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ORGANIZED CRIME

A FILTERLESS ENVIRONMENT

Illicit tobacco trade in Kosovo



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CONTENTS

Summary and key points.....	i
Small local market, major transit hub	1
Issues of jurisdiction	2
Weak border management, but an increase in seizures.....	3
Typologies of the illicit Kosovar tobacco trade.....	4
Conclusion: Closing the gaps.....	7
Notes.....	9

SUMMARY

While much has been written about cigarette smuggling in several countries of the Western Balkans, little is known about the role of Kosovo in this trade. This brief points to gaps in information, holes in border management, divides in regional cooperation,

as well as disparities in tax and excise regimes that need to be addressed in order to reduce the illicit tobacco trade in Kosovo. More 'filters' are needed to reduce the grey and black markets for cigarettes that continue to prevail in this country.

Key points

- Kosovo is a small country with a relatively limited market for licit and illicit tobacco products.
- It is a key transit country, however, for counterfeit cigarettes as well as legal cigarettes being produced or shipped illicitly via neighbouring countries.
- Kosovo's location, porous borders and weak criminal-justice system mean that the risks to traffickers smuggling tobacco products through the country are relatively low.
- Lack of international recognition of Kosovo as an independent state impedes the country from acceding to international treaties and hence realizing full police cooperation with its neighbours.
- Lack of sufficient regulation in the north of Kosovo, differences in excise taxes between imported and locally produced cigarettes in the rest of Kosovo, and significant differences in prices between cigarettes bought in Kosovo and neighbouring countries create incentives for smuggling.



SMALL LOCAL MARKET, MAJOR TRANSIT HUB

Illicit trade in tobacco continues to be a widespread and prominent criminal activity in the Western Balkans. This is an economy that supplies not only the local market with cigarettes, but also caters to a global audience located in the European Union (EU), northern Africa and the Middle East. Recent estimates suggest that €164.36 million profit was made in the illicit tobacco market in the region in 2017 alone.¹

Although several studies² have looked at cigarette smuggling in the Western Balkans, very few have paid attention to the significance of Kosovo³ in this trade.⁴ Instead, the focus is usually on the bigger markets in the region, such as Bosnia and Herzegovina, or big cigarette-smuggling hubs, like Montenegro. Kosovo is often overlooked because it has a relatively small local consumer market for cigarettes, and there is a dearth of information due in part to its unresolved international status.

Kosovo has a population of around 1.9 million inhabitants, of whom at least 500 000 are smokers;⁵ 31.9% of people aged between 25 and 34 are reported to smoke.⁶ Yet, despite this high proportion of smokers, Kosovo is considered a small market for tobacco consumption. However, Kosovo is not insulated from cigarette smuggling in the region. On the contrary, illicit activity in neighbouring countries make Kosovo a key transit country⁷ and a smuggling hub that is exploited by organized criminal networks active in the region.

Little is known about the groups who are behind this illicit economy. Most people caught smuggling are the drivers rather than higher-level actors who organize and profit from the shipments of tobacco. Anecdotal information suggests, however, that the groups involved tend not to engage in other more lucrative commodities, such as trafficking drugs.

Most people apprehended in Kosovo's illicit tobacco economy are lower-level actors, such as those who drive contraband along smuggling routes.

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FIGURE 1 Illicit tobacco flows through Kosovo

Cigarettes available in Kosovo are imported from neighbouring countries,⁸ as well as China. They are also manufactured locally by the Premium Tobacco Group. It has been estimated that 6.3% of Kosovar smokers are reported to buy their cigarettes on the grey market.⁹

There are also suggestions that some Kosovo-based companies order cigarettes (such as ‘cheap whites’ – see below) in other countries, including Greece, and Bosnia and Herzegovina, and then sell them to companies based in Montenegro. The cigarettes are not actually imported into Kosovo, so the companies do not pay any tax in Kosovo.¹⁰

The illicit trade in tobacco is estimated to cost the government of Kosovo around €16 million a year.¹¹ Furthermore, a low excise tax for cigarettes produced in Kosovo reduces badly needed revenue for the state.

Issues of jurisdiction

The factors that have enabled Kosovo to become an ideal hotspot for cigarette smuggling are its location, its porous borders¹² and weak criminal-justice system. The still outstanding universal recognition of Kosovo as an independent state impedes the

country from acceding to international treaties and consequently from realizing comprehensive law-enforcement cooperation agreements with its neighbours.

In particular, the continuing dispute with its northern neighbour Serbia impedes any kind of collaboration between the two countries' law-enforcement and customs agencies, and prevents Kosovo from being a member of INTERPOL. North Kosovo, the northern tip of the country, which encompasses four municipalities with a majority (Kosovo) Serb population,¹³ continues to be a disputed region where ethnic and political interests are an impediment to the proper governance of the area. Although Kosovar state institutions are formally present in the north, a parallel structure financed by Serbia, paired with the accumulation of power and wealth by certain influential business people, has transformed this area into a grey zone of informality.¹⁴

This contested situation with Serbia facilitates cigarette smuggling.¹⁵ A police officer in North Mitrovica, the largest city in North Kosovo, described how police efforts to control smuggling are hamstrung by the dispute: 'While patrolling the area, we often detect vans and trucks loaded with smuggled goods, but as soon as we pursue them, they just cross the border to Serbia. We are not allowed to follow them. We are not even able to communicate such activities to the Serbian police, as we have no connection with our Serbian counterparts.'¹⁶

'We often detect vehicles loaded with smuggled goods, but as soon as we pursue them, they cross the border to Serbia.'

Weak border management, but an increase in seizures

Most tobacco smuggling activity occurs at border crossings in North Kosovo, for example near the checkpoints of Jarinje and Brnjak.¹⁷ However, cigarettes have also been seized in other parts of the country, and, as shown in Figure 2, the volumes seized increased significantly in 2019 to around 22.8 million units (with a value of €3 million). This may seem like a relatively small amount, but it is probably just the tip of the iceberg.

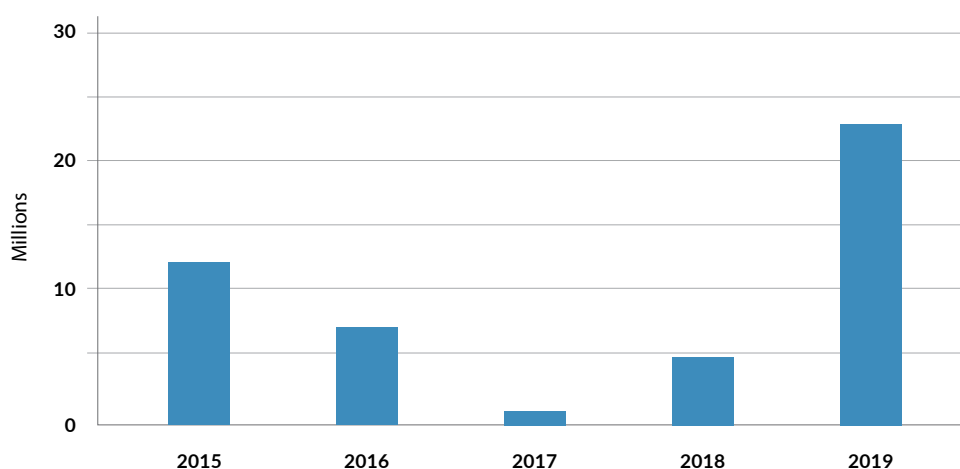


FIGURE 2 Cigarettes seized at Kosovar border points, 2015–2019 (millions)

SOURCE: Kosovo customs authorities



TYPOLOGIES OF THE ILLICIT KOSOVAR TOBACCO TRADE

Cigarette seizure by Kosovo customs, February 2016 (Kosovo customs Facebook page)

The illicit tobacco trade in Kosovo takes several forms, so it is important to define clearly the types of activity. The flows are shown in the map (Figure 1).

Illicit whites are cigarettes manufactured legally in one country but normally intended for smuggling into countries where they are unavailable on the legal market.¹⁸ Montenegro, for example, is notorious for smuggling large quantities of illicit whites, particularly from China and the United Arab Emirates.¹⁹ Some of these are smuggled through Kosovo en route to consumer markets in Western and central Europe.

Although the border between Kosovo and Montenegro (which was demarcated only in 2018) is just 79 kilometres long, the terrain is rough and mountainous, making it a relatively uncontrolled, safe passage for the smuggling of illicit whites. Much of the smuggling happens at night using unaccompanied mules. Two of the main hotspots on this route are Jabllanice and Radavc.²⁰

Another popular cigarette smuggling route seems to be the geographic triangle that connects Kosovo, Montenegro and Serbia near the towns of Istog and Zubin Potok (North Kosovo).²¹ The smuggling flows both ways in this area, as criminal organizations often pay villagers on both sides of the border to transport the cigarettes across, as they know how to best navigate the mountain trails. The Kosovar police say that they do not have sufficient capacity to control this border region.²² In April 2018, they detected horses carrying 25 thousand packs of cigarettes from Serbia in the direction of Istog.²³ The perpetrators were not caught.

Forms of illicit tobacco trade

Illicit whites: Also sometimes referred to as 'cheap whites', these are cigarettes that are manufactured legally in one country, but normally intended for smuggling into countries where they are usually unavailable on the legal market. Export may occur legally, whereas import into destination countries and their sale are illegal. Taxes in production countries are normally paid, while they are evaded in destination countries.

Bootlegging cigarettes: This refers to the legal purchase of tobacco products in a low-tax country and their illegal resale in a high-tax domain.

Counterfeit cigarettes: Cigarettes illegally manufactured and sold by a party other than the original trademark owner. Counterfeits can be sold in the source country or smuggled abroad, without taxes being paid in both cases.

Definitions are mostly taken from the Eastern Balkan Hub for Illicit Tobacco, Research Centre on Transnational Crime, 2016, <http://www.transcrime.it/wp-content/uploads/2016/08/TheEasternBalkanHubforIllicitTobacco.pdf>.

The free trade zone at the port of Bar, in Montenegro, is another key hub for illicit whites being smuggled through Kosovo. For example, in 2015, 12 million cigarettes that were confiscated in Kosovo can be traced back to Bar and eventually to China (the brands in question were Ashima and Marble).²⁴

Another popular form of illicit trade is bootlegging cigarettes, whereby tobacco products are purchased legally in low-tax countries and then sold illegally and at a mark-up in a high-tax country.²⁵ It is thought that groups smuggling cigarettes from North Macedonia into Kosovo primarily use this technique, taking advantage of the low tobacco tax regime and consequent low prices of cigarettes in North Macedonia, the cheapest market in the region for cigarettes.²⁶ According to one expert, this is the main reason why cigarette and tobacco smuggling are becoming so popular: a pack of cigarettes can be purchased for €1.50 in North Macedonia and resold for €5 to €7 in Germany.²⁷

Cigarettes are purchased in North Macedonia and transported illegally through Kosovo, Serbia and Hungary, and onwards to other EU end market countries. Recent seizures confirm that not only local groups but also internationally organized criminal networks use this smuggling route. Cigarettes confiscated recently by Hungarian authorities had a tax stamp from the Republic of North Macedonia but were packed into Kosovar juice boxes when they were confiscated.²⁸

Furthermore, large volumes of counterfeit cigarettes enter Kosovo from Bosnia and Herzegovina, Serbia and particularly Bulgaria.³⁴

Counterfeit cigarettes originating in Serbia, and Bosnia and Herzegovina, transit Kosovo heading southwards towards Albania, in particular to Durrës, as well as to North Macedonia and Greece. Counterfeit cigarettes produced in Montenegro transit Kosovo on their way to Bulgaria. In the other direction, there is a large northerly trajectory of cigarettes moving north, from Bulgaria and North Macedonia through Kosovo towards the EU.

In 2015, 12 million cigarettes that were confiscated in Kosovo can be traced back to Bar and eventually to China.



A seizure conducted by the Kosovo customs, December 2018.

Tax and bootlegging

A high percentage of the retail price of cigarettes is composed of taxes imposed by a country's tax revenue authority. Bootlegging cigarettes is therefore facilitated if neighbouring countries levy different levels of taxes or subsidize local production.

In Kosovo, the excise tax on tobacco was first introduced in 2000 by the United Nations Provisional Mission in Kosovo.²⁹ Today the excise tax for 1 000 cigarettes stands at €47.³⁰

A new system was introduced in 2018 subsidizing local production by €1 per kilogram of tobacco. Simultaneously, the government of Kosovo decided to differentiate the value of the excise tax for imported cigarettes from those produced locally: €47 per 1 000 cigarettes for the former, and a 30% excise tax of the retail price for the latter.³¹ As a result, the price of locally produced cigarettes is significantly lower (as the excise tax is only €17 per 1 000 cigarettes).

Some experts surmise that the decision to make this change was taken under pressure exerted by one of the advisors to the former prime minister, who owns the only cigarette manufacturing facility in Kosovo.³²

The advisor acquired 92% of the shares of the company during the privatization process of Premium Tobacco Group³³ in 2012 and the company began production of several cigarette brands in 2018.



CONCLUSION: CLOSING THE GAPS

Although Kosovo is not a major producer of cigarettes, like some of its neighbours, and does not have a significant domestic market, it has nevertheless become a key hub for cigarette smuggling in the Western Balkans. The country is criss-crossed by trafficking routes used by several forms of this illicit regional economy, and most of the tobacco products are destined for other markets. This is a highly lucrative business involving large criminal networks that are well connected throughout the region and in the EU.

Kosovo plays an integral part in the illicit tobacco trade in the Western Balkans. Next door to some of the world's top cigarette smuggling countries, and with weak border controls and a permissive environment, it is easy to see why Kosovo has become a key node for cigarette smuggling.

Resolving this issue will firstly require regional cooperation. To close the information gap, more cross-border cooperation is needed to gain a clearer picture of the tobacco products entering the country. Enhanced collaboration and information sharing between law-enforcement and customs agencies, particularly through intelligence-led policing, could bring benefits to all countries of the region, and not only to Kosovo.

Secondly, disparities in regional tax and excise regimes could be reduced by closer harmonization of tax and excise laws within the region to reduce inequalities and make bootlegging of tobacco products less attractive and lucrative.

Cigarettes smuggled in the
body of a vehicle, Kosovo.

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This is a highly lucrative business involving large criminal networks that are well connected throughout the region and in the EU.

Thirdly, international cooperation and support are also needed. Greater cooperation among anti-fraud coordination services, particularly the European Anti-Fraud Office, could help to disrupt cigarette smuggling to and from EU countries. Greater support for the country's law-enforcement and customs officials could plug holes in border management. And multinational tobacco companies that are dumping illicit or cheap cigarettes in the Western Balkans should be held to account for exploiting the region.

If such regional and international 'filters' are applied, it would increase the risks to groups that smuggle tobacco products through Kosovo, tighten up regulation, reduce tobacco-related health risks and help deter criminal groups from controlling this lucrative market.

Finally, it will be interesting to see if and how this market will change as a result of the COVID-19 crisis. With increased border controls, will there be greater demand for cigarettes produced within the region? As with other commodities, will traffickers make more use of unofficial crossing points to get their products to market?

NOTES

- 1 This value refers to gains of the illicit tobacco market in Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. See Institute of Economics Zagreb, Illegal trade of tobacco products: Smuggling as experienced along the Balkan Route, 2019, 83, <https://www.eizg.hr/UserDocsImages/projekti/Balkansmugg/BalkanSmugg-Study.pdf>.
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- 8 Kosova Tobacco, for example, and others are involved in these imports. A recent report identified the company as being complicit in tobacco smuggling through Montenegro. See Visar Prebreza et al, Cigarette smugglers find safe harbour in Montenegro, again, 30 May 2019, BIRN, <https://balkaninsight.com/2019/05/30/cigarette-smugglers-find-safe-harbour-in-montenegro-again/>.
- 9 The Institute of Economics Zagreb, Illegal trade of tobacco products: Smuggling as experienced along the Balkan Route, 2019, <https://www.eizg.hr/UserDocsImages/projekti/Balkansmugg/BalkanSmugg-Study.pdf>.
- 10 See Visar Prebreza et al, Cigarette smugglers find safe harbour in Montenegro, again, 30 May 2019, BIRN, <https://balkaninsight.com/2019/05/30/cigarette-smugglers-find-safe-harbour-in-montenegro-again/>.
- 11 It is estimated that Serbia, Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia, Slovenia and Croatia together lose €306.7 million in revenue each year from the illicit tobacco trade. See Reuters, Tobacco black market costs Balkans \$335 million a year in lost taxes, 26 September 2019, 85, <https://www.reuters.com/article/us-balkans-tobacco/tobacco-black-market-costs-balkans-335-million-a-year-in-lost-taxes-idUSKBN1WB1GH>.
- 12 Kosovo has a relatively open border with Serbia in the north, and difficult terrain to control along the border with Montenegro.
- 13 North Kosovo constitutes 11% of the total land area of the country.
- 14 Global Initiative Against Transnational Organized Crime, Hotspots of organized crime in the Western Balkans, May 2019, <https://globalinitiative.net/wp-content/uploads/2019/05/Hotspots-Report-English-13Jun1110-Web.pdf>.
- 15 Interview with the Kosovo Customs press officer, Adriatik Stavileci, Pristina, November 2019.
- 16 Interview with police officer, North Mitrovica police station, November 2019.
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- 26 In North Macedonia, the total tax on tobacco (VAT + excise) accounts for 71.7% of the final price, while other countries, like Bosnia and Herzegovina levy 88.3%. The average price per pack of 20 cigarettes in North Macedonia is €1.54, which is the cheapest in the region (interview with the press officer of Kosovo Customs, Adriatik Stavileci, Pristina, November 2019 and World Bank Group, Serbia: Overview of tobacco use, tobacco control legislation, and taxation – a country brief, June 2019, <http://documents.worldbank.org/curated/en/499321560881630381/pdf/Serbia-Overview-of-Tobacco-Use-Tobacco-Control-Legislation-and-Taxation.pdf>.
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- 31 Ibid.
- 32 Ibid.
- 33 Premium Tobacco Group is located in a former Yugoslav cigarette factory that was revitalized.
- 34 Research Centre on Transnational Crime, The eastern Balkan hub for illicit tobacco, 2016, <http://www.transcrime.it/wp-content/uploads/2016/08/TheEasternBalkanHubforIllicitTobacco.pdf>.



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