



Addressing tobacco tax evasion in Montenegro

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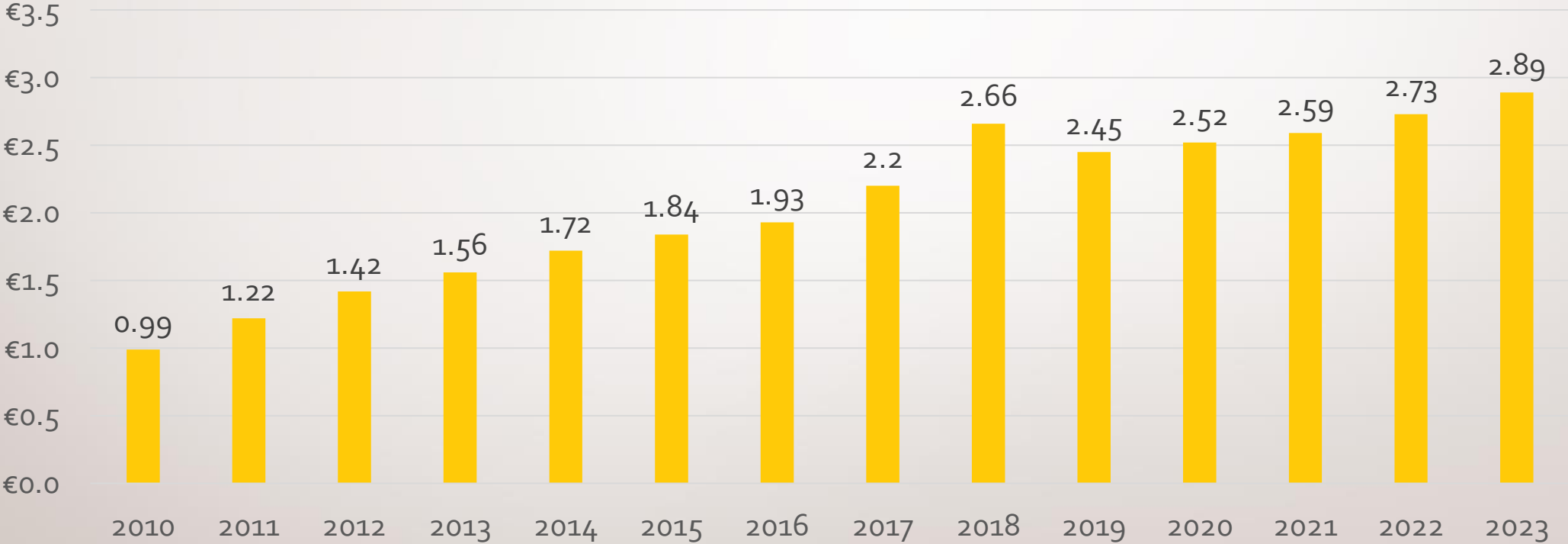
Conclusion

Market analysis – revenues

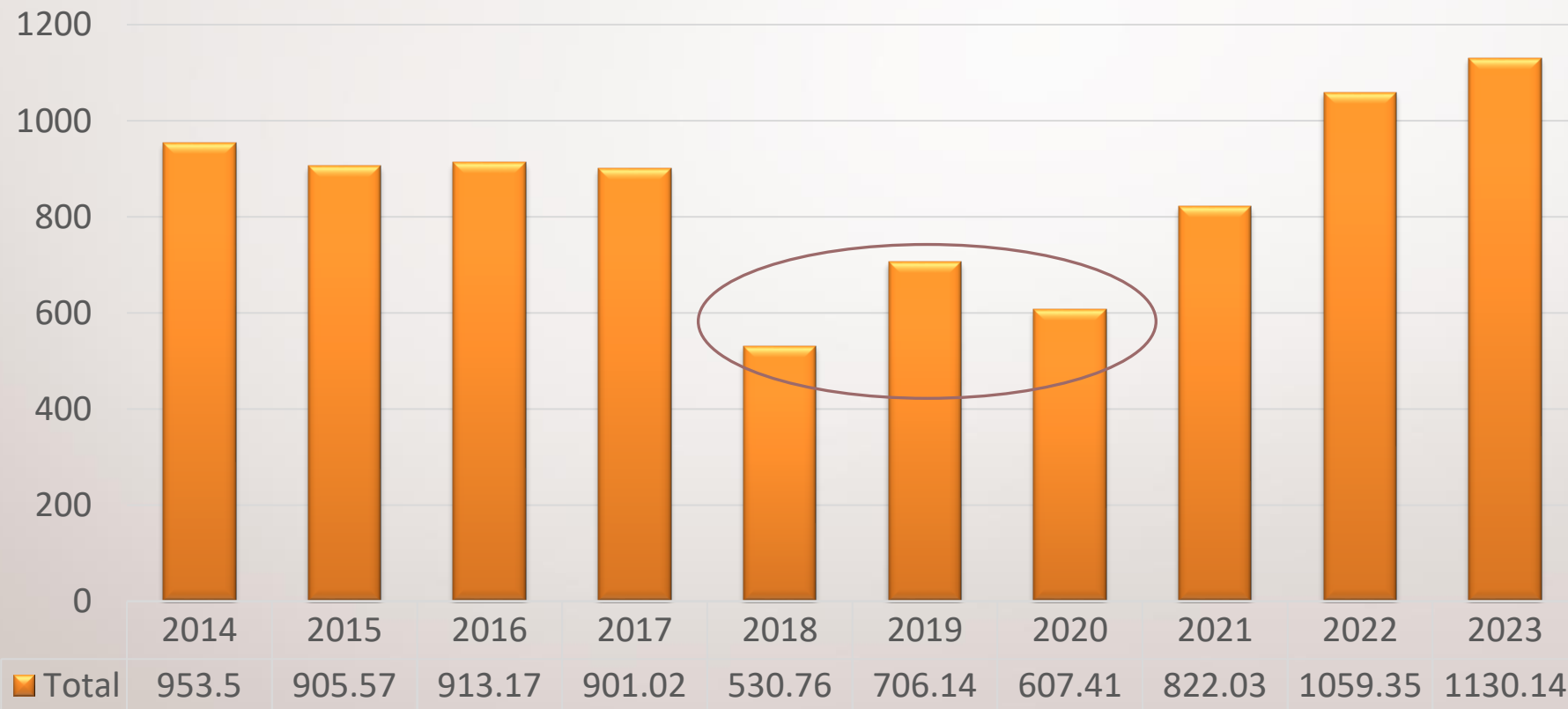
Year	Excise tax revenue	Year	Excise tax revenue
2006	4.1	2015	46.4
2007	13.3	2016	49.8
2008	24.3	2017	57.2
2009	27.9	2018	40.6 ↓
2010	29.0	2019	46.3 ↓
2011	44.1	2020	45.5 ↓
2012	45.2	2021	60.4
2013	47.5	2022	92.1
2014	41.7	2023	100.2

Year	Specific excise tax in eur	Ad valorem tax in %	WAPC	VAT
2018	40	32	2.1	21
2019	30	32	2.1	21
2020	33.5	30.5	2.1	21
2021	37	29	2.5	21
2022	40.5	27.5	2.5	21
2022	44	26	2.6	21
2023	47.5	24.5	2.7	21
2023	49	24.5	2.8	21
2024	50.5	24.5	2.9	21
2024	52	24.5	3.0	21

Market analysis - average market price



Market analysis - cigarettes sales 2014-2023



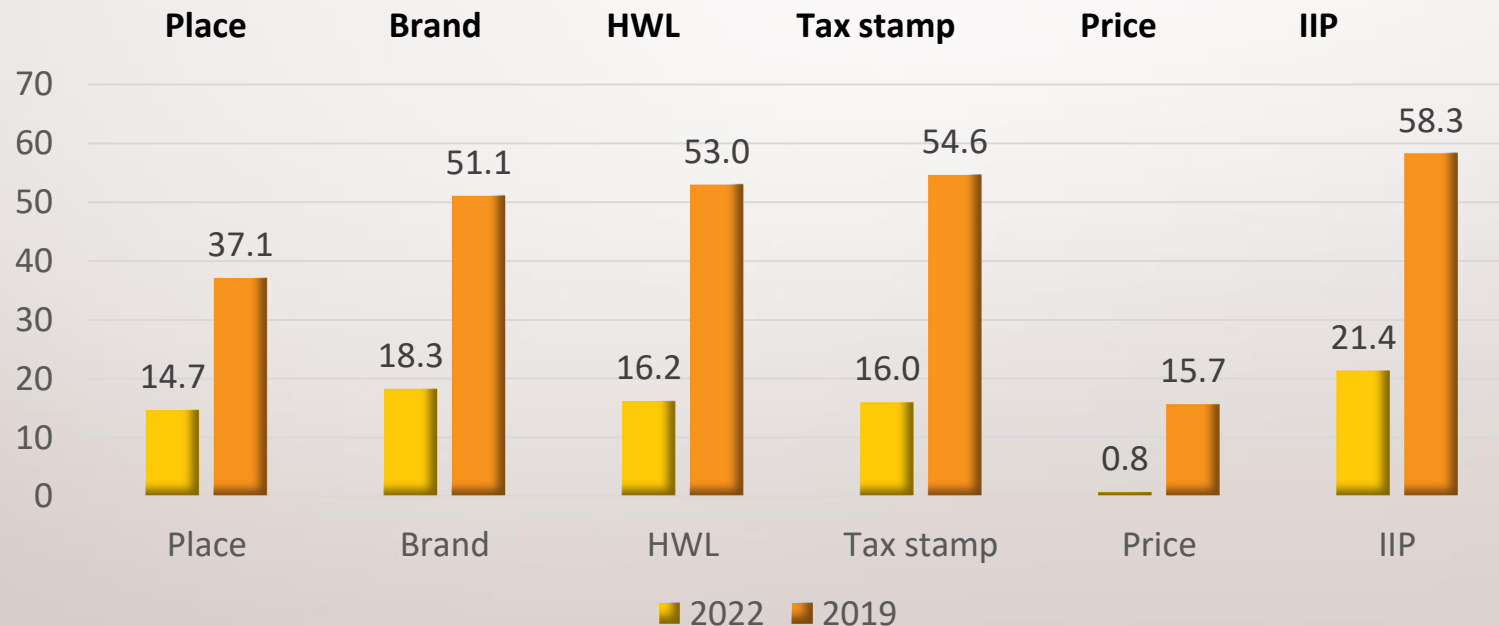
419.5 tonnes
for first 5
months in
2024

Research

- Size and factors of the illicit cigarette market in Montenegro.
- Three surveys were conducted: two surveys of smokers in 2019 and 2022 and one littered pack collection survey in 2022.
- Gap analysis - to investigate whether there was a sudden shock in the illicit market due to specific legislative changes: tax-paid cigarette sales vs. estimated consumption from HBS (2006–2017).

Results – smoker's survey

- The share of the illicit market for cigarettes decreased by half in 2022 to 22.1 percent compared to 51 percent in 2019.



There is no tax avoidance

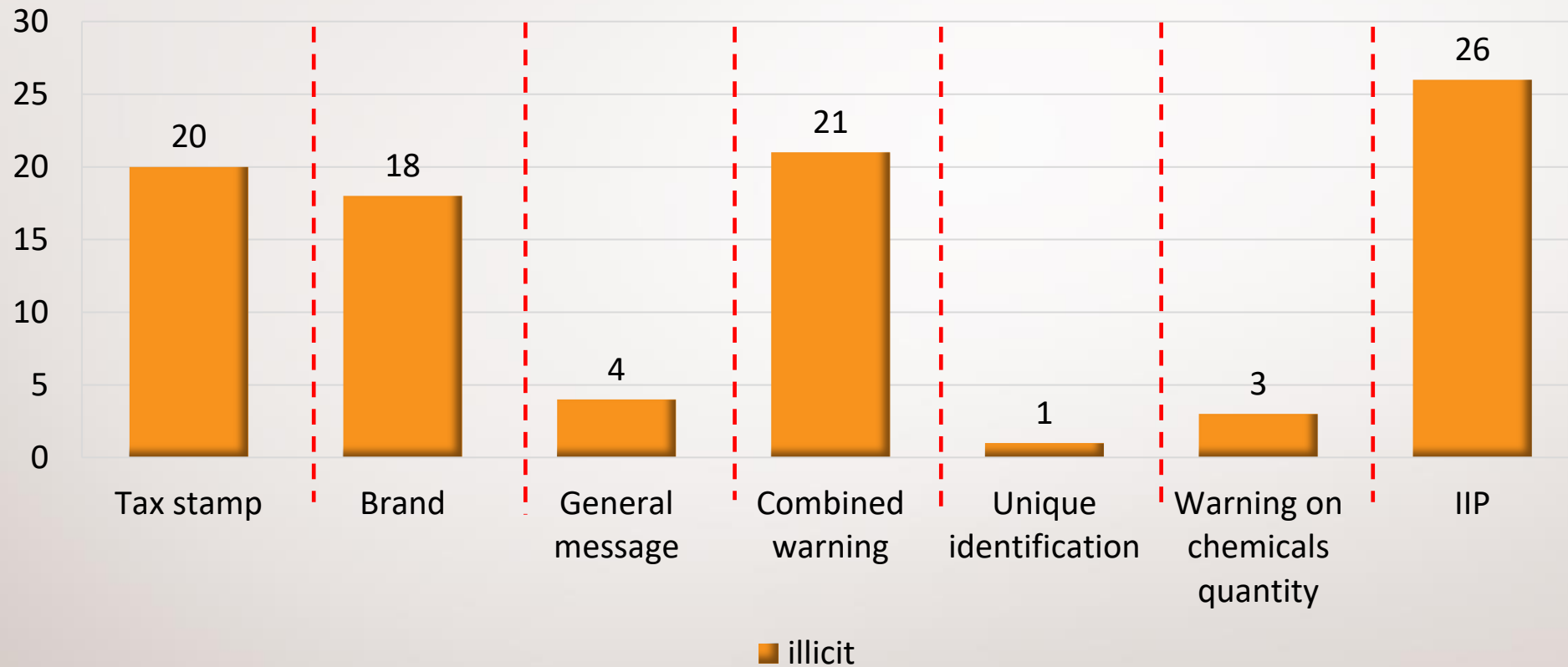
Results – smoker's survey

- Smokers who are ***unemployed*** (and pensioners), ***low-income***, and ***more than 25 years old*** are more likely to buy illicit packs.
- ***Females*** are more prone to buy illicit packs.
- This implies that the most ***economically disadvantaged groups*** and adults are more likely to buy such products.
- Poorer households on average spend a larger share (21.1 percent) of their budget on cigarettes than other income groups (between 5.3 and 7.1 percent).

Results – littered packs survey

- The proportion of illicit cigarettes estimated by the littered packs survey is slightly larger (26 percent) compared to the share from the smokers' survey (22.1 percent) in 2022.
- However, when considering only illegal brands and missing tax stamps as illicit, the percentage size of the illicit cigarette market calculated from the smokers' surveys and littered pack collection survey is approximately the same.

Results – littered packs survey



Highest number of illicit cigarettes found on the North

Results – gap analysis

- The gap analysis trend results implied that the non-tax-paid market grew in relative terms from 2013 to 2017.
- Unfortunately, due to the lack of HBS data after 2017, the estimation could not be performed for the subsequent years.

Large decline in illicit trade – Government of Montenegro intervention

- The government of Montenegro's enactments of a ***prohibition of the storage of cigarettes in the country's main free-trade zone in the Port of Bar*** in July 2021 and concomitant increased surveillance measures.
- This prohibition in 2021 almost certainly contributed to the large decline in the market share of illicit cigarettes.
- It is considered an ***international best practice to prohibit the storage*** of goods like cigarettes that are easy to smuggle ***in free-trade zones***.
- At the same time, the government also ***strengthened surveillance of the free-trade zone***, located in ***Novi Duvanski Kombinat Podgorica*** (NDKP).

Recommendations

➤ Tobacco tax evasion undermines the effectiveness of tobacco taxation.

1. Tax increases & compliance of tax regimes and policies on the regional level.
2. Strong control of free-trade zones - policies concerning customs and tax administration are instrumental in blocking the flow of illicit products.
3. Strong penalties for any involvement in the illicit tobacco market.
4. Up-to-date technologies – high-tech digital stamps, digitalization (tracking system).
5. Implementing mass media campaigns and funding cessation services that target subgroups who are more likely to consume illicit cigarettes, such as low-income smokers.

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- **THANK YOU FOR YOUR ATTENTION!**