

# Montenegro

*Overview of*

## TOBACCO USE, TOBACCO CONTROL LEGISLATION, AND TAXATION

World Bank Group  
Global Tobacco Control Program  
Country Brief

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# Montenegro

## Overview of Tobacco Use, Tobacco Control Legislation, and Taxation

### A Country Brief

#### Executive summary

Montenegro became a Party to the WHO Framework Convention on Tobacco Control in 2006 and ratified the Protocol to Eliminate Illicit Trade in Tobacco Products in 2017.

Tobacco excise hikes, undertaken in Montenegro in 2009-2011, were successful both in fiscal and public health terms. Revenues from tobacco excises rose from about 4 million in 2007 to 44 million euro in 2011. Annual cigarette sales declined from more than 1.5 billion cigarettes in 2008-2011 to less than 1 billion cigarettes in 2014 and further years. However, in 2013-2016, tobacco excise increases were too small to reduce tobacco affordability and tobacco sales, and tobacco revenues did not change much.

In August 2017, Montenegro adopted an ambitious plan of excise tax increases; however, the tobacco industry responded with series of hidden actions (forestalling and price over-shifting) which temporarily reduced tobacco excise revenue in early 2018. As the next high increase of excise rate was scheduled for January 2018, and at the same time, VAT rate increased from 19% to 21%, the industry substantially increased cigarette supply in the second half of 2017 and sharply reduced it in early 2018 as it already had in stocks large numbers of cigarettes for which excise was paid in 2017. The excise revenue substantially increased in late 2017, but declined in early 2018 despite the excise rate increase.

The industry organized the media campaign to persuade the government that this revenue decline was allegedly caused by tax-driven growth in cigarette smuggling (while no rigorous evidence of such growth was presented), and the only way to fight smuggling is the reduction of cigarette excise. From September 2018, the excise rates were reduced, while they are still higher than those planned before 2017.

The plan of annual tobacco excise changes until 2025 was already adopted by authorities, but the proposed changes have rather low potential to reduce the tobacco consumption and to increase government revenue. The expected total excise rate in 2025 will be below 90 euro (minimum EU level).

Montenegro is able to conduct a more aggressive and successful tobacco taxation policy which can both reduce tobacco consumption and increase tobacco revenue. The following recommendations can help to make such policy more successful:

- Annually increase the specific excise rates by at least 5 euro per 1000 cigarettes and do not decrease the ad valorem rate.
- Annually increase excise rates for other tobacco products, including novel tobacco products.
- Introduce effective policies against forestalling using the successful experience of other countries.
- Develop the tobacco use surveillance and monitoring, including regular collection of information on smoking prevalence, licit and illicit cigarette sales, prices and other economic indicators.
- Implement the effective policies to counteract the tobacco smuggling and other kinds of illicit tobacco sales in line with the provisions of the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products.

## **Acknowledgments**

This country brief was prepared by a team from the World Bank Group Global Tobacco Control Program led by Patricio V. Marquez, including Konstantin Krasovsky, and Tatiana Andreeva.

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## Introduction

### *The Objective of the Country Brief*

This country brief presents an overview of current tobacco control legislation, tobacco use, and taxation policy in Montenegro. Data and information were collected from various sources. The brief is intended to serve as the context for complementary assessments on different aspects of tobacco taxation in the country to be shared with government teams and other national and international stakeholders.

After the breakup of Yugoslavia in 1992, the republics of Serbia and Montenegro together established a federation named 'The Federal Republic of Yugoslavia'. In 2003, it renamed itself as 'Serbia and Montenegro'. On the basis of an independence referendum held on 21 May 2006, Montenegro declared independence on 3 June of that year.

The objectives of the paper are:

- Estimate recent trends in tobacco smoking and tobacco control policies in Montenegro;
- Estimate the impact of tobacco taxation policy on tobacco consumption and tobacco excise revenues in Montenegro between 2008 and 2016.

## Tobacco use and prevalence of smoking

### Tobacco use among adults

Estimates of the prevalence smoking in former Yugoslavia are available from the MONICA project surveys, conducted in 1984-1995 [1]. Results by age, gender, and survey dates are summarized in Table 1. However, the limitation of the data is that this could be not fully representative of the situation in Montenegro.

**Table 1. The prevalence of daily cigarette smoking (%) in Yugoslavia MONICA collaborating center in 1984-1995**

|        |       | Survey time |             |             |
|--------|-------|-------------|-------------|-------------|
|        |       | Sep84-Dec84 | Sep88-Apr89 | Sep94-Feb95 |
| Gender | Age   |             |             |             |
| Men    | 25-34 | 70.3        | 60.3        | 63.2        |
|        | 35-44 | 57.9        | 57.9        | 59.7        |
|        | 45-54 | 45.6        | 44.5        | 46.7        |
|        | 55-64 | 36.1        | 38.4        | 34.6        |
|        | 35-64 | 47.9        | 48.1        | 48.6        |
| Women  | 25-34 | 48.3        | 48.7        | 49.0        |
|        | 35-44 | 36.0        | 38.1        | 40.9        |
|        | 45-54 | 22.2        | 20.8        | 27.0        |
|        | 55-64 | 16.6        | 11.7        | 16.9        |
|        | 35-64 | 26.1        | 25.1        | 29.8        |

As the MONICA results show, the prevalence of daily smoking was very high in both men and women, did not have any trend to decrease, and was the highest in the youngest groups. As the same project shows, the

average number of cigarettes smoked per day was also very high at the level of 24 cigarettes for men and 18 cigarettes for women.

It is believed [2] that at the time of the civil war in several Yugoslav republics, more citizens, including children and youth, started to smoke than in previous years. However, this opinion is not supported by the survey data and can be questioned, especially as the later results show lower prevalence at least among men.

The National Tobacco Control Coordinator Prof. Agima Ljaljević informed in the media interview<sup>1</sup> that, according to the Living Standards Measurement Survey (LSMS), the prevalence of smoking in Montenegro was 41.9% in 2004, but it decreased to 32.8% in 2008 (by 9 percentage points, or by 22%).

According to the country FCTC report, the most recent adult (20 years and older) surveys (the National Health Survey) were conducted in 2012 and 2008. The prevalence of current smoking decreased from 32.8% in 2008 to 31% (35% among men and 27% among women) in 2012 [3, 4].

In 2012-2008, the prevalence of smoking mainly declined in the younger adult age groups: in the age group 20-34, it decreased from 29.6% to 26%, and in the age group 35-44, from 40.3% to 37%, while current smoking rates increased in the age groups 45-54 and 55-64 years old.

According to the General Population Survey on Substance Use in Montenegro<sup>2</sup>, in 2017, more than a third (35.4%) of all adults (aged 15-64 years old) reported current smoking. Among all adults, 17.1% smoked at some point in their lifetime and quit smoking later on; 47.6% of respondents reported abstinence from smoking throughout the lifetime. In the subpopulation of young adults (aged 15-34 years), one in four (25.5%) reported current smoking, 13% reported quitting smoking, while the majority of respondents in this subpopulation never smoked (61.4%). Almost one in five young respondents aged 15-24 were active smokers (18.7%). Almost one in ten of them quit smoking (10.3%), and 71% of young respondents never smoked by the age of 24.

By gender, the prevalence of current smoking is 36.2% among adult men and 34.5% among women. Slightly more men than women are former smokers (17.5% vs. 16.6%). Likewise, slightly more women than men abstained from smoking throughout their lifetime (48.9% of women vs. 46.3% of men).

### **Tobacco use among adolescents**

According to the Global Youth Tobacco Survey (GYTS), Montenegro is generally classified as a country with low prevalence of smoking [5].

The first GYTS conducted in Montenegro in 2003 [6, 7] showed that "3.6% of adolescents were current smokers and one in three students (30.6%) experimented with smoking. More than two thirds who smoked agreed that they should quit smoking, and three-fourths tried to quit. This study has also shown that children are exposed to passive smoking at home and elsewhere". Another analysis based on this same data

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<sup>1</sup> <http://www.rtvbudva.me/vijesti/u-crnoj-gori-pusi-31-odsto-stanovnistva/11034>

<sup>2</sup> [http://www.emcdda.europa.eu/attachements.cfm/att\\_261864\\_EN\\_2-%20Final%20Report%20GPS%20Montenegro%202017.pdf](http://www.emcdda.europa.eu/attachements.cfm/att_261864_EN_2-%20Final%20Report%20GPS%20Montenegro%202017.pdf)

[8] concluded that the prevalence of current smoking among boys was the lowest among all participating countries (6.0%).

According to the GYTS conducted in 2008 [9], more than 30% of students aged 13 to 15 tried smoking, 5.1% smoked cigarettes (5.7% boys and 4.4% girls), and 3.6% of students used tobacco products other than cigarettes. Four in 10 ever smokers started to smoke before the age of 10. More than half of the students reported secondhand smoke exposure at home. Almost all (96.5 %) current smokers had experience of buying cigarettes in a store. Two in 10 students owned an artifact with a cigarette or tobacco brand logo on it.

In the GYTS conducted in 2014 and comprising 3,573 adolescents aged 13-15 years [10], the prevalence of current cigarette smoking (self-reported smoking cigarettes on at least 1 day in the past 30 days) was 6.9% (3.4–13.5) among all adolescents, 10.8% (4.6–23.3) among male adolescents and 2.8% (1.7–4.5) among female adolescents. The overall prevalence and the prevalence among male adolescents is slightly lower but not statistically different than in neighboring Bosnia and Herzegovina and Serbia. However, the prevalence of smoking among female adolescents is significantly and by 2-4 times lower than in these two countries where it amounts to 8.8 (7.0–11.2) in Bosnia and Herzegovina and to 13.3 (9.8–17.8) in Serbia which is higher than among male adolescents in this country.

However, GYTS data revealed that the prevalence of current cigarette smoking among adolescents in Montenegro increased from 3.6% in 2003 to 5.1% in 2008 and 6.9% in 2014.

According to the European School Survey Project on Alcohol and Other Drugs (ESPAD - <http://www.espad.org>), lifetime use of cigarettes by adolescents (aged 15-17 years old) in Montenegro in 2007-2011-2015 remained stable (34-35%). The prevalence of current (during the past 30 days) cigarette use was 12% in 2007 and 2011, but increased to 15% in 2015, while it is lower than ESPAD average (21% in 2015, 28% in 2007 and 2011). The prevalence of smoking among boys increased from 13% in 2007 to 15% in 2011 and 18% in 2015, while among girls, it was 12%, 9%, and 12% respectively.

So, over recent years, some increase in smoking prevalence among adolescents was observed, especially among boys. This trend is the opposite of the smoking prevalence trend among adults.

The prevalence of smokeless tobacco use, according to the Global Youth Tobacco Survey, among adolescents aged 13–15 years in 2007-2011 was reported [11] to be 1.1% which is the lowest among the participating countries.

### **Health data and research: the burden of tobacco-related diseases**

In terms of population health research, the countries of former Yugoslavia have been referred to as 'probably the least explored region in Europe' [12]. Currently, in the WHO Euro 'Health for All' database, most indicators for Montenegro are not reported after 2009.

## Lung cancer

According to the European Health Information Gateway Health for All explorer<sup>3</sup>, the only available estimate of Incidence of trachea, bronchus, and lung cancer per 100,000 in Montenegro was for year 2013, and it constitutes 54 per 100,000 among all, 29 among women and 80 among men. When compared to the neighboring countries, this indicator is lower than in Serbia and Croatia and higher than in Bosnia and Herzegovina and Albania.

A population-based study analyzing lung cancer mortality in Montenegro in the period 1976-2000 [13] showed that the highest average standardized lung cancer mortality rates in Montenegro increased in each successive five-year period for both sexes from 1976 to 2000, with highest indicators in the last five-year period (1996-2000). In males, the death rate has almost doubled, and in females, it became nearly three-fold higher. In the cohort analysis of age-specific death rates, all age groups in the birth cohort born before 1911 had a higher lung cancer mortality risk than those in the birth cohort comprising those born between 1912 and 1931. The rates showed an increasing tendency in all age groups irrespective of sex, except for males in the group aged 25-44 years. The time analysis of lung cancer mortality rates for the period 1976-2000 revealed annual changes of 3% for males and 6.6% for females, respectively. During the period of observation, the consumption of cigarettes increased by 98.2% (from 1.064 kg per capita in 1965 to 2.109 kg per capita in 1990). The significant upward trend ( $y=1.10+0.05x$ ,  $P=0.001$ ) was registered in cigarette consumption. A significant correlation between lung cancer mortality rates and cigarette consumption is also observed ( $r=0.427$ ,  $P=0.037$ ).

## Laryngeal cancer

A hospital-based case-control study of risk factors of laryngeal cancer conducted in Montenegro [14] pointed out that two tobacco-related factors were among those independently associated with risk of laryngeal cancer: cigarette smoking for more than 40 years (OR=4.32, CI 95% = 1.69 to 11.06) and smoking more than 30 cigarettes per day (OR=4.24, CI 95% = 1.75 to 10.27).

## Tobacco control policies

Antismoking activities were relatively developed in former Yugoslavia. At least as early as in 1982, medical students of the former Yugoslavia started a national preventive campaign "January 31st, a Day without Cigarette". This campaign was soon recognized by the World Health Organization (WHO) as one of "the most successful preventive achievement of medical students in Europe" [2].

The Law on the restriction of tobacco product use was adopted in Montenegro in 2004 and amended in 2011 and 2016<sup>4</sup>

As documented in the country profile information [3, 4], various parts of the WHO MPOWER package are currently at differing levels of implementation.

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<sup>3</sup> <https://gateway.euro.who.int/en/hfa-explorer/>

<sup>4</sup> Zakon o ograničavanju upotrebe duvanskih proizvoda  
<http://www.aduvan.co.me/Dokumenti/Zakoni/Zakon%20o%20ogranicavanju%20upotrebe%20duvanskih%20proizvoda.pdf>

## **Smoke-free places**

Although smoke-free environments are provided in health-care facilities, educational facilities, universities, and government facilities, no compliance with the requirements of the FCTC has been achieved with regard to public transport, indoor offices and workplaces as well as restaurants, cafés, pubs and bars..

## **Smoking cessation**

As reported [4], although smoking cessation support is covered by the national/federal health insurance or the national health service, none of the smoking cessation medicines are legally sold in the country.

## **Health warnings**

Health warnings written in Montenegrin language cover 30% of the front and 40% of the back side. According to the EU Directive 2001/37, tobacco packs are bearing information on the content of tar and nicotine.

## **Tobacco advertising, promotion, and sponsorship**

While most of the FCTC and MPOWER requirements are reported to be met, as reported [4], Montenegro did not achieve the ban of direct tobacco advertising at point of sale, and did not ban appearance of tobacco products in TV and/or films. Additionally, based on the Global Youth Tobacco Survey conducted in 2003-2004 [8], Montenegro, along with Poland and Serbia, was mentioned among the countries with more than 20% of adolescents reporting to have been offered free cigarettes.

Based on the Global Youth Tobacco Survey data [10], Montenegro was mentioned among the countries with very high access of adolescent smokers to purchasing cigarettes in retail outlets: 95.1% of current cigarette smokers aged 13-15 years reported purchasing cigarettes from a retail outlet such as a store, street vendor, or kiosk during the past 30 days. Purchasing cigarettes in packs was reported by 85.4% (67.1–94.4) and in single cigarettes by 5.5 (1.9–14.9).

## **Tobacco taxation policy**

### *Data sources*

Data on tobacco excise rates and the weighted average prices were taken from the official documents published on various Montenegrin sites. Data on consumer prices and other indices were taken from the website of the Montenegro Statistical Office (<http://monstat.org/eng/index.php> ). Data on tobacco revenues and some other indices were taken from the country FCTC reports and media reports. Data on retail prices of cigarette brands were taken from official price announcements.

### **Tobacco taxation changes in 2009–2019**

Montenegro has a mixed excise system that includes both a specific tax component and an ad valorem tax component. From 2009, tobacco excise rates for cigarettes in Montenegro were changed almost every year (Table 2).



In 2009-2012, the excise increases were rather high, but then the rates of increases were slowed down. In 2014, some amendments to the Law on Excise Taxes were adopted. They set that in 2014-2019, the specific cigarette excise would be annually increased by 2 euro per 1000 cigarettes, while ad valorem excise would be annually decreased by one percentage point.

In July 2017, the new amendments to the Law on Excise Taxes were adopted (Law 050/17 of 31.07.2017<sup>5</sup>), and the specific excise rates for cigarettes were set much higher: 30 euro per 1000 cigarettes from August 1, 2017, 40 euro from January, 2018 and 50 from January, 2019, while the ad valorem excise was kept at 32% for all those years.

However, one year later, another amendment (Law 055/15 of 1.08.2018<sup>6</sup>) was adopted, which substantially reduced specific excise rate: from 40 euro to 30 euro per 1000 cigarettes. It was also set that there would be no changes in cigarette excise rates in 2019 and then, specific excise rate would be annually increased by 3.5 euro per 1000 cigarettes, while ad valorem excise will be annually decreased by 1.5 percentage point (Table 2).

Article 50b of the Law on Excise taxes sets the minimum specific excise tax, which is paid when the sum of specific plus ad valorem excise is lower than the minimum excise. The minimum specific excise is set equal to 100% of the total excise tax (specific and ad-valorem) for cigarettes of the weighted average retail selling price (WAP). The Ministry of Finance is obliged to publish the weighted average retail selling prices (before February 2014 – the price of the most popular price category cigarettes), that are used as a base for calculating the minimum specific excise rate for the specified periods of time.

The increase in the minimum specific excise rate was very large in 2011 and 2012 (36-56%), but in 2013 and 2014, the increase was slowed down (17-20%) and in 2015-2017, it was rather small (5-6%). Two excise increases of August 2017 and January 2018 increased the minimum excise by 35%, but then it was reduced by 14% in September 2018.

The excise tax rate for the fine-cut tobacco was increased from 32 euro to 40 euro per 1 kg in 2011, but in 2014, it was decreased to 25 euro per 1 kg. From August 2017, the rate was increased to 54 euro per 1 kg, but from September 2018, it was reduced again to 30 euro. In 2019-2024, excise rate for fine-cut tobacco will annually increase by 5 euro per 1 kg.

The excise tax rate for cigars and other tobacco was increased to 25 euro per 1 kg in 2011 and did not change since.

From August 2017, the excise for liquids for electronic cigarettes is 0.9 euro per 1 ml (Article 49b of the Law on Excise Taxes), which is higher than in most other countries which set such taxes [15]. However, some internet shops in Montenegro sell such liquids for a price which is below the excise rate. So, the enforcement of such taxation should be strengthened.

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<sup>5</sup> <http://www.upravarina.gov.me/rubrike/akciza/175114/Saopstenje.html>

<sup>6</sup> <http://www.upravarina.gov.me/rubrike/akciza/189839/Obavjestenje-o-izmjenam-i-dopunama-Zakona-o-akcizama-SL-list-CG-br-55-18-od-01-08-2018-g.html>

Montenegro introduced VAT in April 2003. VAT rate in Montenegro was increased from 17% to 19% starting from July 1, 2013. From January 1, 2018, the VAT rate increased from 19% to 21%.

### Cigarette taxes and prices in the neighboring countries

Tobacco excise rates in the neighboring countries (effective in May 2019) are presented in Table 3.

**Table 3. Tobacco excise taxes in Montenegro, Albania, Croatia, Serbia, Bosnia and Herzegovina in May 2019**

|                                     | Specific excise per 1000 cigarettes |           | Minimum specific excise per 1000 cigarettes |             | Ad valorem excise, | VAT       | Weighted average price (WAP) per pack of 20 cigarettes |             | Total tax (VAT + excise) |
|-------------------------------------|-------------------------------------|-----------|---|-------------|--------------------|-----------|--|-------------|--------------------------|
|                                     | local currency                      | euro      | local currency                              | euro        | %                  | %         | local currency   | euro        | % in the final price     |
| <b>Montenegro<sup>7</sup></b>       | <b>na</b>                           | <b>30</b> | <b>na</b>                                   | <b>63,6</b> | <b>32</b>          | <b>21</b> | <b>2,1</b>   | <b>2,10</b> | <b>77,9</b>              |
| Albania <sup>8</sup>                | 6000                                | 48        | 6000  | 48          | na                 | 20        | 250  | 2,00        | 64,7                     |
| Bosnia and Herzegovina <sup>9</sup> | 82,5                                | 42        | 143   | 73          | 42                 | 17        | 5,2  | 2,65        | 88,3                     |
| Serbia <sup>10 11</sup>             | 3535                                | 30        | 7762  | 66          | 33                 | 20        | 256,16   | 2,17        | 77,3                     |
| Croatia <sup>12</sup>               | 335                                 | 41        | 755   | 102         | 34                 | 24        | 24,88  | 3,35        | 80,2                     |
| Slovenia <sup>13</sup>              | na                                  | 71        | na  | 111         | 23                 | 22        | 3,51   | 3,51        | 81,3                     |

\*As there are no official weighted average cigarette prices in Albania, and Bosnia-and-Herzegovina, the price of Winston were used in place of the WAP.

In 2019, the cigarette prices and excise rates for cigarettes in Montenegro were close to those in Serbia, higher than in Albania but lower than in Slovenia, Croatia and Bosnia-and-Herzegovina. The minimum excise rate for the WAP cigarettes in Montenegro is 64 euro for the 1000 WAP cigarettes, which is much lower than the minimum EU level (90 euro).

<sup>7</sup> <http://www.upravacarina.gov.me/rubrike/akciza/189839/Obavjestenje-o-izmjenam-i-dopunama-Zakona-o-akcizama-SL-list-CG-br-55-18-od-01-08-2018-g.html>

<sup>8</sup> <http://www.dogana.gov.al/dokument/2231/ligji-98-2018-per-disa-shtesa-dhe-ndryshime-ne-ligjin-61-2012-per-akcizat-ne-rsh>

<sup>9</sup> <http://www.sluzbenilist.ba/page/akt/ccg4ohz4nh78h77gKVt7E=>

<sup>10</sup> <https://www.mfin.gov.rs/pages/article.php?id=13709>

<sup>11</sup>

<https://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2019/Odluka%20o%20iznosima%20prosecnih%20ponderisanih%20maloprodajnih%20cena%20i%20minimalnih%20akciza%20na%20duvanske%20preradjevine.pdf>

<sup>12</sup>

[http://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/taxation/excise\\_duties/tobacco\\_products/rates/excise\\_duties-part\\_iii\\_tobacco\\_en.pdf](http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/excise_duties/tobacco_products/rates/excise_duties-part_iii_tobacco_en.pdf)

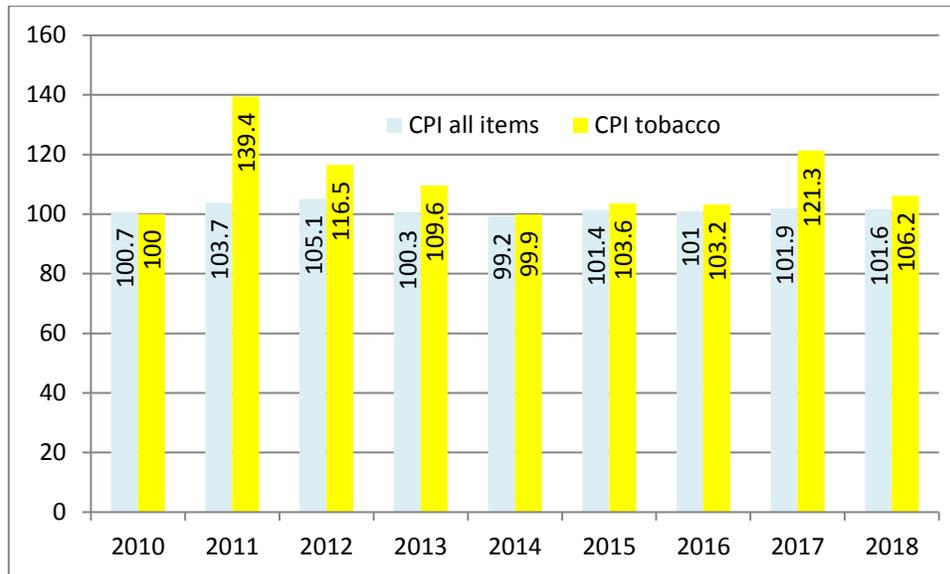
<sup>13</sup>

[http://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/taxation/excise\\_duties/tobacco\\_products/rates/excise\\_duties-part\\_iii\\_tobacco\\_en.pdf](http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/excise_duties/tobacco_products/rates/excise_duties-part_iii_tobacco_en.pdf)

## Cigarette prices

Cigarette consumer price growth was above inflation since 2011 (Figure 1). However, only in 2011-2013 and 2017, consumer price index (CPI) for cigarettes substantially exceeded CPI for all items.

**Figure 1. Consumer Price Index (CPI) for all items and tobacco products in Montenegro in December 2010-2018 (December previous year = 100).**



From January 2010 to January 2014, the Ministry of Finance published the price of the most popular price category (MPPC) cigarettes, which increased from 0.6 euro to 1.3 euro, or by 117% in four years.

Since February 2014, the Ministry of Finance has been calculating and publishing weighted average price (WAP) for cigarettes (see Table 2). In 2014-2017, the WAP for 20-cigarette pack increased from 1.55 euro to 1.9 euro, or by 23% in three years. The WAP for 2018 was set<sup>14</sup> at 2.1 euro per pack. In March 2019, the Government decided *“In order to ensure the stability of the cigarette market, as well as to preserve budget revenues on this basis”* to maintain the average weighted retail price of cigarettes from 2018 in 2019 (EUR 2.10 per pack)<sup>15</sup>, while the actual average price was already higher.

In 2009-2011, the specific excise rate was increased 3-fold (see Table 2), while the ad valorem rate slightly decreased. Such changes mainly resulted in price increase of cheap brands. According to the FCTC country reports<sup>16</sup>, the price of domestic brand 'Lovcen' increased from 0.55 euro per pack of 20 cigarettes in 2010 to 1.1 euro in 2013 and 1.3 euro in 2015. The price of brand 'Drina', imported from Bosnia and Herzegovina, was 0.7 euro per pack in 2010, 1.3 in 2013, and 1.4 in 2015. The price of Marlboro increased from 1.5 euro per pack in 2008 to 2 euro in 2011, 2.2 euro in 2012, 2.4 euro in 2013, and 2.6 euro in 2015.

<sup>14</sup> <http://www.aduvan.co.me/Dokumenti/Pravilnik123456.pdf>

<sup>15</sup> <https://www.paragraf.me/dnevne-vijesti/18032019/18032019-vijest2.html>

<sup>16</sup> <http://apps.who.int/fctc/implementation/database/parties/Montenegro>

In July 2016, the cheapest brand (York) had price 1.5 euro per pack of 20 cigarettes. Other popular brands (Drina, Ronhill, Viceroy) had prices 1.6-1.7 euro per pack. Marlboro was sold for 2.7 euro per pack.

The Statistical Office of Montenegro publishes monthly data on price changes<sup>17</sup>. According to these reports, cigarette prices changed only in very few months in 2015-2018, each time after the excise change. Prices of cigarettes increased by 3.6% in April 2015, by 3.3% in April 2016, by 4.6% in April 2017, by 16% in August 2017, and by 17.7% in January 2018, and then the prices decreased by 9.8% in September 2018.

In January 2015, the weighted average price was defined to be 1.7 euro per pack of 20 cigarettes. We used this price as the basis to calculate average prices in line with the official information on cigarette price increases presented above and to estimate the trends in cigarette price components. Official levels of tax rates presented in Table 2 were used for these calculations.

**Table 4. Average cigarette prices and price components in 2015-2018, Euro per pack of 20 cigarettes**

|                   | Jan 2015 | Apr 2015 | Apr 2016 | Apr 2017 | Aug 2017 | Jan 2018 | Sep 2018 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|
| Price             | 1,70     | 1,76     | 1,82     | 1,90     | 2,21     | 2,60     | 2,34     |
| Specific excise   | 0,38     | 0,40     | 0,44     | 0,48     | 0,60     | 0,80     | 0,60     |
| Ad valorem excise | 0,60     | 0,60     | 0,60     | 0,61     | 0,71     | 0,83     | 0,75     |
| Total excise      | 0,98     | 1,00     | 1,04     | 1,09     | 1,31     | 1,63     | 1,35     |
| VAT               | 0,27     | 0,28     | 0,29     | 0,30     | 0,35     | 0,45     | 0,41     |
| Total tax         | 1,25     | 1,28     | 1,33     | 1,39     | 1,66     | 2,08     | 1,76     |
| Net-of-tax price  | 0,45     | 0,48     | 0,49     | 0,51     | 0,55     | 0,52     | 0,59     |
| Excise share, %   | 57,4     | 56,7     | 57,2     | 57,2     | 59,2     | 62,8     | 57,6     |

The tobacco industry increased its part of the price (net-of-tax) usually in line with excise burden increase, so the excise share in the final price almost did not change over 4 years and was about 57%. In 2015-2018, the net-of tax price increased by 29% while inflation for those years combined was just 6%.

## Tobacco affordability

The Guidelines for implementation of Article 6 of the WHO FCTC [16] recommend: *“When establishing or increasing their national levels of taxation Parties should take into account – among other things – ... changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence”*. In the Guidelines, “affordability” means price relative to per capita income.

In the current analysis, a tobacco affordability index (TAI) [17] is used to estimate the changes in tobacco affordability in 2008–2018 (Table 5). As national statistics do not provide reliable indicators of either individual or household income, we used the World Bank indicator Annual percentage growth rate of GDP per capita based on constant local currency<sup>18</sup>. As the GDP change is expressed in constant (adjusted for the effects of price inflation) local currency, the price indicator is also expressed in real (inflation-adjusted) terms. The TAI is calculated as follows: GDP annual change divided by (inflation-adjusted) tobacco price

<sup>17</sup> <http://monstat.org/eng/page.php?id=26&pageid=26>

<sup>18</sup> <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG>

increase minus 100:  $(\text{GDP growth} * \text{CPI\_all\_items} / \text{CPI\_tobacco} - 100)$ . A negative TAI value means that tobacco became less affordable, and tobacco consumption is expected to decrease.

**Table 5. Tobacco affordability in 2008-2018**

|   | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| CPI all items, previous year = 100                | 109,2 | 103,4 | 100,5 | 103,1 | 104,1 | 102,2 | 99,3  | 101,4 | 101,0 | 101,9 | 101,6 |
| CPI tobacco, previous year = 100                  | 101   | 105,1 | 101,7 | 129,2 | 125,7 | 105,3 | 99,9  | 103,6 | 103,2 | 121,3 | 106,2 |
| GDP per capita annual growth, previous year = 100 | 106,7 | 94,1  | 102,3 | 103,1 | 97,2  | 103,4 | 101,7 | 103,3 | 102,9 | 104,7 | 104,5 |
| Tobacco Affordability Index                       | 15,4  | -7,4  | 1,1   | -17,7 | -19,5 | 0,4   | 1,1   | 1,1   | 0,7   | -12,0 | 0,0   |

In 2008, tobacco products became more affordable. Tobacco affordability reduction in 2009 was mainly caused by the economic recession. Tobacco excise hikes implemented in 2011 and 2012 (see Table 2) substantially reduced tobacco affordability, but in 2013-2016, tobacco affordability did not change much. Tax hike of 2017 also reduced tobacco affordability, but in 2018, after the excise rate reduction from September, the affordability did not change.

## Tobacco sales and consumption

In Montenegro, cigarettes were sold by 14 manufacturers of cigarettes, of which 12 were foreign.

In 2008, 1,700 tons of cigarettes were sold, of which 85% were imported, and only 15% of sales were of domestic production<sup>19</sup>. In 2013, the market share of cigarettes from domestic production was only 3%. Philip Morris had the largest market share (34%), followed by Sarajevo tobacco factory (18%) and tobacco factory Rovinj from Croatia (12%)<sup>20</sup>.

Data on cigarette turnover (production + import – export) were taken from the FCTC country reports, UN database, and official statistical reports. Results of analysis are presented in Table 6. It should be noted that production data are presented in million sticks, while export and import in kilograms, so the turnover calculations are not precise.

**Table 6. Cigarette production, import, and export, million cigarettes**

|            | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------|------|------|------|------|------|------|------|------|------|------|
| Production | 171  | 153  | 108  | 142  | 535  | 1186 | 1206 | 1096 | 517  | 0    |
| Import     | 1543 | 1561 | 1643 | 1414 | 1120 | 1105 | 936  | 920  | 938  | 936  |
| Export     |      |      | 69   | 43   | 482  | 1172 | 1187 | 1084 | 132  | 12   |
| Turnover   | 1714 | 1714 | 1682 | 1513 | 1173 | 1119 | 955  | 932  | 1323 | 924  |

<sup>19</sup> <http://www.aduvan.co.me/vijest/11/za-godinu-prodato-1700-tona-cigareta>

<sup>20</sup> <http://portalanalitika.me/clanak/137110/siva-ekonomija-prihodi-budzeta-od-akciza-na-cigarete-manji-od-planiranih-zbog-visokog-ucesca-crnog-trzista>

Annual cigarette turnover decreased from about 1.7 billion cigarettes in 2008-2010 to about 1.2 billion cigarettes in 2012-2013, or by about 30%. In 2014-2017, the annual turnover was about 1 billion cigarettes. The observed sharp increase in turnover in 2016 can be caused some misleading statistics, as Basic [18] presents the curve of sales, and in 2016, the sales were also below 1 billion cigarettes. However, taxable cigarette sales did increase in 2016<sup>21</sup>.

In 2016, cigarette production in Montenegro was terminated.

Statistical office of Montenegro published annual and monthly data<sup>22</sup> on cigarette and tobacco export and import only in monetary form; however, these data demonstrate some trends. Some imported cigarettes are re-exported, so we calculated the balance between export and import as a proxy for sales in 2017 and 2018, as there was no domestic cigarette production in these years. In the first half of 2017, the net balance was 6.6 million euro, but in the second half of 2017, it increased by 25% to 8.3 million euro. In the first half of 2018, the balance sharply declined to 2.6 million euro, but in the second of 2018, it returned to the level of the previous year – 8.3 million euro. In January-April 2019, the net balance was 2.5 billion euro, which was 1.4 million euro (132%) more than in the same period of 2018.

## **Tobacco excise revenue**

Revenues from excise taxes on tobacco products rose from about 4 million in 2007 to 44 million euro in 2011 [18]. Over these years, tobacco excise rates were substantially increased (Table 2).

Then, in 2012-2015, excise revenues were in the range of 42-48 million euro as the increase in excise rate was rather small, and sales gradually declined.

According to the monthly customs reports, excise revenue from imported tobacco was 50 million euro in 2016. In 2017, the revenue was 57.3 million euro or 14% higher than in 2016. However, in 2018, the excise revenue decreased to 40.63 million euro.

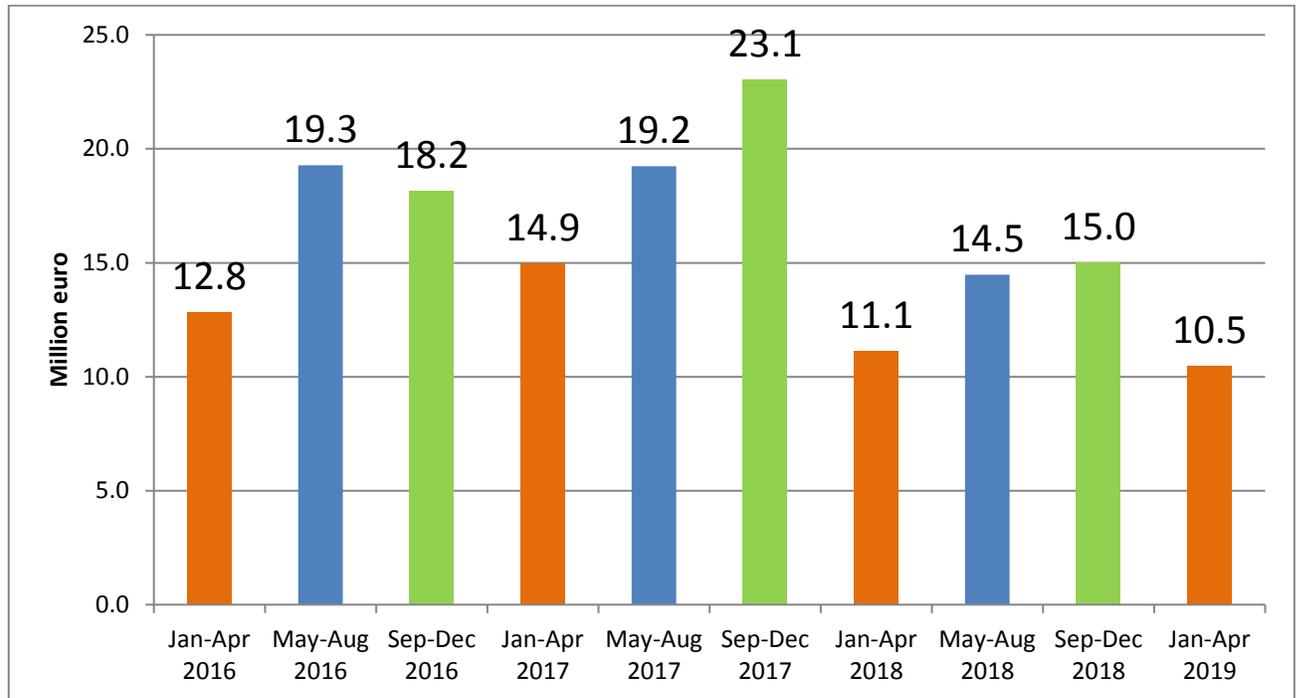
The customs service issues monthly bulletin containing information on tobacco excise revenue<sup>23</sup>. We used these data to explore the revenue trends in 2016-2019.

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<sup>21</sup> <http://www.vijesti.me/vijesti/cigarete-10-centi-skuplje-od-1-aprila-921047>

<sup>22</sup> <http://monstat.org/eng/page.php?id=417&pageid=417>

<sup>23</sup> <http://www.upravacarina.gov.me/rubrike/aktuelnosti/149759/Pregled-naplate-phrihoda-Uprave-carina.html>

**Figure 2. Tobacco excise revenue in Montenegro in 2016-2019**

From May 2016 to April 2017, the excise rate did not change (Table 2). However, during that period, the revenue gradually declined, and it means that sales also declined. The highest revenue was observed in September-December 2017.

## Discussion

### Causes of tobacco revenue decline in 2018

Tobacco taxation policy in Montenegro experienced dramatic changes in 2017-2018. After the sharp excise increases in August 2017 and January 2018, the excise rates were substantially decreased in September 2018. Japan Tobacco International claimed that losses in excise revenue in Montenegro “*were caused by an aggressive increase in excise and the growth of illegal trade. In order to stop the growth of the black market, it is necessary to revise the excise calendar*”<sup>24</sup>. Prime Minister Dusko Markovic announced in April 2018<sup>25</sup> that the government would conduct a detailed analysis of what is happening in the tobacco market and what would be its best response to the smuggling of tobacco products, which was compounded after an increase in excise taxes on tobacco products.

The Government decided to reduce the excise tax rate as they were persuaded that the revenues had indeed declined due to smuggling growth after the tax increases [19].

<sup>24</sup> <http://www.diplomacyandcommerce.rs/jti-supports-the-announcement-of-reduction-of-excise-taxes-on-cigarettes-in-montenegro-and-bih/>

<sup>25</sup> <https://www.vijesti.me/vijesti/ekonomija/drzava-zbog-sverca-cigareta-izgubila-desetak-miliona>

However, the decline in revenue in early 2018 was not caused by high smuggling rates. This revenue decline was in fact a tobacco industry response to the tax hikes adopted in July 2017, and the industry developed and implemented the plan which eventually persuaded the government to reduce the excise rate.

The plan had the following components:

1. **Cigarette smuggling over-estimating.** In July 2017, when the new excise rates were adopted, the Director of the government Tobacco Tax Agency Branislava Bozovic said: "*Guided by previous experience, when cigarettes excise increases, the black market intensifies its activity. The announced increase in cigarette prices in legal sales can encourage cigarette smugglers to activate this type of sale at the start*"<sup>26</sup>. However, the "smugglers" waited till January 2018 as no decline in sales was seen before that, although the excise rate was first increased in August 2017. In the second half of 2017, cigarette import was 32% higher than in the first half. Only from January 2018, the "smugglers" eventually understood that price difference between licit and illicit cigarettes became high enough and assumingly increased the illegal supply; so, the legal importers had to decrease their sales. However, in September 2018, the excise rate was decreased, and most of the assumed smugglers apparently stopped their activities as in the second half of 2018, the volumes of legal cigarette trade in monetary terms returned to the level of 2017. It was reported that on the black market, a cigarette carton (10 packs) box can be bought for 6 euros, while the cheapest legal box is 22 euros<sup>27</sup>. The excise reduction of September 2018 decreased the average excise burden by 0.26 euro (Table 4 ), and cigarette prices decreased just by 10%, so the price of legal cheapest legal pack declined from 2.2 euro to 2.0 euro. Smokers who already used to buy smuggled cigarettes for 0.6 euro per pack had no reasons to switch back to legal cigarettes just because their average price decreased by 0.25 euro. In December 2017, the representative of the government Tobacco Tax Agency responded that the institution "*has no way to reliably and accurately determine the size of the illegal cigarette turnover*"<sup>28</sup>, so any claims on changes of cigarette smuggling into Montenegro or out of the country are not based on any rigorous evidence. So, the volumes of smuggled cigarettes in the first half of 2018 were substantially overstated by the tobacco industry and its allies, and the decline in cigarette sales at that time was caused not by "high smuggling" but by forestalling.
2. **Forestalling.** The Guidelines for the implementation of Article 6 of the WHO FCTC [16] state: In anticipation of tax increases, manufacturers or importers may attempt to take advantage of the current or lower tax and increase production or stock of products (known as forestalling). Cigarette specific excise was increased in August 2017 by 6 euro per 1000 cigarettes, but from January 2018 it had to be increased by 10 euro more. So, the industry increased the cigarette supply in late 2017 to pay lower taxes and then to keep the taxed cigarettes in stocks and to sell them in retail after the tax increase in 2018. In the second half of 2017, the net balance (difference between import and export) of cigarette trade increased by 25%, and then it decreased 3-fold in the first half of 2018. Because of this, the excise revenues in September-December 2017 were 54% higher than in

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<sup>26</sup> <https://www.vijesti.me/vijesti/ekonomija/cijene-cigareta-od-avgusta-vece-do-40-centi>

<sup>27</sup> <https://www.vijesti.me/vijesti/ekonomija/drzava-zbog-sverca-cigareta-izgubila-desetak-miliona>

<sup>28</sup> <https://www.vijesti.me/vijesti/ekonomija/prodaja-cigareta-pala-za-2-5-odsto>

January-April 2017 (see Figure 2), while the average excise increased just by 26% (see Table 4 ), so the government got more revenue than expected in 2017. However, in the first half of 2018, the cigarette trade balance was 60% lower than in the first half of 2017, and so the revenue also had to decline by a similar extent if the excise rates had been the same. However, the revenue declined only by 28% in the first half of 2018 because the average excise rate in 2018 was about 60% higher, than in 2017.

3. **Price over-shifting.** The industry increased its part of the price between July 2017 and September 2018 by 15% (see Table 4), while inflation was below 2% during this period of time. Such price over-shifting increased industry profits on the declining market but also increased the final retail price, which encouraged both the reduction in tobacco consumption and cigarette smuggling into Montenegro.

One more factor of the excise revenue decline was **VAT increase**. From January 2018, the VAT rate in Montenegro increased from 19% to 21%. It further increased cigarette prices and reduced their affordability and consumption; however, additional revenue from this tax increase was paid as VAT, but not as excise. So, the excise revenue decreased in 2018 to a larger extent than if the VAT rate was not changed.

### Estimating the impact of the adopted cigarette excise changes for 2020-2025

We estimated the impact of the adopted (Law 055/15 of 1.08.2018<sup>29</sup>) cigarette excise changes for 2020-2025 (Table 2) on cigarette prices (Table 7), assuming that for seven years (2019-2025) tobacco industry will increase net-of-tax price by 31%. During the last seven years (2012-2018) combined, the inflation rate in Montenegro was 11%.

**Table 7. Expected average cigarette prices and price components in 2019-2025, Euro per pack of 20 cigarettes**

|                   | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|-------------------|------|------|------|------|------|------|------|
| Price             | 2,40 | 2,50 | 2,60 | 2,70 | 2,80 | 2,90 | 3,00 |
| Specific excise   | 0,60 | 0,67 | 0,74 | 0,81 | 0,88 | 0,95 | 1,02 |
| Ad valorem excise | 0,77 | 0,76 | 0,75 | 0,74 | 0,73 | 0,71 | 0,69 |
| Total excise      | 1,37 | 1,43 | 1,49 | 1,55 | 1,61 | 1,66 | 1,71 |
| VAT               | 0,42 | 0,43 | 0,45 | 0,47 | 0,49 | 0,50 | 0,52 |
| Total tax         | 1,78 | 1,87 | 1,95 | 2,02 | 2,09 | 2,16 | 2,23 |
| Net-of-tax price  | 0,62 | 0,63 | 0,65 | 0,68 | 0,71 | 0,74 | 0,77 |
| Excise share, %   | 57,0 | 57,3 | 57,5 | 57,5 | 57,4 | 57,3 | 57,0 |

As we see, even if the industry increases its part of the price well above recent inflation rates in the country, final cigarette price will increase just by 25% in six years, and such increase can hardly reduce tobacco affordability. In 2025, total excise will be 1.71 euro per pack, or 85.5 euro per 1000 cigarettes, which is still lower than the current minimum EU level (90 euro), and most probably in 2025, the minimum EU level will be set at a higher level. The average excise burden will increase by 27% in seven years, and with such a

<sup>29</sup> <http://www.upravacarina.gov.me/rubrike/akciza/189839/Obavjestenje-o-izmjenam-i-dopunama-Zakona-o-akcizama-SL-list-CG-br-55-18-od-01-08-2018-g.html>

growth, government tobacco revenue will not increase if tobacco consumption in the country continues to decline.

## Conclusions

Tobacco use, which was generally widespread among the population of Montenegro, has declined since 2004 among adults but increased among adolescents.

Tobacco excise hikes, undertaken in Montenegro in 2009-2011, were very successful: they decreased cigarette sales and increased tobacco revenues. In 2013-2016, tobacco excise increases were rather small to reduce tobacco affordability and tobacco sales, and tobacco revenues did not change much.

In August 2017, Montenegro adopted an ambitious plan of excise tax increases; however, the tobacco industry responded with series of hidden actions (forestalling and price over-shifting) which temporarily reduced tobacco excise revenue in early 2018. The industry managed to persuade the government that this revenue decline was allegedly caused by tax-driven growth of cigarette smuggling (while no rigorous evidence of such growth was presented), and the only way to fight smuggling is the reduction of cigarette excise. From September 2018, the excise rates were reduced, while they are still higher than those planned before 2017.

In 2017, Montenegro set excise tax for electronic cigarette liquids at a rather high level; however, the enforcement of such taxation needs to be developed.

Cigarette prices substantially increased in 2017 and early 2018, tobacco affordability declined, and some reduction of tobacco consumption is expected.

The plan of the annual tobacco excise changes until 2025 was already adopted by authorities, but the proposed changes have rather low potential to reduce the tobacco consumption and to increase government revenue. The expected total excise rate in 2025 will be below 90 euro - current minimum EU excise level.

## Recommendations

Montenegro is able to conduct a more aggressive and successful tobacco taxation policy which can both reduce tobacco consumption and increase tobacco revenue. The following recommendations can help to make such policy more successful:

1. Annually increase the specific excise rates by at least 5 euro per 1000 cigarettes and do not decrease the ad valorem rate.
2. Annually Increase excise rates for other tobacco products, including novel tobacco products such as electronic cigarettes in line with the World Bank recommendations [15].
3. Introduce effective policies against forestalling using the successful experience of other countries.
4. Develop the tobacco use surveillance and monitoring, including a regular collection of information on smoking prevalence, tobacco consumption, licit and illicit cigarette sales, prices and other economic indicators.

5. Implement the effective policies to counteract the tobacco smuggling and other kinds of illicit tobacco sales in line with the provisions of the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, which is already ratified by the country. While cigarette smuggling is a problem, do not allow overestimating it and using it as an argument against further excise increases. The FCTC Article 6 Guidelines state [16]: *The development, implementation and enforcement of tobacco tax and price policies as part of public health policies should be protected from commercial and other vested interests of the tobacco industry, including tactics of using the issue of smuggling in hindering implementation of tax and price policies.*
6. Other tobacco control policies which can be easily undertaken with great health impact are related to the de-normalization of tobacco use and include (1) enforcement of smoke-free policies in public places and (2) ban of various modes of advertizing and promoting cigarettes in points of sales, as well as sales of tobacco along with toys and other goods for kids.

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