



## Individual Advanced Research Opportunities Program

### Research Report

*The opinions, recommendations, and conclusions of the grantee are his/her own and do not necessarily reflect the views or policies of IREX or the US Department of State.*

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***Title of Research Proposal:*** *Tobacco Smuggling In Poland: Trends, Magnitude and Consequences*

**Topic of Research:** Analysis of cigarette use in Poland with a focus on the impact of rising tobacco taxes and other tobacco control policies on smuggling activity and public health status in Poland.

**Relevance and Contribution to Field:**

To date, there have been very few efforts made to understand or explain the trends in cigarette smuggling in Poland and in general. In Poland, academic efforts concerning tobacco tend to focus on measuring the mere prevalence of cigarette use. Poland's government, despite facing considerable budgetary implications from variations in the prices and sales of legal versus smuggled cigarettes, has not made an adequate effort to report trends in cigarette smuggling. Meanwhile, the information that has reached the public is derived from the media. Most of this information however, originates from the tobacco industry.

This research on the tobacco market and tobacco control in Poland, once disseminated through the Working Paper Series of the International Tobacco Evidence Network and published in *Tobacco Control*, will certainly have an impact on the international arena for tobacco control research. The World Bank and World Health Organization (WHO) have worked to address the important economic issues concerning the economics of tobacco use and tobacco control (Jha and Chaloupka 1999, 2000). Unfortunately, this work has largely been based on evidence from high-income countries. The results of my research in Poland have and will continue to help fill part of the gap in scientific evidence concerning countries of Central and

Eastern Europe. In particular, the evidence on smuggling activity is particularly important. Losses in sales due to smuggling are a major concern for governments world-wide as tobacco smuggling works to undermine national systems for tobacco taxation. In drastic cases, it can reduce both the legal sales of cigarettes and total tobacco tax revenues to be collected by the government. In the end, the sale of smuggled cigarettes steals away revenues that could be allocated to the national budget including health services and progress in public health. Understanding the conditions, which give rise to tobacco smuggling as well as the effects of smuggling on tobacco prices, consumption, sales and tax revenues, are important elements to the healthy development of tobacco control policies in Poland and all countries around the world.

## **Approach and research methodology; list of research sites**

### Research Methodology:

#### (1) Data Gathering:

- (a) Summarization of both past and current tobacco control efforts in Poland (both tax policy as determined by the Ministry of Finance and parliamentary laws as voted by parliament and authorized by the Minister of Health). These were collected at the two distribution sites in Warsaw (Site #1 below).
- (b) Observation of the availability, access to and use of smuggled cigarettes in Poland. The illegal sales of smuggled cigarettes were observed at Warsaw's largest Russian Market, Jarmark Europa (Site #10 below).
- (c) Collection of various historical data from the Ministry of Finance (site #8 below) and Ministry of the Treasury (site #5) below including: tax paid sales of cigarettes, cigarette tax revenues and cigarette prices. Industry reports concerning smuggled cigarette sales in Poland conducted by British American Tobacco were also obtained from these Ministries.
- (d) Historical data concerning the consumption of cigarettes in Poland and household incomes were collected at the library of the Central Statistical Office (GUS) in Warsaw (Site #2 below).

#### (2) Descriptive analyses;

- (a) Cigarette use from 1960 to the present in the context of
  - i. various tobacco control efforts that have been underway in Poland since 1993 (taxation) and 1995 (Enactment of National Tobacco Control Law)
  - ii. Trends in income from 1960 to the present.
  - iii. Trends in the prices of filter and non-filtered cigarettes (planned economy versus free market price schedules)

#### (3) Empirical Analyses:

- (a) Estimation of cigarette demand (number of cigarettes consumed)
- (b) Estimation of smuggled cigarette imports
- (c) Estimation of tax paid smuggled cigarette exports

### Research Sites:

- 1) Monitor Polski /Dziennik Polski, ul. Powsińska 69/71 – Warsaw, Tel. (22) 694-6296 and Al. Jana Ch.Szucha 2/4 – Warsaw, Tel. (22) 629-6173
- 2) Central Statistical Office (Główny Urząd Statystyczny - GUS), Al. Niepodległości 208 – Warsaw
- 3) Ministry of Economy and Labor - pl. Trzech Krzyży 3/5 -Warsaw, (22) 693-5000 [www.mpips.gov.pl](http://www.mpips.gov.pl), [bpi@mpips.gov.pl](mailto:bpi@mpips.gov.pl)
- 4) Ministry of Health, ul. Miodowa 15 - Warsaw, (22) 634-9600, [www.mz.gov.pl](http://www.mz.gov.pl), [kancelaria@mz.gov.pl](mailto:kancelaria@mz.gov.pl)

- 5) Ministry of the Treasury, ul. Krucza 36 - Warsaw, (22) 695-8000, (22) 695-9000, [www.msp.gov.pl](http://www.msp.gov.pl), [minister@msp.gov.pl](mailto:minister@msp.gov.pl)
- 6) Ministry of Justice, Al. Ujazdowskie 11 - Warsaw, (22) 521-2888, [www.ms.gov.pl](http://www.ms.gov.pl)
- 7) Ministry of Interior and Administration, ul. Batorego 5 - Warsaw, (22) 621-0251, [www.mswia.gov.pl](http://www.mswia.gov.pl)
- 8) Ministry of Finance, ul. Świetokrzyska 12 - Warsaw, (22) 694-5555, [www.mf.gov.pl](http://www.mf.gov.pl)
- 9) Jarmark Europa –Stadion X-Lecia (Survey of smuggled cigarette dealers)

### **Research findings and preliminary conclusions**

This research is still underway as preliminary empirical estimates are being refined in anticipation of publication in a peer-reviewed journal. Preliminary findings reveal that:

- a. Smoking continues to be a widely popular and socially acceptable habit in post-communist Poland. At present, about 40 percent of adult Polish men and over 20 percent of adult Polish women smoke. Furthermore, Poland's women and youth have begun to bear increasingly larger burdens of tobacco as prevalence statistics among these subgroups remain high.
- b. The demand for cigarettes in Poland, as in many countries around the world, is sensitive to regularly rising cigarette prices. However, this elasticity of demand for cigarettes is not as large as one would expect. That is, since the late 1990s, cigarette prices in Poland have been rising steadily in order to meet European Union (EU) directives which require that tobacco taxes constitute a larger portion (42%) of the price of cigarettes sold in Poland. Despite aggressive cigarette tax policy and steadily increasing cigarette prices, Poland's smokers have not responded with an equally significant decrease in their demand for cigarettes. One explanation for this finding is that Poland is still a nation of heavily addicted smokers. Second, despite various information efforts aimed at discouraging cigarette use among Poland, cigarette smoking continues to be a socially acceptable habit in Poland.
- c. Since Poland's entry into the EU, problem of cigarette smuggling has become even more acute. The profits to be made from tobacco smuggling are nearly as high as those from the illegal drug trade but the risks of punishment are significantly lower. In 2003, the value of smuggled cigarettes and tobacco along Poland's eastern boarded amounted to 45.8 million PLN. In 2004, that figured increased by nearly 50% to 67.8 million PLN.
- d. In Poland, the majority of smuggled cigarettes are sold on the streets (i.e. primarily open street, "Russian" markets). These illegal cigarette sales are easily identifiable given that Poland's legal cigarette packs display a number of distinguishable features include: health warning labels (in Polish), tar and nicotine labels (also in Polish) and a tobacco excise tax stamp issued by Poland Ministry of Finance. In many instances, smuggled cigarette sales in Poland may be identified by their foreign labeling (i.e. Ukrainian or Russian tax stamps).
- e. Many governments argue against higher tobacco taxes in fear of both falling tobacco tax revenues (cigarette consumption and tobacco tax revenues will fall) and increased cigarette smuggling and associated criminal activity (cigarette consumption will remain high but tobacco tax revenues will fall). The latter is of particular concern in Poland where criminal activity and corruption are a continuously growing threat. According to the Corruption Perceptions Index published by the Internet Center for Corruption Research, Poland's score has been consistently decreasing since 1996 -- a time at which the country scored 5.57 to 2000 and a score of 4.1 to 2004 and a score of 3.5. However, similarly to evidence from many high-income countries, a simple comparative analysis between Poland's rising cigarette taxes/prices and rising tobacco tax revenues reveals that even in the face of significant smuggling activity, Poland's rising cigarette taxes

correspond with: 1) falling levels of consumption (beneficial to the country's public health status) and 2) rising tobacco tax revenues.

### **Future research agendas**

This IREX-IARO research grant has allowed the grantee, Christina Ciecierski, to develop a number of project proposals with local researchers working on tobacco issues in Poland. At present, Dr. Ciecierski is cooperating with the following researchers and Poland-based institutions:

1. Anna Bialecka, MA., Jagiellonian University, Faculty of Law and Administration
2. Tomasz Brzostek, MD, PhD, Jagiellonian University, Collegium Medicum
3. Leszek Paczek, MD, PhD, Medical University of Warsaw

Future project endeavors recently funded or awaiting a funding decision include:

1. A proposal for a Proposal Development Grant (PDG) submitted to the Initiative for Cardiovascular Health Research in Developing Countries (IC Health) entitled "An Analysis of the Impacts of Poland's Population-Based Tobacco Control Policy on Smoking Behaviors and its Comparative Cost-Effectiveness to Clinic-Based Smoking Cessation Programs".
2. A project proposal submitted to Research for International Tobacco Control (RITC) for their Small Grants Research Competition to Support Ratification, Implementation and/or Enforcement of the Framework Convention on Tobacco Control (FCTC), entitled "Cigarettes and E-commerce: Implications for comprehensive tobacco control in Poland and a pressing challenge for the Framework Convention on Tobacco Control (FCTC)".
3. A project proposal submitted to Research for International Tobacco Control (RITC) entitled, "The Market for Legal and Illegal Cigarettes in Poland: A Closer Look at Demand and Supply-Side Characteristics"
4. A pre-proposal submitted to The Roswell Park Transdisciplinary Tobacco Use Research Center (TTURC), Developmental Research Program (DRP), entitled: "Evaluating National Tobacco Control Policies in Poland", was submitted on March 11, 2005 and received an invitation to submit a full-proposal for funding consideration due June 1, 2005.

### **Policy recommendations**

1. Cigarette smuggling in Poland is a significant problem of serious concern not only for Poland's policymakers but for the European Union (EU) in general as Poland's eastern border constitutes the new eastern border for the entire EU region. Currently, Poland's border guard is responsible for monitoring the flow of legal/illegal cigarettes, alcohol and other products across country borders. Beyond this, monitoring over the black market for cigarettes appears non-existent. Street vendors sell smuggled cigarettes in open-markets across Poland with seemingly little negative consequence from local authorities. The country's Ministry of Justice and Ministry of the Interior and Administration need to crack down on illegal sales of goods, including tobacco.
2. Reports from several developed countries indicate that tobacco taxation is a very effective tobacco control instrument. In Poland, rising tobacco taxes are also associated with higher cigarette prices and falling rates of smoking. The negative impact of rising cigarette prices on cigarette consumption is a direct public health benefit of tobacco taxation. Tobacco taxation must continue to be used to help curb the tobacco epidemic in Poland.
3. Lost tax revenues from illegal cigarette sales create a major concern for the country's public policy agenda. Large differentials in tobacco tax levels between

countries in the CEE region (ie. Poland, Russia, the Ukraine, and Germany) constitute the leading incentive for cigarette smuggling throughout Poland. Nevertheless, trends in Poland's tobacco tax revenues, in the context of Poland's regularly rising cigarette prices, reveal that the appropriate policy response is not to reduce tobacco tax rates or forgo continued increases in tobacco taxes but rather, to tighten control over smuggling activity along Poland's borders and crime throughout the country. The region must continue to work to harmonize tobacco tax levels so as to minimize incentives for tobacco smuggling for lower to higher taxed countries.