

The IER Seminar in Empirical Economics

We would like to invite you to the **Empirical Seminar** series organized by the Institute of Economic Research, Slovak Academy of Sciences, Šancová 56 that will be held in hybrid form (online and at the library of the Institute of Economic Research, Slovak Academy of Sciences). The seminar will take place on **January 25th, 2024 at 11.00 a.m. (CET)**.

The speaker will be **Jovan Zubovic** (Institute of Economic Sciences, Serbia).

The topic of the seminar is: ***Estimating local and cross border tobacco evasion and avoidance in WB countries***

Author: Jovan Zubovic

Abstract

In our study we assessed the size and specifics of the illicit manufactured cigarette (MC) and hand-rolled (HR) tobacco market in Western Balkan countries including, the size of the illicit MC and HR tobacco market, demographic and socioeconomic characteristics of consumers of illicit MC and HR tobacco, places of purchase of tobacco products, and compliance with specific tobacco product labelling requirements.

The seminar will be co-chaired by Mária Širaňová and Ivan Lichner.

Link: <https://teams.microsoft.com/l/meetup-join/19%3aN1DbFP4xWw8up59Qx5Y-CJmz8Q-Y4jniJZWjqs6Q9RA1%40thread.tacv2/1705481075475?context=%7b%22Tid%22%3a%2217c92093-1286-4bb4-b6ea-02f3119dd49c%22%2c%22Oid%22%3a%22dab7fd44-1715-4397-8059-4adfa112d04a%22%7d>

AUTHOR: Jovan Zubovic

TITLE: Estimating local and cross border tobacco evasion and avoidance in WB countries

EXTENDED ABSTRACT

Background

Creating effective tobacco control policies requires objective assessment of the size, causes, and characteristics of the illicit tobacco market. Elimination of the illicit market is one of few desirable policy outcomes on which tobacco control officials and tobacco industry representatives can find consensus, given that they both agree that tackling the illicit tobacco market is a high priority. However, their agreement is only declarative, as their attitudes about the causes and policy measures that should be applied to deal with the illicit market differ significantly. The tobacco industry claims that tobacco tax increases will boost illicit trade, resulting in a decrease of tax revenues without reducing smoking prevalence. The industry, therefore, often tends to overstate the size of the illicit market, emphasizing the risks and consequences of its expansion and presenting tax increases as its major cause. However, academic studies find no or a relatively weak relationship between taxes and the size of the illicit market (Joossens & Raw, 2008; Joossens, L., et al., 2009). Contrary to industry claims, these studies find that adequate control policies and institutions are of critical importance in addressing illicit trade.

In our study we assessed the size and specifics of the illicit manufactured cigarette (MC) and hand-rolled (HR) tobacco market in Western Balkan countries including, the size of the illicit MC and HR tobacco market, demographic and socioeconomic characteristics of consumers of illicit MC and HR tobacco, places of purchase of tobacco products, and compliance with specific tobacco product labelling requirements.

Data for the study is from the Survey on Tobacco Consumption in Southeastern Europe (STC-SEE),¹ conducted by the Institute of Economic Sciences in 2019. The research combines two approaches suggested by the International Agency for Research on Cancer (IARC) Handbook (IARC, 2011) to assess the extent of tax evasion and avoidance: observational data collection and survey of tobacco users' purchase behaviors. The observational approach was conducted through direct inspection of tobacco product packs shown by respondents during the interviews. Tobacco products are identified as illicit if they are not included within the list of approved tobacco brands in the country or if they are not adequately labelled with a tax stamp and health warning. The survey of tobacco users is a complementary approach to determine illicit status, particularly for respondents who refused to show their packs, based on questions related to the purchase of the last-purchased tobacco product, including place of purchase and price paid.

The paper analyses the tobacco evasion and avoidance in six countries in Southeastern Europe (SEE): Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. The aim of this research was to objectively and independently estimate the size of the illicit market and identify the main determinants of tax evasion activities in the SEE region.

¹ <http://dcs.iem.bg.ac.rs/61/>

Data and methods

Data from 2019 Survey on Tobacco Consumption in SEE countries (STC-SEE) is used. STC-SEE provides a nationally representative data on smoking behaviour for adult (18-85 years old) population for each country. Tax evasion was defined based on the price, tax stamps, health warnings, and the place of purchase of the last tobacco product purchased. In order to estimate the determinants of illicit purchases we use binary choice model of tax evasion.

Results

The study finds that 20.4 percent of all current smokers in SEE countries evade taxes on cigarettes, with evasion being much more frequent for hand-rolled (HR) tobacco – 83.4 percent, than for the manufactured cigarettes (MC) – 8.9 percent. While HR is predominantly illicit in all six countries, MCs are predominantly legal in all countries except in Montenegro and Bosnia and Herzegovina where respectively 61.2 percent and 18.4 percent of the smokers evade. Results further suggest that tax evasion is higher in the s-regions where the prices of legal cigarettes and the shares of non-street illicit purchases of MC are higher, in municipalities bordering countries with high evasion, as well as among smokers with low income and low levels of education, women and elderly.

Conclusion

The findings from the research suggest that in order to decrease tax evasion, governments should put additional effort to strengthen institutional capacities to tackle illicit tobacco markets and enforce bans on the sale of the illicit MCs at legal points of sale. Furthermore, improving regional coordination in development and implementation of tobacco control policies, including the prevention of illicit market is essential in lowering the evasion in all SEE countries. Additionally, SEE countries should regulate and enforce excise tax stamp requirements on the HR tobacco market to a much higher degree.