

TOBACCO INDUSTRY

CURRENT SITUATION

The tobacco industry represents a stable and reasonably regulated sector that contributes, on average, 8% of the total revenue to the budget of the Republic of Serbia each year. Three multinational companies, along with one domestic producer are operating in Serbia. These companies directly employ more than 2,000 people and indirectly additional 5,000. When firms that support the tobacco industry's operations, such as distributors, retailers, and others are included, this number is significantly higher.

In Serbia, the production of tobacco products has significantly increased across all segments over the past five years (2019-2023). Last year, 18.27% more cigarettes were produced compared to 2019, while domestic sales in the same period decreased by 7%. This indicates a 31% increase in the export of tobacco products during the mentioned period. The total foreign trade exchange of tobacco and tobacco products in 2023 amounted to €839.8 million, of which €549.5 million was attributed to exports, while imports were valued at €290.3 million, resulting in a surplus of approximately €259.2 million.

From 2019 to 2023, tobacco production was carried out on an average annual area of 4,375 hectares, while in 2024, production was recorded on 4,556 hectares. In the first six months of 2024, cigarette production increased by 5% compared to the same period of the previous year. The value of tobacco exports in the first six months of 2024 decreased by 11% compared to the same period of the previous year, while the value of imports increased by 6%.

In Serbia, there is an illegal market for tobacco and tobacco products, the suppression of which has been designated as a priority by the Government of the Republic of Serbia through the establishment of the Working Group for Combating Tobacco Smuggling (Government Decision published in the "Official Gazette of RS" No. 47/16). The revenue from excise duties and VAT on tobacco products in 2023 amounted to 165.6 billion RSD, representing a 40% increase compared to 2016, when the revenue from this source was 118 billion RSD. Therefore, it is of paramount importance for Serbia to control tobacco production within its territory, especially considering that around 90% of the black market is consisted of cut tobacco rather than cigarettes. Nevertheless, the efforts of state authorities, led by the Ministry of Internal Affairs, the Customs Administration, the Market, Phytosanitary, and Agricultural Inspections, together

with industry representatives, are yielding visible results in curbing the illegal production and trade of tobacco and tobacco products, thereby minimizing the damage to budget revenues.

POSITIVE DEVELOPMENTS

Amendments to the Tobacco Law, on which the Tobacco Administration was working intensively in collaboration with all relevant market participants, and which have been in effect since November 2023, have introduced definitions for new tobacco and nicotine products, such as non-combustible tobacco and related products (electronic cigarettes, nicotine pouches, herbal products for smoking or heating, and shisha flavors). This law also introduced the definition of an electronic device for heating tobacco or herbal products.

Given that the global tobacco industry has committed to the harm reduction concept by introducing and developing alternative products with reduced harm compared to conventional cigarettes, the unique regulatory framework adopted by Serbia Government encourages the transformation of the industry.

The law also introduced registers of manufacturers and importers of related products, as well as additional restrictions on the sale of tobacco and related products, the most important of which is the explicit prohibition of sales to minors. Since products containing nicotine or tobacco are intended exclusively for adult users, this regulatory framework supports the principle of responsible marketing and a strong commitment to prevention and restricting access to all tobacco and nicotine products for minors.

The Excise Law regulated the consistent implementation of a five-year excise calendar; it also introduced and presented the e-Excise System – digitizing the processes of ordering and using control excise stamps with QR codes for tobacco products, whose mandatory use came into effect on October 1, 2024. Amendments to the Excise Law also defined a system for tracking tobacco products in the production and supply chain in Serbia, modeled after the systems in the European Union, known as Track & Trace systems.

REMAINING ISSUES

In addition to market stabilization, the negative impact of the illegal market for cut tobacco remains evident, threat-

ening the sustainability of the entire supply chain within the tobacco industry, as well as employment and GDP, which are directly influenced by the production and distribution chain of tobacco products. It is estimated that the volume of the illegal market in Serbia is around 16.3%, with three-quarters consisting of leaf tobacco and cut tobacco of domestic origin, and the remainder being illegal cigarettes that are either unmarked or marked with stamps from neighboring markets where excise duties are lower.

Moreover, the illegal sale of tobacco products negatively impacts consumers due to unknown origins, uncontrolled

production, storage, and transport conditions, and the fact that illegal tobacco products are accessible to minors, do not contain legally required health warnings, and are illegally advertised. The Government of the Republic of Serbia is making significant efforts to combat the illegal trade of tobacco products, as evidenced by the quantities of seized tobacco and cigarettes and the continuously increasing number of proceedings against various perpetrators of the criminal offense of illegal trade in tobacco and tobacco products. However, there is still a noticeable lack of adequate prosecution by the public prosecutor's office and the courts.

FIC RECOMMENDATIONS

- It is necessary for all relevant public institutions to continue to focus on an efficient implementation of the law in order to combat the illegal tobacco market, which has a significant negative effect on all of society. The Foreign Investors Council also supports efforts of the Serbian Government in combating the illicit trade in tobacco and tobacco products and proposes once again the formation of a special department within the Prosecutor's Office which would be responsible for excise goods.
- Continue with the open dialogue between the Government of Serbia and the tobacco industry in all important matters concerning business conditions in the tobacco product market. The Foreign Investors Council strongly supports this kind of dialogue, based on the principles of participation, transparency, accountability, effectiveness, and coherence.
- The current excise calendar is set to expire at the end of 2025. It is necessary to continue a responsible and consistent excise policy that ensures predictability for all actors in the tobacco industry's production and distribution chain, anticipates gradual increases in excise burdens, and considers the different risk profiles of the products involved. Such an approach would ensure stable budget revenues and prevent the growth of illegal flows within the industry.
- Innovations in science and technology, along with the application of the highest standards in the tobacco industry, have contributed to the development of new categories of tobacco and related products that can reduce the negative effects compared to cigarette consumption. When creating a regulatory framework, it is important for the legislator to recognize the unique characteristics and specificities of these products, consider existing scientific evidence, and apply the principles of proportionality so that consumers have adequate access to information and can make informed decisions.

Disclaimer: At the time of concluding this text, amendments to the Advertising Law and the Draft Law on Amendments to the Excise Law were in procedure. The changes will be addressed in the next edition of the White Book.