97 percent purchase tobacco products at authorized retailers. 83 percent smoke industrially manufactured cigarettes, 24 percent buy cut tobacco to roll and make their own cigarettes and 18 percent buy other tobacco products.
- The share of cut tobacco smokers and smokers of other tobacco products in Slovenia is above the regional average.
- The share of smokers buying tobacco products on the gray market of the total number of smokers in Slovenia is the lowest in the region.
- Gray market cut tobacco is a substitute for the industrially manufactured cigarettes on the legal market.
- Most of the Slovenian smokers shifted to the gray market of tobacco products due to an increase in cigarette prices (54 percent) and the beginning of the economic crisis (15 percent). For 78 percent of them, the main reason for buying tobacco products on the gray market is their favorable price.
- Half of buyers report that they would be willing to reduce their consumption of gray market cut tobacco if price of legal cigarettes would decrease. The affordability of legal tobacco products would motivate smokers to exit the gray market.
- Two thirds of 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 sales on the gray market are friends, acquaintances and resellers on the street. 97 percent of all smokers make their purchases of tobacco products in Slovenia and only 3 percent abroad.
- More than half of the buyers find that the availability of both cigarettes and cut tobacco on the gray market in Slovenia has not changed in last two years. Approximately every third buyer finds that that the availability of tobacco products on the gray market is increasing.
- Cigarettes account for 92 percent of total Slovenian tobacco import. Slovenia is a net importer of tobacco products. It has a negative trade balance in tobacco products amounting to EUR 66.4 million in 2017, since the value of tobacco product imports is 37 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 Slovenia. Over 11 percent of respondents bought goods they assumed were produced by undeclared work. Approximately 5 percent of respondents received payment for undeclared work in the last 12 months. A younger, better educated and high-income population is more prone to participate in both the supply and the demand side of undeclared work in Slovenia.
- For more than two thirds of Slovenian citizens, transactions on the tobacco product gray market are unacceptable malpractices. Buying counterfeit cigarette brands is unacceptable for 70 percent of Slovenian citizens.
- Over half of respondents consider that the gray market tobacco products cause substantial damages to the state budget.
- Three out of four Slovenian citizens consider that smuggling of tobacco products is a 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: Slovenia presents the key findings regarding Slovenia 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.

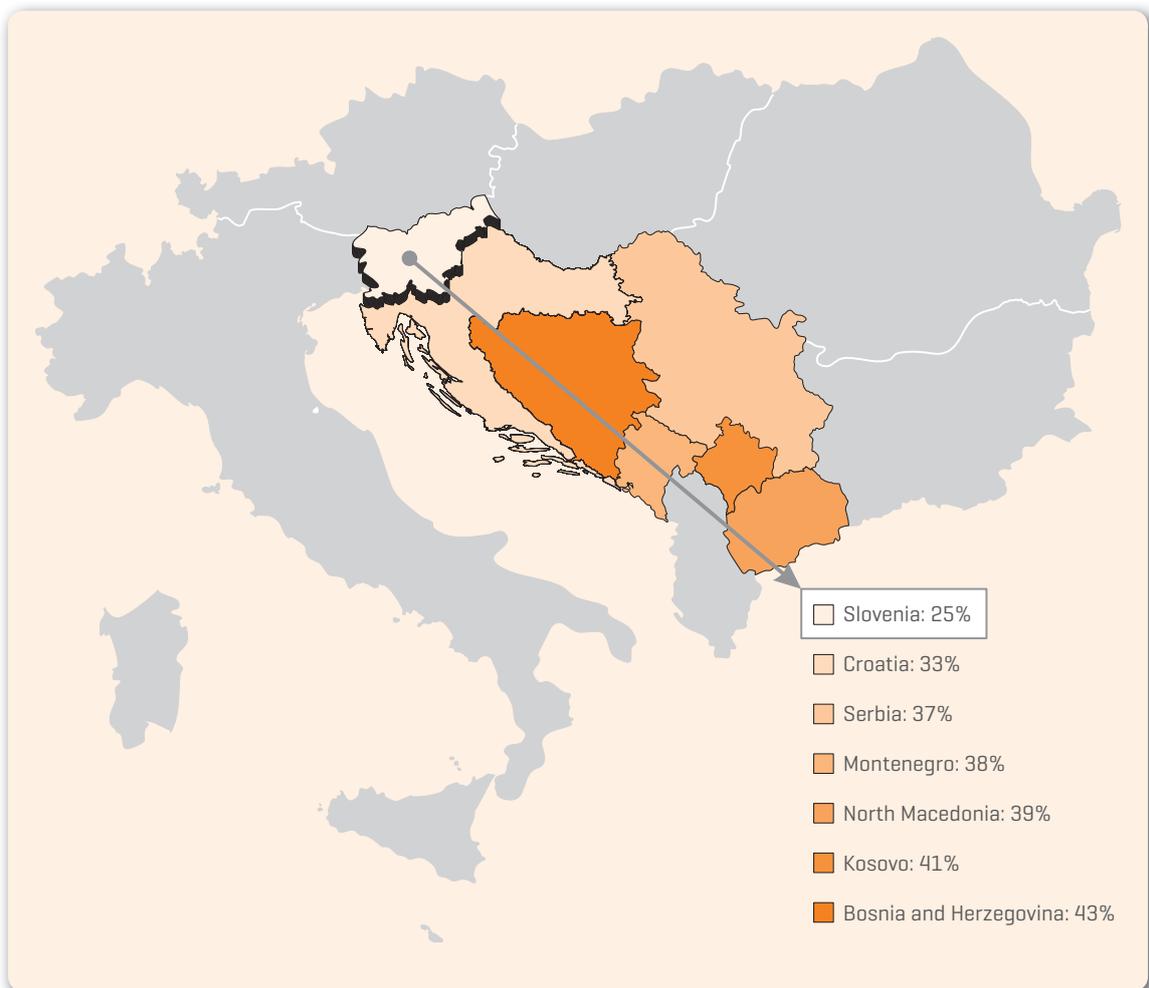
The study explores the public opinion on acceptable behavior related to the illicit trade of cigarettes and tobacco products and perceptions regarding their negative effects are explored, making the BalkanSmugg project the first all-encompassing study of the black market illegal trade in cigarettes and 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 Slovenia 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 Slovenia.

2 Smoking Habits

Figure 2.1 Smoking prevalence, by country



Source: Survey data.

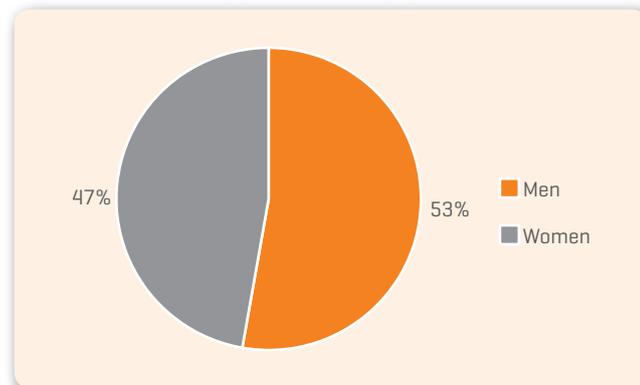
Smoking prevalence in Slovenia is 25 percent.

- Survey data revealed that smokers constitute one fourth of the adult population in Slovenia (Figure 2.1). Exactly 25 percent of surveyed individuals aged 18+ declared themselves as smokers, which is below the average smoking prevalence of all analyzed countries in the region (36 percent).
- Smoking prevalence in Slovenia is higher among men than among women (Figure 2.2).

- The most popular tobacco product in Slovenia are industrially manufactured cigarettes (Figure 2.3). **The share of individuals in Slovenia who smoke industrially manufactured cigarettes is below the regional average.**
- Almost every fourth smoker uses cut tobacco to roll their own cigarettes. Other tobacco products, such as cigars, cigarillos, pipes, etc., are used by 19 percent of smokers, which is far above the regional average. Interestingly, **the share of cut tobacco smokers and smokers of other tobacco products in Slovenia is above the regional average.**

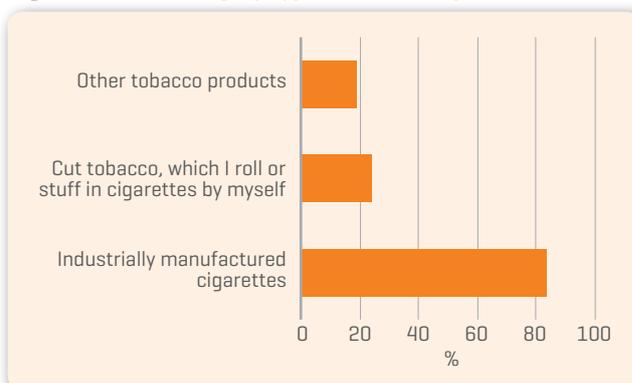
When compared with women, men smoke more tobacco products.

Figure 2.2 Smoking prevalence by gender in Slovenia



Source: Survey data.

Figure 2.3 Smoking by type of tobacco products



83 percent of smokers use industrially manufactured cigarettes.

On average, when compared with analyzed countries, more smokers use cut tobacco and other tobacco products in Slovenia.

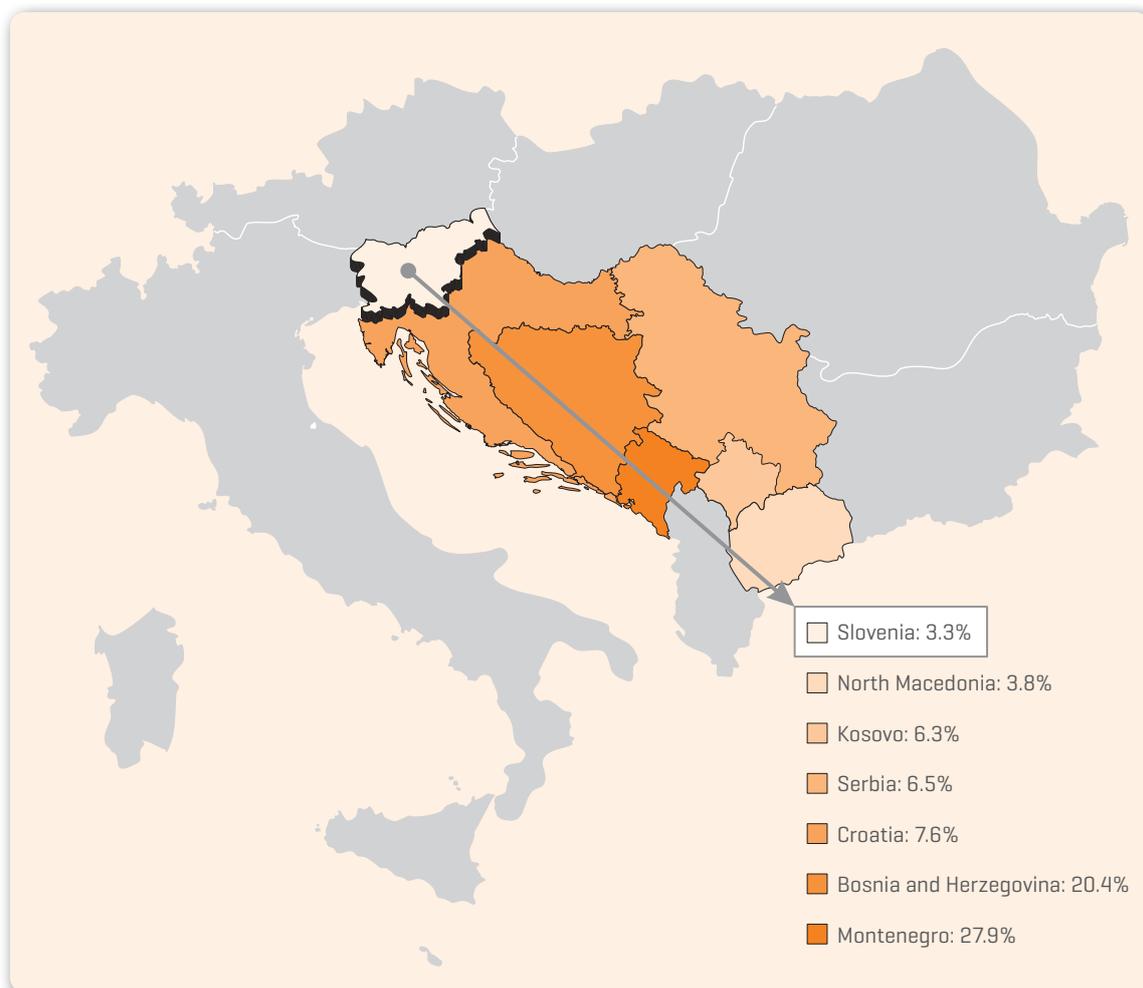
Notes: Multiple answers. In percentage of smokers.
Source: Survey data.

3 Buying Habits: Legal or Gray Markets

- Smokers in Slovenia predominantly buy tobacco products at authorized stores. **Only around 3 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.** Almost 60 percent of smokers buying their tobacco on the gray market use unofficial suppliers to purchase cut tobacco, and 34 percent of them buy industrially manufactured cigarettes [Figure 3.2].
- Two main channels of the Slovenian gray market, where smokers predominantly buy illicit tobacco products, are friends and acquaintances (40 percent) and resellers on the street (21 percent) [Figure 3.3].
- Buying on the gray market is related with the price competitiveness of tobacco products otherwise available in the regular stores. Most of Slovenian smokers shifted to the gray market of tobacco products due to an increase in cigarette prices (54 percent) and the beginning of economic crisis (15 percent) [Figure 3.4].
- When explaining why they buy tobacco products on the gray market, 78 percent of smokers report a more favorable price as the main reason behind their purchase.

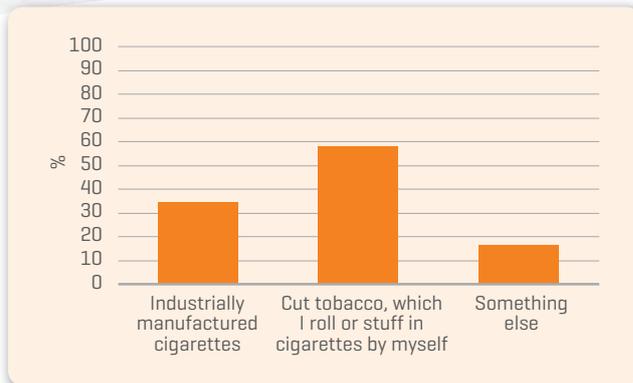
Approximately 3 percent of smokers are buying on the gray market, which is the lowest share when compared with the counties in the region.

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



Source: Survey data.

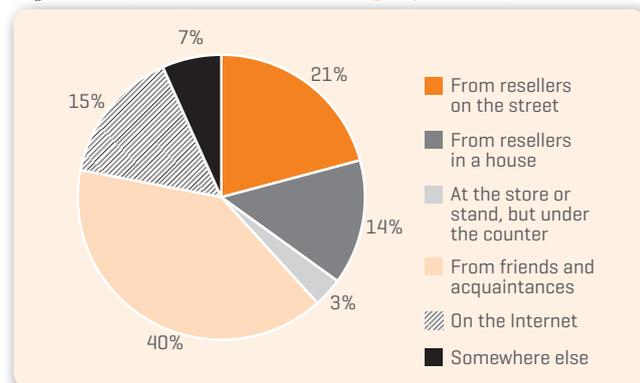
Figure 3.2 Tobacco products from the gray market



Note: Multiple answers.
Source: Survey data.

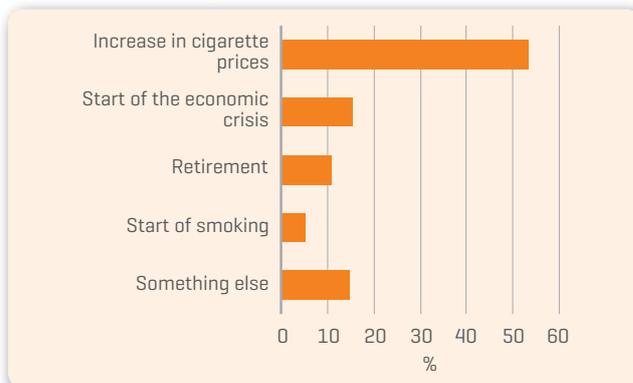
Figure 3.3 Points of sale on the gray market

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 respondents in Slovenia state that they buy tobacco products on the gray market less frequently than once a week [Figure 4.1].
- Most of the respondents noted that the availability of cigarettes and cut tobacco on the gray market is equal or better than it was two years ago [Figure 4.2].
- **40 percent of smokers consider that cigarettes are more available on the gray market today** compared to two years ago, and more than half of smokers see no changes in their availability in the gray market for the same period.
- On average, an increased availability of cigarettes on the gray market today, compared to two years ago, is more frequently observed in Slovenia than in the region.
- **Almost every third smoker rates cut tobacco as 'more available' on the gray market today** compared to two years ago, and more than half of smokers rate its availability at the same level as two years ago.
- An increased availability of cut tobacco on the gray market is only slightly less frequently observed in Slovenia than in the region.

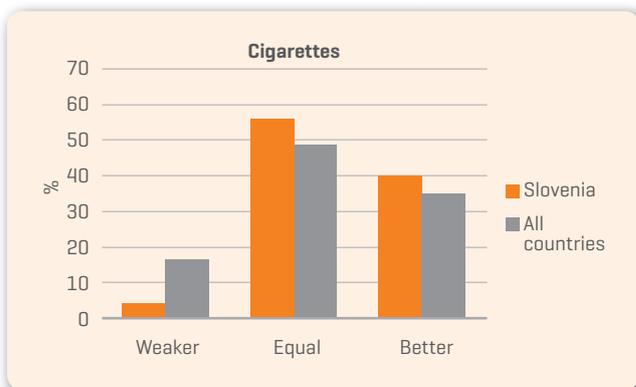
Over half of the smokers find that the availability of tobacco products on the gray market in Slovenia has not changed in last two years.

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



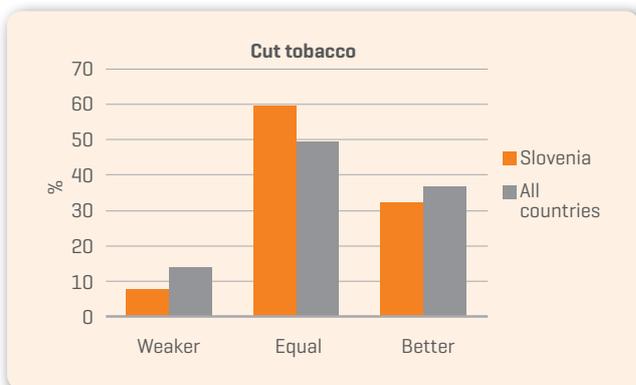
Source: Survey data.

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



Compared to two years ago:

40 percent of respondents state that the availability of cigarettes on the gray market improved.



32 percent of respondents

state that the availability of cut tobacco on the gray market improved.

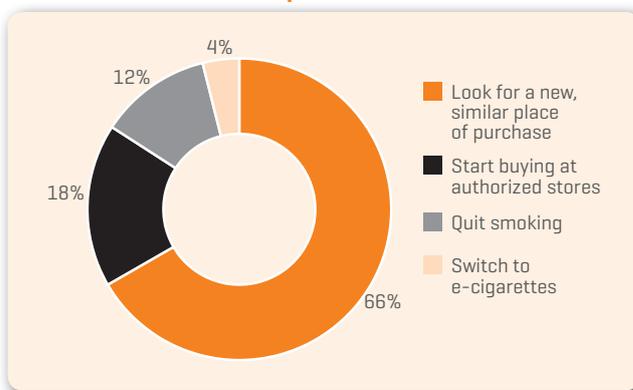
Note: Compared to two years ago.
Source: Survey data.

5 Exiting the Gray Market

- Buyers on gray market were asked what they would do if they could no longer buy tobacco products at their usual place [Figure 5.1]. Two third of buyers 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 the preferred place of purchase for the majority of smokers involved in illicit trade in Slovenia.
- Approximately 18 percent of smokers would start buying at authorized retailers and almost 12 percent would quit smoking if they could not buy tobacco products at their usual place.
- Almost half of the smokers in Slovenia would stop buying illicit tobacco products only if they made a decision to quit smoking. Additionally, almost 40 percent of buyers would exit the gray market in case of a cigarette price decrease on the legal market.
- Introducing severe punishments for buyers would motivate 7 percent of smokers to stop buying on the gray market [Figure 5.2].

Two thirds 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, 18 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.

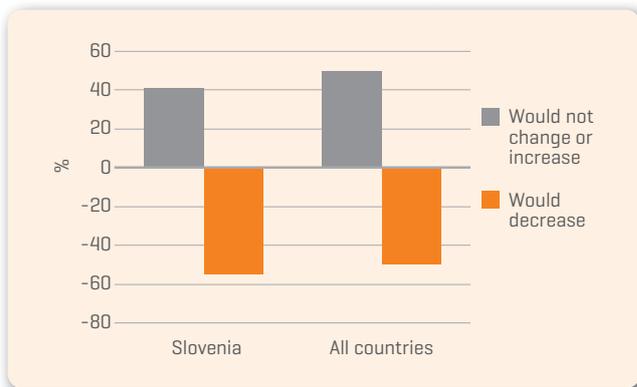
6

Price Sensitivity of Illicit Tobacco Products Consumption

- If the price of cigarettes became equal on the legal and gray market, more than half of buyers report that they would decrease their consumption of illicit cigarettes. [Figure 6.1].
- Interestingly, 41 percent of buyers would not change the consumption of illegally purchased cigarettes.
- More than half of the buyers would reduce their consumption of gray market cut tobacco if the price of legal cigarettes decreased and became the same as the price of illegally purchased cut tobacco [Figure 6.2]. This indicates that smokers in Slovenia 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.

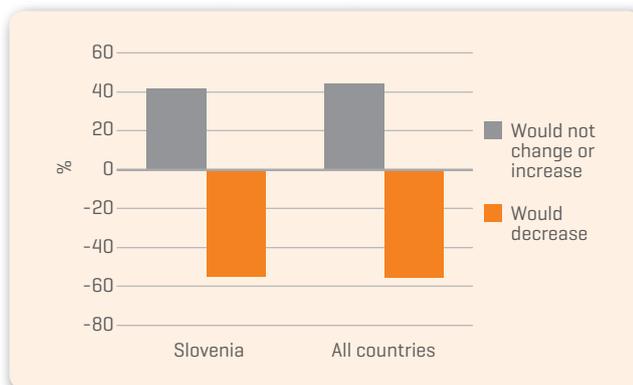
Figure 6.1 **Price sensitivity of illicit cigarettes**



Source: Survey data.

55 percent of consumers in Slovenia would decrease the consumption of illicit cigarettes if the price of legally purchased cigarettes decreased and become equal to the price of cigarettes bought on the gray market.

Figure 6.2 **Consumption of illegal cut tobacco**



Source: Survey data.

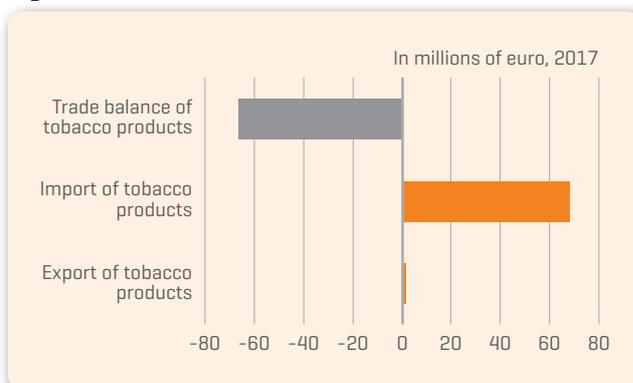
55 percent of consumers in Slovenia would decrease the consumption of illicit cut tobacco if the price of legally purchased cigarettes decreased and became equal to the price of cut tobacco on the gray market.

7 International Trade of Tobacco Products

Slovenia is a net importer of tobacco products. Cigarettes account for 92 percent of total Slovenian import of tobacco products.

- Survey results indicate that most of the Slovenian **smokers mainly purchase tobacco products at selling points within the country [97 percent]**. Among the three percent of smokers who buy tobacco products abroad, almost half of them prefer buying in Bosnia and Herzegovina [45 percent].
- Export of tobacco products is very low in Slovenia. In 2017, Slovenia exported tobacco products in the value of EUR 1.8 million. In the same period, Slovenia imported tobacco products in the value of EUR 68.3 million which resulted in the negative trade balance of EUR 66.4 million in 2017 [Figure 7.1].
- Cigarettes take up the biggest share of tobacco import in Slovenia. Data show that import of cigarettes account for 92 percent of the total import of tobacco products. Unmanufactured tobacco accounts for two thirds of tobacco export in Slovenia, which makes it the main exported tobacco product, followed by cigarettes [Figure 7.2].

Figure 7.1 **Slovenian tobacco trade**

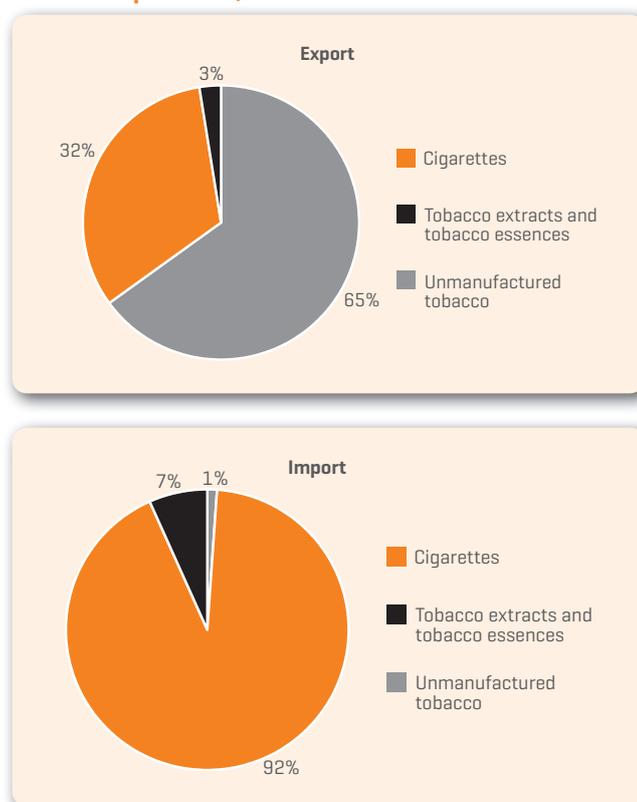


Source: Author's calculations based on UN Comtrade and ITC statistics.

Slovenian trade balance in tobacco products was negative in 2017.

Slovenia exports most of the tobacco products to the countries in the region, while most of the tobacco products are imported into Slovenia from the EU market.

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

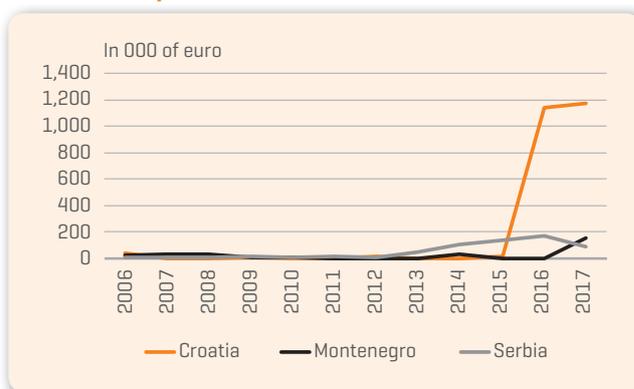


Source: Author's calculations based on UN Comtrade and ITC statistics.

- In 2017, Slovenia exported 64 percent of its total tobacco products to Croatia (Figure 7.3). Over 80 percent of the total tobacco export has been directed to the markets in the region (Croatia, Montenegro, Serbia and Bosnia and Herzegovina). Although, looking generally and compared to the other countries in the region, Slovenian tobacco

trade export is at a low level and annual oscillations are significant throughout the period. After 2015, tobacco exports have increased due to increasing the exports to the region (mainly to Croatia). However, Slovenian tobacco exports remain rather small.

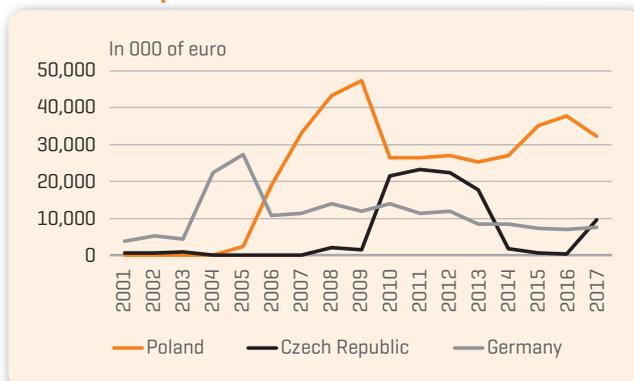
Figure 7.3 **Slovenian tobacco exports to leading export markets - trends 2006-2017**



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

Croatia is the main export destination of Slovenian tobacco products, and most of the imports come from Poland.

Figure 7.4 **Slovenian tobacco imports from leading import markets - trends 2001-2017**



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

- The largest share of imports by country comes from Poland [19 percent] [Figure 7.4]. That is the reason why Slovenia achieved the highest negative trade balance in tobacco products with Poland [Figure 7.5]. In 2017, the negative trade balance of tobacco products with Poland amounted EUR 32.3 million. However, in 2017 the import of tobacco products from Poland started to decrease, while the one from the Czech Republic started to increase. The significant negative trade balance is observed with the Czech Republic as well.

Figure 7.5 **Slovenian trade balance in tobacco products, by countries**



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

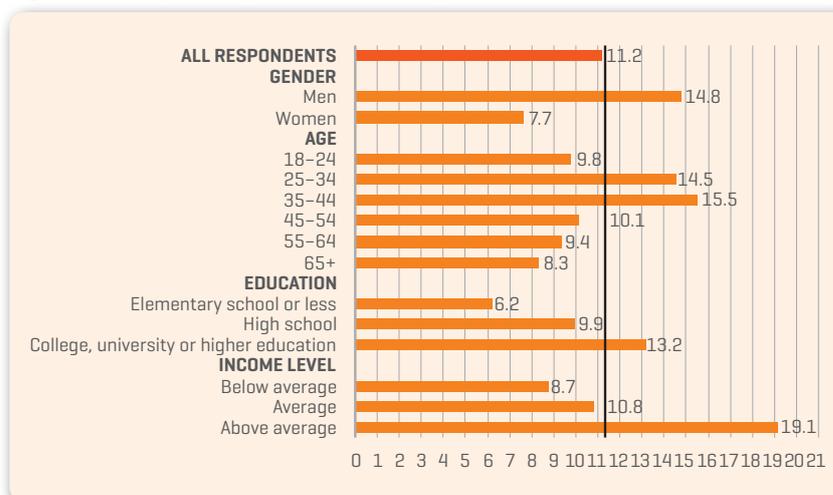
Export destinations for Slovenian tobacco products are the countries in the region, but the export is very low compared to that of other countries in the region.

8 Undeclared Work

Approximately 5 percent of adult Slovenian citizens received income from undeclared work in the last 12 months, while over 11 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 Slovenia** is assessed through the demand and supply side point of view in the survey.
- **Over 11 percent of adult Slovenian population report to have purchased some products from people whose income origin, they believe, was not completely reported** to tax or social security institutions [Figure 8.1].
- Propensity to acquire products delivered by units engaged in undeclared work is significantly higher for men [14.8 percent vs. 7.7 percent recorded women]. Demand for products delivered by units engaged in undeclared work is less pronounced for the older population.
- Contrary to previous studies where undeclared work is usually found to act as a social buffer, survey results for Slovenia 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



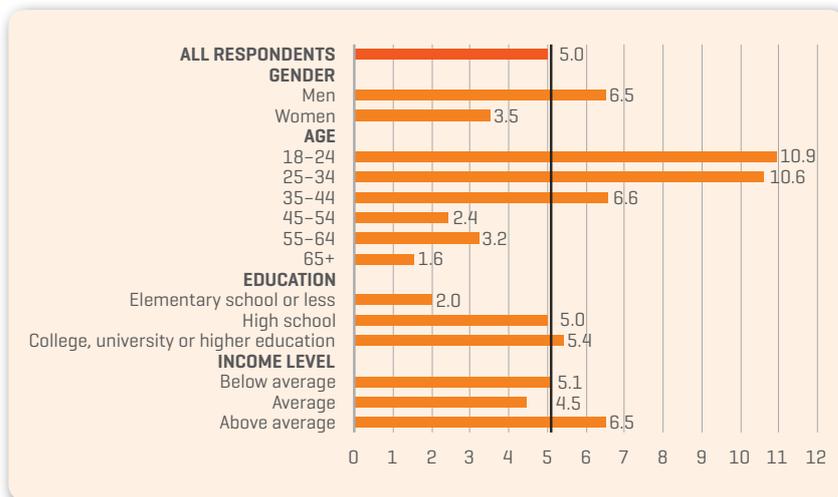
Buyers of products related to undeclared work are higher educated and wealthier individuals.

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

Source: Survey data.

- According to the self-declared statements of survey respondents, approximately **5 percent of the Slovenian population over the age of 18 acquired extra income through undeclared labor**, activity in money or in kind 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 and the population under the age of 45**, as well as for the population receiving 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 part but also in the hidden part of the economy.

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



Youth population is the main supplier of undeclared work in Slovenia. One out of nine persons aged 18-24 received compensation for undeclared work in the last 12 months.

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

Source: Survey data.

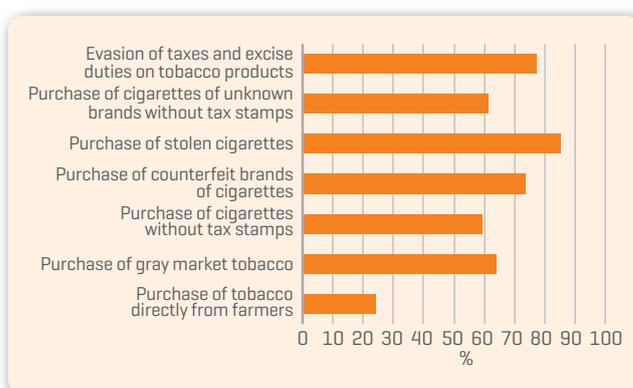
9

Unacceptability of Certain Practices in Illicit Tobacco Trade

- The majority of Slovenian citizens, more than 85 percent of them, think that it is mostly unacceptable or completely **unacceptable to purchase stolen cigarettes** (Figure 9.1).
- 77 percent of Slovenian citizens also believe evading taxes and excise duties on tobacco product is unacceptable behavior.
- More than 70 percent of respondents find that it is unacceptable to buy **counterfeit** brands of cigarettes.
- Slovenian citizens also have a negative public opinion, although to a smaller extent [around 60 percent], about the malpractice of purchasing cigarettes without tax stamps.
- Purchasing tobacco products on the gray market is not an acceptable practice for 64 percent of Slovenian citizens.
- On the other hand, almost half of Slovenian citizens think that it is acceptable to buy tobacco directly from farmers.

There is an overall negative public opinion regarding illicit tobacco trade, except when it comes to 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 almost 64 percent of citizens.

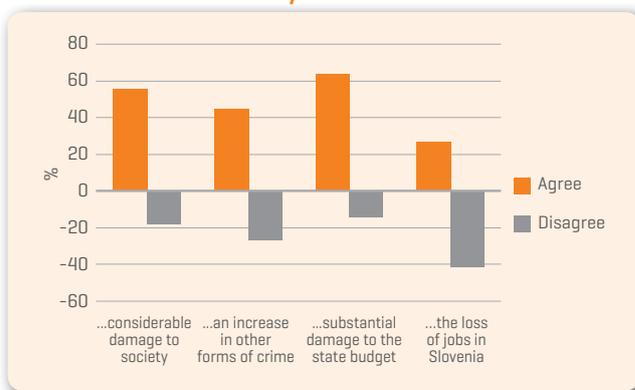
10

Public Perceptions and Opinions about Gray Market

- More than 63 percent of Slovenian citizens agree that the tobacco gray market causes **substantial damages to the state budget** [Figure 10.1].
- More than half of Slovenian citizens think that the gray market of tobacco products also causes considerable damages to society.
- Around 44 percent of respondents 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**.
- Only 27 percent of respondents think that the tobacco gray market is responsible for job losses in Slovenia.
- The majority of respondents in Slovenia [74 percent] have negative perception regarding tobacco product smuggling and believe it represents an integral part of organized crime [Figure 10.2].

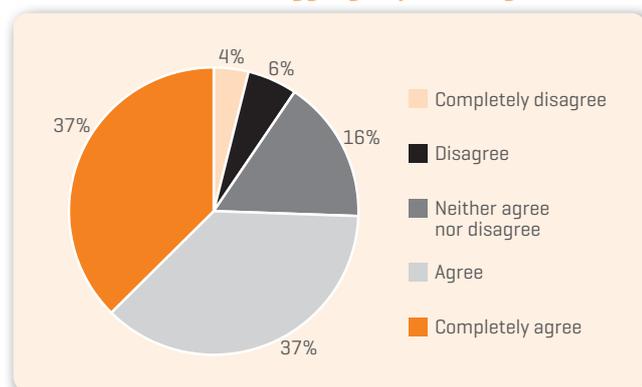
In general, the majority of Slovenian citizens recognize the negative effects of the tobacco gray market.

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



Source: Survey data.

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



Three out of four Slovenian 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 Slovenia: age group 18+, with smokers quota proportional to the country's smoking prevalence rate [24,9 for men, 24.4 percent for women] TGI data for 2017
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 controller per interviewer Logic checks conducted on the final dataset
Net sample size	3,000
Response rate	7.0 percent
Method	CATI [Computer Assisted Telephone Interviewing]

