

# ILLICIT TRADE IN MANUFACTURED CIGARETTES AND HAND-ROLLED TOBACCO IN NORTH MACEDONIA

The World Health Organization Framework Convention on Tobacco Control (WHO FCTC) Protocol to Eliminate Illicit Trade in Tobacco Products (WHO, 2013)<sup>1</sup> defines illicit trade in tobacco very broadly. A key part of illicit trade in tobacco is the illegal methods consumers use to circumvent tobacco taxes, which is defined as tax evasion. On the other hand, tax avoidance encompasses the legal ways consumers manage to pay lower prices by avoiding paying taxes. Tax evasion and tax avoidance undermine a country's tobacco taxation and health policy efforts as they decrease tax revenues and undermine health, since the required health warnings and declarations of ingredients are usually absent on illegal products (Joossens et al., 2010).<sup>2</sup>

As prior independent estimates of tobacco tax evasion in North Macedonia were not available, Analytica conducted a study using novel data from the Survey on Tobacco Consumption in Southeastern European countries (STC-SEE), conducted for the first time in 2019 in six SEE countries from the Balkan region: Albania, Bosnia and Herzegovina, Kosovo, Serbia, Montenegro, and North Macedonia.<sup>3</sup> Based on the survey data, the size and characteristics of tax evasion in manufactured cigarettes (MC) and hand-rolled cigarettes (HR) are estimated, followed by an empirical evaluation of possible factors affecting smokers' probability of evading taxes. Hence, this study brings forward several key messages and policy recommendations for policy makers in North Macedonia.

**Every eighth smoker in North Macedonia buys illicit cigarettes.** The prevalence of tax evasion among cigarette smokers of HR and MC is 12.4 percent, while the prevalence of tax avoidance (identified only for MC smokers) is relatively low (0.6 percent). Once smoking intensity of smokers is taken into consideration, 14.6 percent of all cigarette consumption is illicit, and 0.6 percent avoids taxes. In other words, **every seventh cigarette pack in the North Macedonian market is illicit.**

**Tax evasion happens mainly on the HR market.** Almost nine in ten HR smokers decide to buy illegal HR tobacco (86.7 percent of HR smokers, or 88.1 of HR cigarette consumption, more precisely), usually in an open air or green market, without tax stamps nor health warning labels. One reason why tax evasion among HR smokers is so common may be the fact that HR cigarettes are a much cheaper smoking option than MC. The price per 20 cigarettes of HR tobacco, on average, is 50 percent lower than the price of 20 MC (€0.94 vs. €1.49, respectively). Tax avoidance is not identified in the HR market.

**Characterized by the lowest MC prices in the region, the MC market in North Macedonia predominantly consists of domestic tax-paid purchases.** Out of current MC smokers, 1.9 percent use illegal MC (or 1.7 percent of the consumption is illicit) and 0.6 percent avoid paying taxes (0.6 percent of MC consumption). A small number of illicit MC packs are bought mainly in open air or green markets and are found mostly in the southwestern region.

**Socioeconomic status determines the tax evasion behavior of the North Macedonian smoker.** MC smokers are less likely to evade taxes compared to HR smokers. Male smokers and those living in the eastern part of the country are less likely to evade taxes than females and smokers in other regions. Education matters, with higher-educated smokers having a lower probability of evading taxes. In

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<sup>1</sup> World Health Organization Framework Convention on Tobacco Control. (2013). Protocol to Eliminate Illicit Trade in Tobacco Products. <https://www.who.int/fctc/protocol/en/>

<sup>2</sup> Joossens, L., Merriman, D., Ross, H., & Raw, M. (2010). The impact of eliminating the global illicit cigarette trade. *Addiction*. 105:1640–9

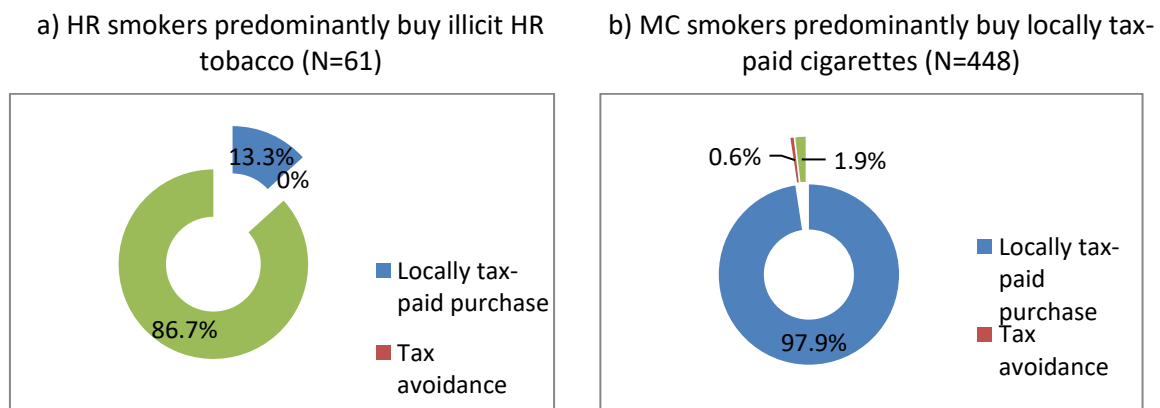
<sup>3</sup> The STC-SEE was conducted within the project Accelerating Progress on Effective Tobacco Tax Policies in Low- and Middle-Income Countries guided by the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy in Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, and Serbia, using the same questionnaire.

addition, unemployed smokers are more likely to evade taxes compared to employed smokers. Household income does not seem to affect tax evasion behavior in a statistically significant manner.

## Markets of MC and HR – facts and figures

The HR market is predominantly illicit, with 86.7 percent of current HR smokers using illegal HR tobacco. On the other hand, only 1.9 percent of current MC smokers use illegal MC, and 0.6 percent avoid paying taxes (Figure 1). Hence, tax evasion is the main problem in North Macedonia, and it is dominated by the tax evasion that takes place in the HR market.

**Figure 1.** Most HR smokers use illicit HR tobacco, while most MC smokers use legal cigarettes



Source: Authors' own calculations based on STC-SEE for North Macedonia (2019)

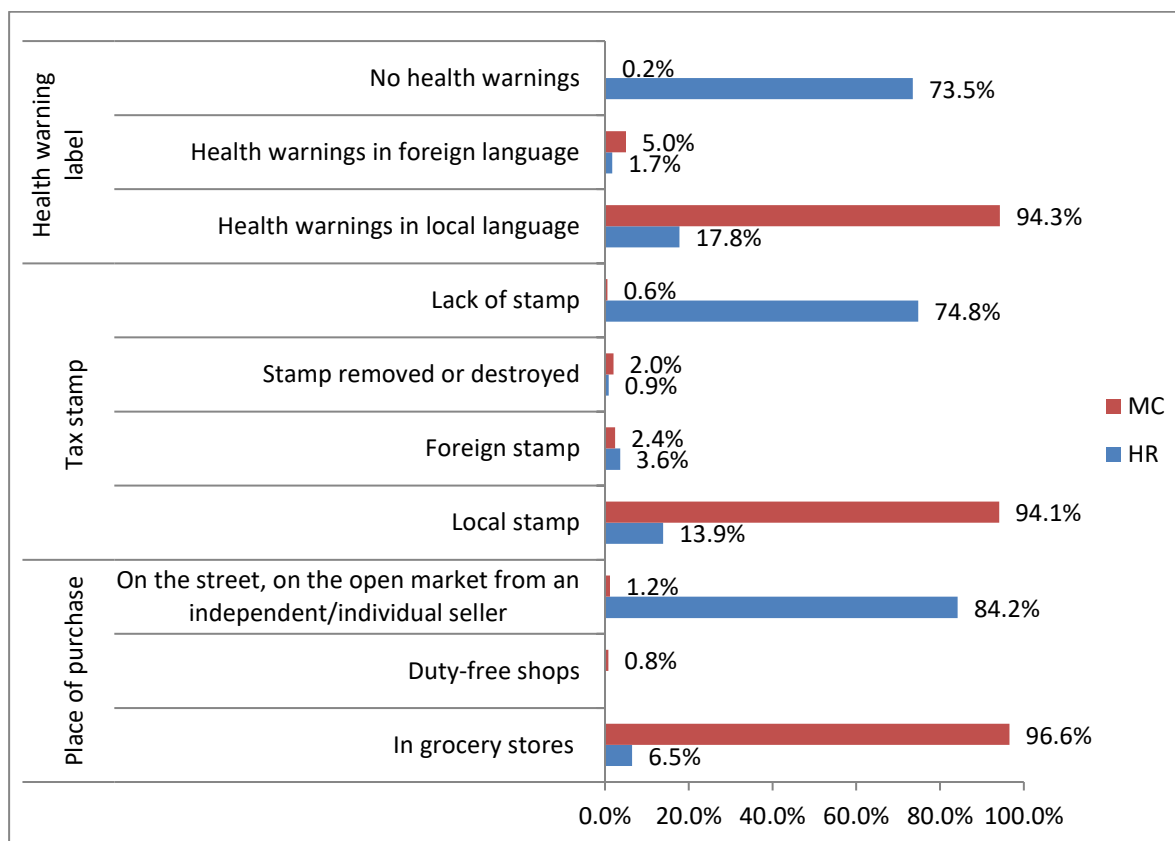
Most HR smokers purchased their last packs on the green market or the street (84.2 percent), without a tax stamp (74.8 percent), and without health warning labels (73.5 percent) (Figure 2). Most HR packs are completely unbranded, however some bear health warnings from various foreign countries,<sup>4</sup> suggesting that part of the illicit HR tobacco market is smuggled already packed and part is smuggled unpacked in big “yarma balas”<sup>5</sup>. Finally, the remainder of the illicit HR tobacco market comes from home-grown tobacco by domestic farmers who produce big-leaf illegal tobacco that is used as a ground mixture for hand-rolling cigarettes.

Most of the inspected illicit MC packs were bought on the open green market, and only one pack was not listed in the register of legal brands. Most of the illicit MC packs were identified in the southwestern region. However, it should be noted that some of the illicit packs did bear domestic tax stamps and health warning labels.

<sup>4</sup> The inference regarding the origin of this tobacco product is made after closer inspection of the photos of illicit HR pouches shown by the survey respondents, and after reviewing public official statements from Customs' and the Ministry of Internal Affairs' Reports, as well as the unofficial discussion with Customs' officials.

<sup>5</sup> “Yarma bala” is defined as a packaging unit of unprocessed tobacco, packed in a wrapper of hemp or cotton cloth (Article 2, Law of Tobacco and tobacco products, 2019)

**Figure 2.** Most MC packs are purchased in grocery stores, while most HR packs are purchased on the streets or the open green market



Source: Authors' own calculations based on STC-SEE for North Macedonia (2019)

Note: Only the most relevant answers are presented. For more details, see Table A10 in Mijovic Hristovska et al. (2020)<sup>6</sup>

## Policy Implications and Recommendations

Given the relatively high level of tax evasion in North Macedonia, and the especially high tax evasion in the HR tobacco market, urgent attention is needed to develop and execute efficient tobacco control policies.

First, **immediate ratification and implementation of the Protocol to Eliminate Illicit Trade in Tobacco Products, which was signed by North Macedonia back in 2014, is necessary.** The Protocol requires the introduction of strict rules and provisions to ensure control of the tobacco supply chain such as licensing, due diligence, recordkeeping, and security and preventive measures, as well as measures in relation to internet- and telecommunication-based sales, duty-free sales, and free zones and international transit.

In addition, **significant improvement of the government's law enforcement and institutional effectiveness is required** for enforcing the obligations of the Protocol and combating illicit trade as well as crop leakages and illegal production.

<sup>6</sup> Mijovic Hristovska, B., Mijovic Spasova, T., Trenovski, B., Kozheski, K., Trpkova Nestorovska, M., & Trajkova Najdovska, N. (2020). Adult tobacco consumption in North Macedonia, 2019. Alatytika, Skopje. [http://tobaccotaxation.org/cms\\_upload/pages/files/236\\_mkd\\_report.pdf](http://tobaccotaxation.org/cms_upload/pages/files/236_mkd_report.pdf)

**All these measures require not only national but also regional efforts by the governments in the SEE region.** Having illicit tobacco products that come from neighboring countries suggests that international transit requires better regional control from the customs administrations and law enforcement institutions in each country. Hence, cooperation throughout the SEE region is required, consistent with the respective domestic legal and administrative systems of the countries, in order to enhance the effectiveness of the region's law enforcement actions to combat illegal trade.

Finally, **independent monitoring on an on-going basis** of the use, production, trade, manufacturing, and exporting of tobacco is necessary for accurate and consistent analyses and evidence-based tobacco control policy making.

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### About the project

About the project: Analytica is working in cooperation with the Institute of Economic Sciences from Belgrade, Serbia, which is coordinating a regional network of researchers in Southeastern Europe on tobacco taxation. The project is funded by the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in North Macedonia. UIC is a partner of the Bloomberg Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies.