

TOBACCO TAX EVASION IN BOSNIA AND HERZEGOVINA

Study Objectives

Based on data from the Survey on Tobacco Consumption in SEE countries (STC-SEE) conducted in 2019, this study estimates the size of tobacco illicit market in Bosnia and Herzegovina (BiH) and offers evidence on the factors influencing the smokers' decision to consume illicit tobacco.

This policy brief provides preview of the main results from the study. It briefly describes methodology, presents main findings and provides recommendations for policy makers aimed at reduction of illicit tobacco market in BiH.

Following the Protocol to Eliminate Illicit Trade in Tobacco Products, illicit tobacco trade is defined as “any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase, including any practice or conduct intended to facilitate such activity” (WHO, 2013).

32.3 percent of tobacco consumption in BiH is illicit

When differences in consumption are taken into account between smokers who use licit and illicit products, it is estimated that one third of cigarette consumption in BiH is illicit. Illicit consumption is mostly driven by hand-rolled (HR) tobacco (95.4 percent of HR tobacco consumption), while 18.1 percent of manufactured cigarette (MC) consumption is illicit.

35.3 percent of smokers in BiH evade tax on tobacco

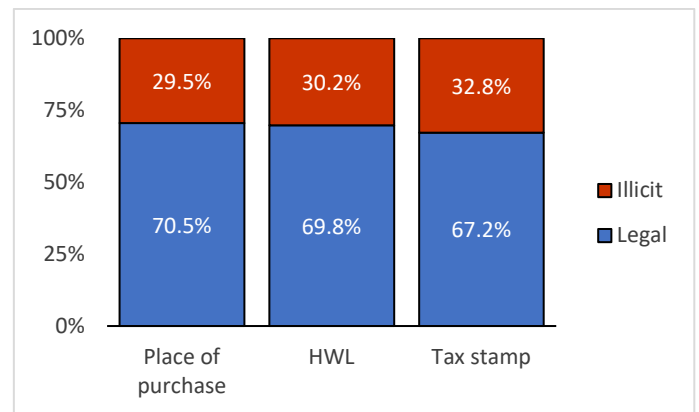
Almost all HR tobacco smokers (93.3 percent) and 18.6 percent of MC smokers use products that evade tax.

The most common brands of illicit MC are FM, Corset, King and Manchester. Brands FM, produced in Macedonia, and Corsets, produced in Bulgaria, have the health warning label in English, and with the

label that they are for duty-free shops only. Manchester originates from United Arab Emirates, while King from European Union.

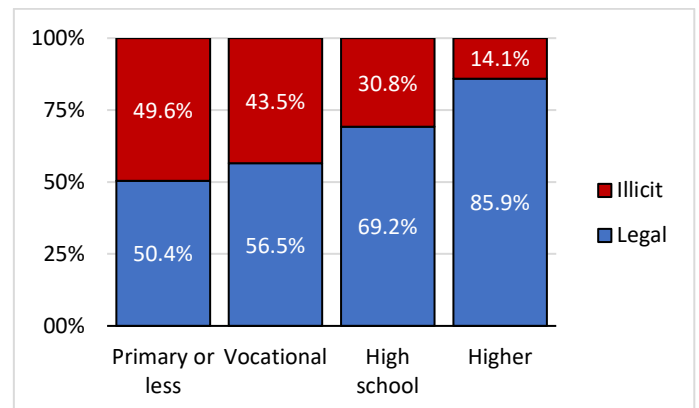
Majority of smokers buy cigarettes in legal places of purchase, packs with appropriate health warning label (HWL) and packs with local tax stamp (Figure 1).

Figure 1 – Distribution of legal and Illicit packs of tobacco by three criteria



Tax evasion is higher among male smokers, less educated people, smokers from rural area and smokers from Brčko District (Figure 2). There are smokers who buy illegal MC at the legal place of purchase (grocery stores) 18.4 percent, and for HR tobacco consumers this percent is slightly higher, 21 percent.

Figure 2 - Less educated smokers are more likely to buy illicit cigarettes



Younger smokers, and those who live in larger households are less likely to evade, while the unemployed smokers and pensioners and smokers with higher smoking intensity are more likely to use illicit tobacco.

Smokers who live in municipalities closer to Serbia or Montenegro are more likely to purchase illicit tobacco.

Smokers from the municipalities bordering Montenegro are more likely to buy illicit. Lower cigarette prices in Serbia and Montenegro likely stimulates illicit purchases of cigarettes, especially for smokers who live in municipalities that are closer to these countries.

POLICY RECOMMENDATIONS:

- **Policymakers in BiH should ratify the Protocol to Eliminate Illicit Trade in Tobacco Products**, which addresses means of countering illicit trade of tobacco products, and implement measures recommended by the Protocol, since the analysis shows that the size of illicit market is high.

- **Control of the supply chain should be strengthened, with imposing stricter sanctions on all actors in the supply chain.** Given that 95.4 percent of HR consumption is illicit, with almost 85 percent of it purchased in the open air markets, stricter measures, such as enforcing tax stamps on HR tobacco packs, should be implemented.

- **Stricter controls and inspections on cross-borders and more frequent and efficient inspections within the country** should be introduced and embraced. Analysis has shown that significant source of illicit purchases are purchases on the street and additionally, tax evasion is more frequent in the municipalities that are closer to Serbia and Montenegro.

Methodology

Illicit packs of MC and HR tobacco were identified based on the rules defined by Law of Excise of BiH, Rulebook about excise stamps for tobacco products, alcoholic beverages, fruit natural brandy, coffee and wine, and the Rulebook on labelling the packaging of tobacco products.

Survey on Tobacco Consumption in Southeastern Europe (STC-SEE)

The survey was conducted in BiH in September/October 2019 on a sample of 1,000 adults aged between 18 and 85. The sample was nationally representative based on the latest Census in BiH form 2013 and included both entities and District Brčko. STC-SEE data provides detailed information on tobacco illicit consumption by sociodemographic characteristics, smoking behavioral characteristics, and determinants of cross-border cigarette purchases.

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References:

WHO. (2013). The Protocol to Eliminate Illicit Trade in Tobacco Products. Retrieved October 2020, from World Health Organization:
https://www.who.int/fctc/protocol/illicit_trade/protocol-publication/en/

About the project

The project “Accelerating progress in taxation of tobacco and tobacco products in low- and middle-income countries” is part of an international initiative focusing on taxation of tobacco and tobacco products. The regional network in the Western Balkans is coordinated by the Institute of Economic Sciences, Belgrade, Serbia. The University of Banja Luka (UNIBL) is funded by the University of Illinois, Chicago (UIC), the Research and Health Policy Institute, to conduct economic research on tobacco taxation in Bosnia and Herzegovina. The research team of UNIBL is comprised of researchers from the Faculty of Economics. UIC is a partner of the Bloomberg Philanthropies Initiative to Reduce Tobacco Use. The views and opinions expressed in this document cannot be attributed to, nor do they represent the views of the UIC, the Research and Health Policy Institute, or the Bloomberg Philanthropies.