

HEATED TOBACCO PRODUCTS USE IN MONTENEGRO

Policy Brief

KEY FINDINGS

- Overall, the smoking prevalence of heated tobacco products (HTPs) among adults in Montenegro rose sharply from 0.2 percent in 2019 to 3.9 percent in 2022, accompanied by a sixfold increase in sales between 2020 and 2023.
- HTP smokers in Montenegro are predominantly female, young adults from urban areas, and with secondary and higher levels of education. Individuals with higher household incomes and current or former users of manufactured cigarettes are also more likely to be HTP smokers.
- Despite substantial tax increases, the prices of HTPs have not increased proportionally: a €1 increase in HTP taxes results in only a quarter of that amount being passed through and reflected in prices.
- The pricing of HTPs in Montenegro closely aligns with that of middle- to lower-range premium cigarettes, indicating a strategy by the tobacco company to position HTPs as competitive alternatives to cigarettes.
- Keeping taxes on HTPs lower than those on cigarettes allows higher profits for manufacturers while reducing government revenues, with approximately €5.2 million in forgone revenue in 2023.

BACKGROUND INFORMATION

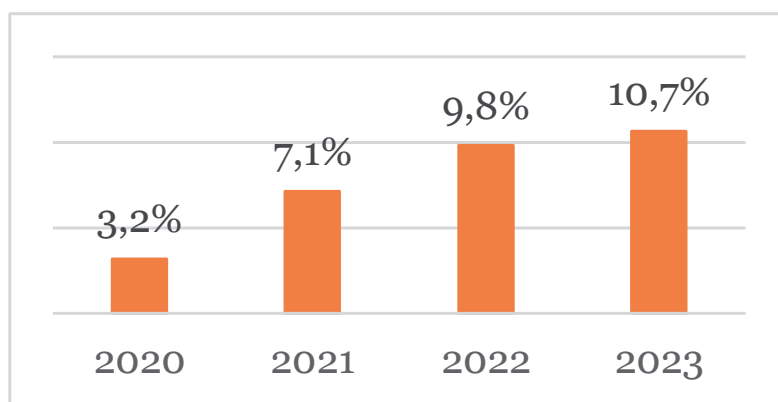
In the European Union (EU), even though HTPs have not been commercialized in some member states, their sales are rapidly increasing constituting in 2022 approximately 50 percent of the market for tobacco products other than cigarettes and fine-cut tobacco. Furthermore, the sales of HTPs in the EU are projected to continue robust growth over the next few years, with annual growth rates estimated at 19.2 percent, 16.6 percent, and 14.5 percent for 2025, 2026, and 2027, respectively.¹

HTPs emerged in the Montenegrin tobacco market in the latter half of 2019, and they were recognized by the tobacco-related legislation as smokeless tobacco. Since then, alongside the high prevalence of classic tobacco users in Montenegro, there has been a notable increase in the demand for HTPs. Low prices combined with misleading claims of the “harmlessness” of these products lead to both initiation among non-smokers and relapse among former smokers, causing a transformation in the tobacco market.

RESULTS

Growing popularity of HTPs in Montenegro

Figure 1. HTP packs sold as a share of packs sold in legal cigarette market



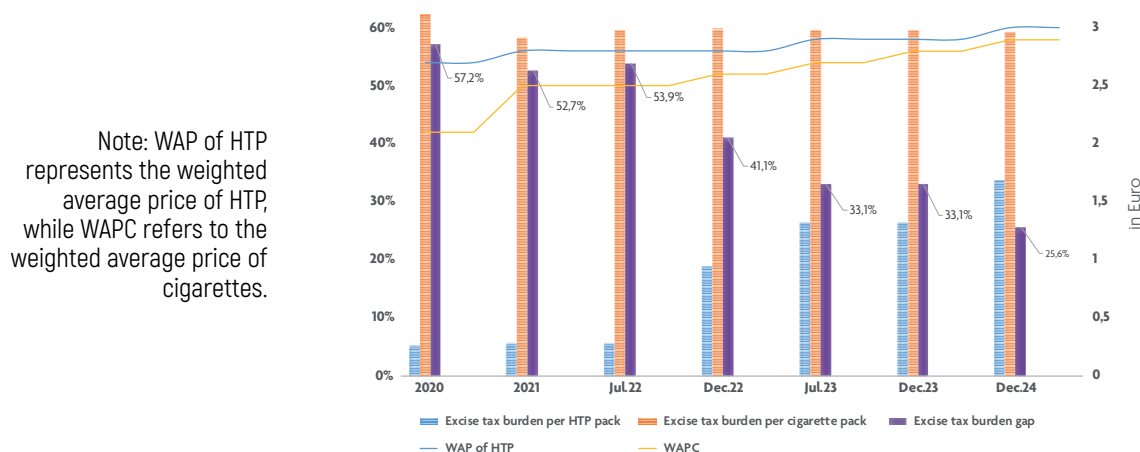
Despite tax increases, sales of HTPs in Montenegro, being relatively new products, are experiencing rapid growth driven by various market forces. By 2023, the number of HTPs sold had increased sixfold compared to 2020, representing 10.7 percent of the cigarette market (Figure 1). In the first quarter of 2024, a total of 1.5 million packs of HTPs have already been sold, reflecting an 18.4-percent increase compared to the first quarter of 2023.

Source: Ministry of Finance

HTP excise taxes and prices

The HTP excise tax burden surged significantly from 5.2 percent per HTP pack in 2020 to 33.7 percent in 2024. Although Montenegro's HTP tax burden in 2023 ranks 13th in Europe, 7th among EU countries, and 1st in the Western Balkans, other market factors, such as the tobacco industry's pricing strategies, have limited its impact on raising prices. Furthermore, when comparing excise tax burdens on HTPs with those on cigarettes, the gap between them is significant although it is narrowing.

Figure 2. Excise tax burden and prices of cigarettes and HTP



¹ López-Nicolás, Á., 2024

The prices of HTPs align closely with those in the middle and lower price ranges of the premium cigarette market, indicating a strategy by the tobacco company to position HTPs as competitive alternatives to cigarettes. Specifically, the most-sold HTP brand had a price range of €2.7 to €3 over the observed period, while the most-sold brand in the cigarette market was priced between €2.4 and €2.9. However, a slow increase in nominal prices presents a decrease in the prices in real values (from €2.7 in 2020 to €2.3 in 2024), contributing to higher sales and consumption.

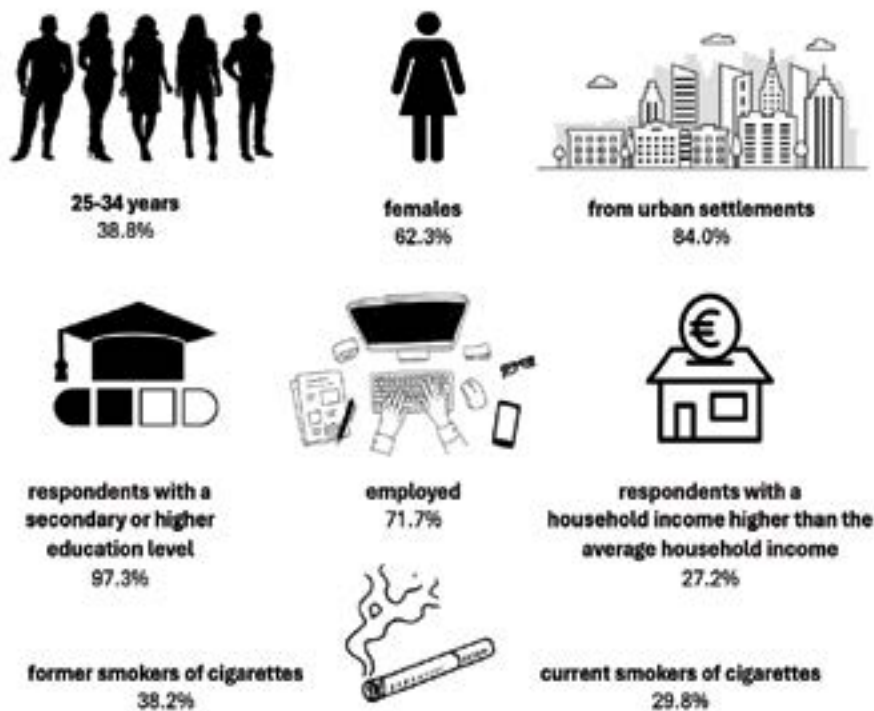
The tobacco industry employed an under-shifting strategy for HTP taxes, where a €1 increase in HTP taxes resulted in only a €0.26 increase in prices. However, the indirect pass-through effect of cigarette taxes on HTP prices is notably higher, around 0.9 for the mid-price cigarette segment, indicating that changes in cigarette taxes have a greater influence on HTP pricing than direct HTP tax changes.

Table 1. Government revenues from all tobacco products and from HTPs (in mill. €)

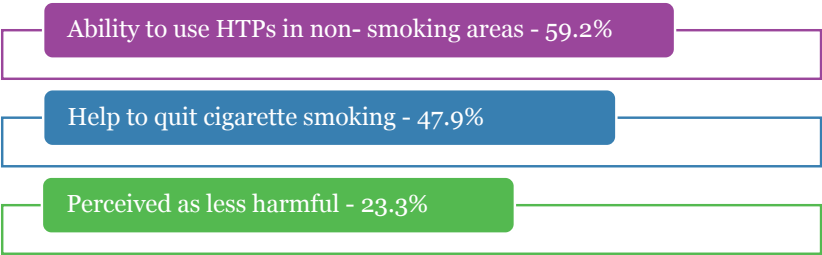
| Year | HTP (estimates) | All tobacco products |
|----------|-----------------|----------------------|
| 2020 | 0.14 | 45.56 |
| 2021 | 0.47 | 60.47 |
| 2022 | 2.76 | 92.08 |
| 2023 | 4.64 | 100.23 |
| 2024(Q1) | 1.56 | 19.33 |

Although government revenues from HTP excise taxes have grown significantly, they remain far below the potential levels achievable if HTPs were taxed at the same rate as cigarettes. Equal taxation would not only boost revenues but also lead to higher prices, reducing consumption and delivering substantial public health benefits.

Who is using HTPs in Montenegro?



What are the reasons for using HTPs?



Policy and legal framework

In Montenegro, HTPs are primarily regulated under two tobacco control laws: the Law on Excise Tax and the Law on Limiting the Use of Tobacco Products. In these Laws HTPs are classified as smokeless tobacco, which results in less comprehensive regulation compared to cigarettes.

- Smoke-free legislation does not apply to HTPs, meaning there is no ban on using these products in enclosed public spaces. Additionally, taxation and promotion of devices used to heat tobacco are not regulated adequately.
- The Law on Excise Tax in Montenegro states that excise duty on smokeless tobacco products is calculated based on the euro amount specified per kilogram of tobacco mixture, which was €145 per kilogram in 2023 and €190 per kilogram in 2024.

The current EU Tobacco Tax Directive (TTD) lacks specific provisions for emerging products like HTPs, resulting in a varied approach to taxation across member states. The European Commission is proposing revisions to the TTD that involve creating separate tax categories for new tobacco products, including HTPs. As an EU accession country, Montenegro is expected to actively work to align its regulatory framework with these changes.

RECOMMENDATIONS

- **The government should review and adjust excise taxes and tax rates on HTPs to ensure that they are roughly equivalent to those on cigarettes.** It is recommended that HTPs be taxed on a per-unit basis, at the same level as cigarettes. This should increase government revenues and discourage HTP use. Additionally, consideration should be given to taxing the devices used for HTP consumption. Effective tobacco tax administration is needed to support these measures.
- **After the initial calibration to match cigarette tax rates, the government should adjust tax rates annually by inflation and purchasing power parity changes at a minimum.** Better yet, the government should raise HTP tax rates annually by more than income growth and inflation so that they become less affordable over time to mitigate initiation, encourage quitting, and drive down overall consumption.
- **The government should align HTP regulations with World Health Organization Framework Convention on Tobacco Control (WHO FCTC) recommendations** by amending the tobacco legislation to address emerging tobacco products like HTPs comprehensively. These amendments should include provisions that HTPs and their devices should be subject to strict regulation, similar to that applied to conventional cigarettes, in line with WHO FCTC guidelines.
- **Tobacco control policies should be protected from tobacco companies' influence.** In accordance with Article 5.3 of the WHO FCTC, it is essential for policy makers to remain cautious about tobacco and related industries' tactics, aggressive promotion of these products, and misleading presentation as "healthier" alternatives to cigarettes.
- **The government should conduct public awareness campaigns about the health risks associated with HTPs.** Comprehensive public health campaigns aimed at educating the public about the risks associated with HTPs and the misconceptions surrounding their safety compared to traditional cigarettes should be conducted. Targeted messaging should focus on the dangers of dual use and the importance of cessation.
- **The government should promote independent research on HTP use and its health and economic impacts.** This includes investing in data collection related to HTP consumption patterns necessary for conducting comprehensive empirical research, which would support evidence-based policy making.

Acknowledgments: ISEA is funded by the Economics for Health team (formerly Tobacconomics) at Johns Hopkins University (JHU, previously housed at University of Illinois Chicago, or UIC) to conduct economic research on tobacco taxation in Montenegro. JHU is a partner of the Bloomberg Philanthropies' Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor can they be considered to represent, the views of JHU, UIC, or Bloomberg Philanthropies.

The authors are grateful for comments from JHU.

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