

**IMPACT ANALYSIS OF A POTENTIAL BAN  
ON SLIM CIGARETTES ON THE DYNAMICS  
OF THE TOBACCO MARKET IN POLAND**

# CONTENTS

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1. EXECUTIVE SUMMARY.....	3
2. EXISTING EU-WIDE LAWS GOVERNING THE MANUFACTURE AND SALE OF TOBACCO PRODUCTS.....	5
2.1. “TPD2” - TOBACCO PRODUCTS DIRECTIVE (2014/40/EU).....	5
2.2. POTENTIAL REVISIONS TO THE EU’S TOBACCO RULES.....	6
3. THE DOMESTIC TOBACCO MARKET.....	7
3.1 SUPPORT FOR A BAN ON “SLIMS”.....	8
3.2 PERCEPTIONS OF “SLIMS” AMONG THE POLISH POPULATION.....	9
3.3 INTENTION TO QUIT SMOKING AMONG POLISH SMOKERS.....	10
3.4 IMPACT ON THE RETAIL ENVIRONMENT.....	11
4. IMPACT ON THE SHADOW ECONOMY.....	13
5. TOBACCO CULTIVATION IN POLAND.....	17
6. IMPACT ON TOBACCO PRODUCT MANUFACTURING IN POLAND.....	20
7. IMPACT ON PUBLIC FINANCES.....	22
8. CONCLUSION.....	23



# 1. EXECUTIVE SUMMARY

Over time, the EU has implemented progressively more stringent anti-tobacco measures. The Commission is currently reviewing the impact of the Tobacco Products Directive (2014/40/EU), also known as “TPD2”, with a view to making proposals for additional tobacco control measures. Earlier this year, in February 2021, it signalled its intent to focus on making “product regulation stricter.”<sup>1</sup>

There is a strong possibility that the Commission may revive its proposal to ban the sale of slim cigarettes, a measure that was proposed, then later rejected, during TPD2 negotiations. “Slims” are typically considered to be cigarettes with a circumference of anything under 23mm, in contrast to regular-sized cigarettes with a circumference of around 25mm.

Poland would be impacted by a slims ban more than any other EU Member State, given its strong domestic slims market, its tobacco growing and manufacturing industries, and its proximity and

links to other markets where slims would remain available and accessible. At the same time, there is no evidence that a ban on slims would have a positive impact on population health, given that slims smokers are more likely to switch to other products, with a significant proportion likely to switch to widely available illicit products, which are uncontrolled and present significant dangers to health.

▶ Slims represent around 28.5% of the domestic cigarette market, amounting to 11 billion sticks in 2019<sup>2</sup>. Evidence demonstrates that the majority of Polish smokers are neither interested in quitting<sup>3</sup>, nor supportive of a ban on slims<sup>4</sup>. Poles do not associate the slims category with being reduced harm products, nor do the vast majority consider slims to be “attractive” or “feminine”<sup>5</sup>. Together, this data calls into question assertions by EU lawmakers that the size and appearance of individual cigarettes may mislead consumers in making erroneous assumptions<sup>6</sup>.

<sup>1</sup> European Commission. *Questions and Answers: Europe’s Beating Cancer Plan*. 3 February 2021 (accessed 15 April 2021). Available at: [https://ec.europa.eu/commission/presscorner/detail/en/QAN-DA\\_21\\_344](https://ec.europa.eu/commission/presscorner/detail/en/QAN-DA_21_344).

<sup>2</sup> KPMG Project Stella, June 2020. Empty Pack Survey analysis.

<sup>3</sup> Kantar for the Chief Sanitary Inspectorate, ‘*Report from a nationwide survey on the subject of attitudes towards tobacco smoking*’, October 2019, available at: [https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu\\_Raport-Kantar-Public-dla-GIS\\_2019.pdf](https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu_Raport-Kantar-Public-dla-GIS_2019.pdf).

<sup>4</sup> 19% of Polish smokers and recent quitters were found to support a ban on slim cigarettes in 2018. Nogueira SO, Driezen P, Fu M, et al. *Beyond the European Union Tobacco Products Directive: smokers’ and recent quitters’ support for further tobacco control measures (2016–2018)*, Tobacco Control. 16 March 2021 (online only). Available at: <https://tobaccocontrol.bmj.com/content/early/2021/03/16/tobaccocontrol-2020-056177>.

<sup>5</sup> European Commission, *Special Eurobarometer 458 - Attitudes of Europeans towards tobacco and electronic cigarettes*. 30 May 2017. Available at: <https://europa.eu/eurobarometer/surveys/detail/2146>

<sup>6</sup> *Recital (27) in Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC*. Available at: [https://ec.europa.eu/health/sites/health/files/tobacco/docs/dir\\_201440\\_en.pdf](https://ec.europa.eu/health/sites/health/files/tobacco/docs/dir_201440_en.pdf).

Recent European data shows that, contrary to many assumptions, slims smokers are split evenly by gender and by age: the products are not disproportionately chosen by young women<sup>7</sup>. Furthermore, slims smokers consume fewer cigarettes per day<sup>8</sup> - typically less than ten - than smokers of regular-sized cigarettes, who smoke an average of 14.2<sup>9</sup>. These figures suggest that any specific regulatory focus on slims is misdirected, given that slims are not primarily used by young people or by women and that slims users are far from the heaviest smokers in the EU.

Slims are a significant revenue stream for the 100,000<sup>10</sup> tobacco product retailers in Poland, particularly during the ongoing pandemic in which retailers of all sizes have struggled. Even the loss of a small portion of the cigarette market is likely to have a significant impact on turnover.

Evidence shows that many consumers across a variety of incomes purchase - or are prepared to risk purchasing - products from illicit traders, for reasons including the shadow economy being the “only available source”<sup>11</sup>. In the case of slim cigarettes, illicit products can be found easily and cheaply on online marketplaces, and are abundantly available across the border in neighbouring Belarus,

where cigarette production facilities are growing in capacity<sup>12</sup>, and Ukraine. Organised crime groups are likely to view the removal of a highly popular category of product from the market as a promising opportunity.

Poland has substantial tobacco growing and tobacco manufacturing industries, representing about 0.5% of total GDP and 2.2% of added value contributed across Polish industry<sup>13</sup>. 600,000 jobs are reliant on tobacco cultivation and manufacturing<sup>14</sup>. Land used for tobacco farming is not of a quality that allows for the farming of other profitable crops<sup>15</sup>, and substantial investments have been made in manufacturing equipment and facilities, which cannot be re-directed. The highly-skilled and specialised tobacco industry workforce would require re-training for other industries should their jobs in the tobacco sector be lost.

State budget tax revenues from the manufacture and sale of tobacco products amount to PLN 28.7 billion, representing 7.8% of total state budget tax revenue<sup>16</sup>. Even a modest reduction in manufacturing and sale would be highly impactful.

<sup>7</sup> European Commission. *Consumer preference and perception of specific categories of tobacco and related products*. May 2021. Available at: <https://op.europa.eu/en/publication-detail/-/publication/c6378b33-b8a7-11eb-8aca-01aa75ed71a1>.

<sup>8</sup> Ibid.

<sup>9</sup> European Commission, *Special Eurobarometer 506 - Attitudes of Europeans towards tobacco and electronic cigarettes*. 3 February 2021. Available at: <https://europa.eu/eurobarometer/surveys/detail/2240>

<sup>10</sup> Centre for Social and Economic Research (CASE), *The Significance Of The Tobacco Product Manufacturing To Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>11</sup> Oxford Economics. *Combating Illicit Trade: Consumer Motivations and Stakeholder Strategies*. June 2018. Available at: <https://www.oxfordeconomics.com/thought-leadership/combating-illicit-trade>.

<sup>12</sup> Belsat. The Belarusian authorities want to increase tobacco production and fill all of Europe with cigarettes. 12 April 2017. Available at: <https://belsat.eu/in-focus/ulady-belarusi-hochuts-pavyalichyts-vytvorchasts-tytunyu-i-zavalits-tsygaretami-usyu-europu/>.

<sup>13</sup> Centre for Social and Economic Research (CASE), *The Significance Of The Tobacco Product Manufacturing To Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>14</sup> Ibid.

<sup>15</sup> Kwalczyk, Magdalena. *Growing tobacco in Poland less and less profitable?* 17 June 2019. Available at: <https://www.agrofakt.pl/uprawa-tytoniu-polsce-coraz-oplaczalna/>.

<sup>16</sup> Centre for Social and Economic Research (CASE), *The Significance Of The Tobacco Product Manufacturing To Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482)



## 2. EXISTING EU-WIDE LAWS GOVERNING THE MANUFACTURE AND SALE OF TOBACCO PRODUCTS

### 2.1. “TPD2” - TOBACCO PRODUCTS DIRECTIVE (2014/40/EU)

In February 2014, the EU adopted the revised Tobacco Products Directive, often referred to as “TPD2”<sup>17</sup>, which EU Member States were required to transpose into their national laws by 20 May 2016. The purpose of the Directive was to establish new, stricter rules for the manufacture, presentation and sale of cigarettes, as well as other forms of tobacco, electronic cigarettes and herbal products for smoking.

Some of the most noteworthy regulatory measures introduced by TPD2 affecting cigarettes – including slims – were as follows:

- 1** Requirements for cigarette packaging to carry graphic health warnings covering 65% of the top of the front and back of the pack.
- 2** Restrictions on the shape of packaging including a ban on packs designed to look like lipsticks, alongside a requirement that cigarette packs have a cuboid shape.
- 3** A ban on packs of less than 20 cigarettes, meaning that the commonly sold packs of 10 slim cigarettes were also banned.

**4** A ban on cigarettes with ‘characterising’ – i.e. overt – flavours, including fruit and menthol.

**5** Specific permission for EU Member States to ban the online sale of tobacco and e-cigarette products.

EU lawmakers recognised that it was not appropriate to prohibit the manufacture and sale of slim cigarettes themselves. During TPD2 negotiations, Poland – as a leading EU Member State with established tobacco growers and tobacco product manufacturers with a direct economic interest in the Directive – successfully countered legislative proposals seeking a ban on slim cigarettes. Welcoming the decision not to ban the category, MEP Bogusław Sonik (European People's Party - EPP) said “*This is a great success for Poland and an expression of the MEPs' common-sense approach. We do not agree with excessive market regulation and interference in individual consumer choices*”<sup>18</sup>. His EPP colleague, MEP Malgorzata Handzlik said: “*I am pleased that today the entire Parliament has confirmed the favourable opinion for Poland that I prepared for the Tobacco Directive in the Internal Market*

<sup>17</sup> Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC. Available at:

[https://ec.europa.eu/health/sites/health/files/tobacco/docs/dir\\_201440\\_en.pdf](https://ec.europa.eu/health/sites/health/files/tobacco/docs/dir_201440_en.pdf).

<sup>18</sup> European Parliament. Report No. 90/2013 of the Session of the European Parliament Strasbourg, 7-10 October 2013. Available at:

<https://www.senat.gov.pl/download/gfx/senat/pl/defaultopisy/294/5/1/090.pdf>.

Committee. This includes introducing a transitional period for menthol, removing the ban on slim cigarettes and introducing more effective tobacco tracking rules to stamp out illicit trade<sup>19</sup>.

While slims were ultimately permitted to remain on the market, recital (27) of the TPD2 claims that, “Tobacco products or their packaging could mislead consumers, in particular young people, where they suggest that these products are less harmful.

This is, for example, the case if certain words or features are used, such as the words ... ‘slim’. [In addition]... the size and appearance of individual cigarettes could mislead consumers by creating the impression that they are less harmful<sup>20</sup>. This suggests that EU policymakers have set their sights on future measures addressing slims, which they claim mislead consumers into believing they are less harmful than regular-sized cigarettes.

## 2.2. POTENTIAL REVISIONS TO THE EU’S TOBACCO RULES

In February 2021, the European Commission announced its intention to put forward actions to help create a “Tobacco-Free Generation”<sup>21</sup> where less than 5% of the population uses tobacco by 2040. Specifically, the Commission has said that it take “decisive action” through a review of the Tobacco Products Directive, including “working in full transparency towards plain packaging and a full ban on flavours... and tackling tobacco advertising, promotion and sponsorship on the internet and social media”<sup>22</sup>.

Further to this, in May 2021, the European Commission published its review of the application of the EU’s Tobacco Products Directive (TPD). The report recommended that: “Some provisions on the packaging/ appearance of unit packets should be further examined, particularly the size

of warnings, the ban on promotional elements and on ‘slim packages’, and the bevelled edges”.

Given that the planned review of the TPD is<sup>23</sup> expected to focus on the potential for further product regulation, it is possible that previous proposals to further exclude certain tobacco products from the market, such as slim cigarettes, may resurface. This is especially likely because the slims segment has been growing across Europe, in both volume and share, since the implementation of TPD2, despite a fall in the consumption of cigarettes of regular size. Euromonitor data shows that 45 billion slim cigarettes were sold on the EU market in 2020, a 10.5% market share, versus 37 billion in 2015, a 7.5% market share<sup>24</sup>.

<sup>19</sup> Ibid.

<sup>20</sup> Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC. Available at: [https://ec.europa.eu/health/sites/health/files/tobacco/docs/dir\\_201440\\_en.pdf](https://ec.europa.eu/health/sites/health/files/tobacco/docs/dir_201440_en.pdf)

<sup>21</sup> European Commission. *Questions and Answers: Europe’s Beating Cancer Plan*. 3 February 2021. Available at: [https://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_21\\_344](https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_344).

<sup>22</sup> European Commission. *Communication from the Commission to the European Parliament and the Council*. 3 February 2021. Available at: [https://ec.europa.eu/health/sites/health/files/non\\_communicable\\_diseases/docs/eu\\_cancer-plan\\_en.pdf](https://ec.europa.eu/health/sites/health/files/non_communicable_diseases/docs/eu_cancer-plan_en.pdf).

<sup>23</sup> European Commission. Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the application of Directive 2014/40/EU concerning the manufacture, presentation and sale of tobacco and related products. 20 May 2021. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0249&from=EN>

<sup>24</sup> Euromonitor Passport – note that 2020 forecast value. Base: total EU, excluding UK Malta, Luxembourg and Cyprus.

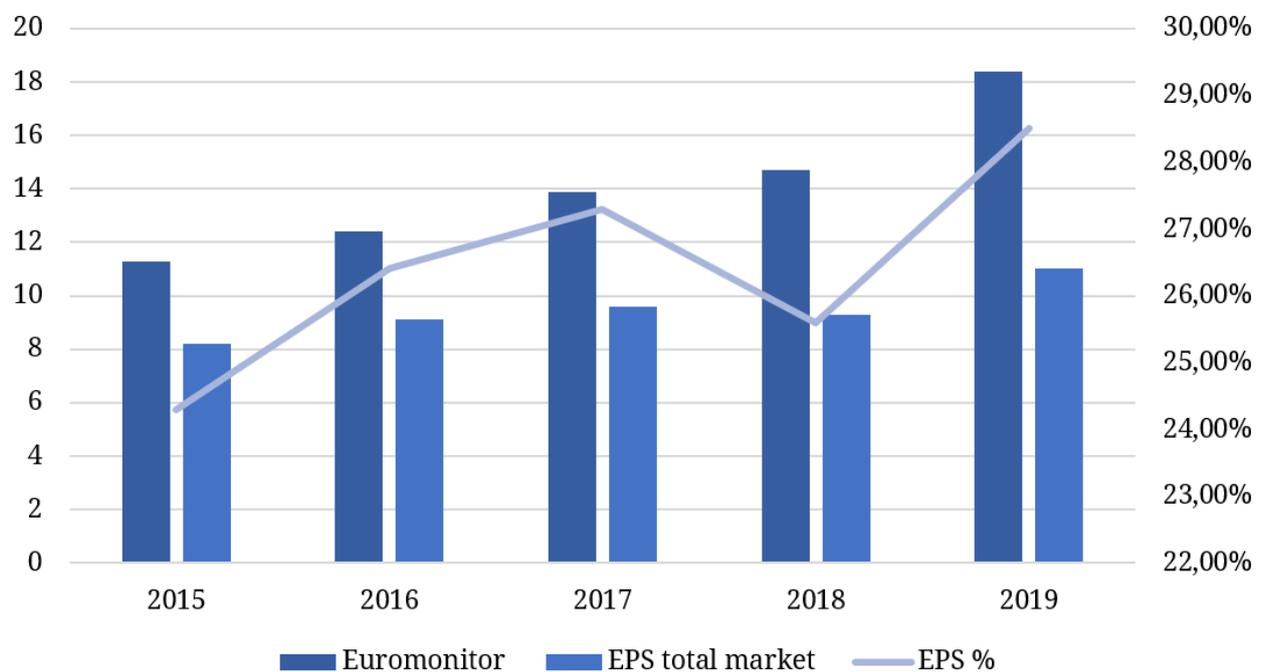


### 3. THE DOMESTIC TOBACCO MARKET

Slim cigarettes account for around 28.5% of cigarettes sold in Poland, amounting to around 11 billion sticks<sup>25</sup>. This statistic is based on empty pack surveys, but it is worth noting that Euromonitor data estimate the slims proportion of the overall cigarette market to be as high as 40%, representing 18.2 billion sticks<sup>26</sup>.

Poland is the most significant slims market in the EU, in terms of volume. It is second only to Bulgaria in terms of market share<sup>27</sup>. In 2019, the estimated value of the overall domestic tobacco product market stood at PLN 32.6 billion, suggesting that the domestic slims market can be valued at around PLN 9.3 billion.

**GRAPH 1** SLIMS MARKET ESTIMATES



Source: KPMG, Project Stella, June 2020

<sup>25</sup> KPMG Project Stella, June 2020. Empty Pack Survey analysis.

<sup>26</sup> Euromonitor Passport 2020.

<sup>27</sup> Euromonitor Passport 2020.

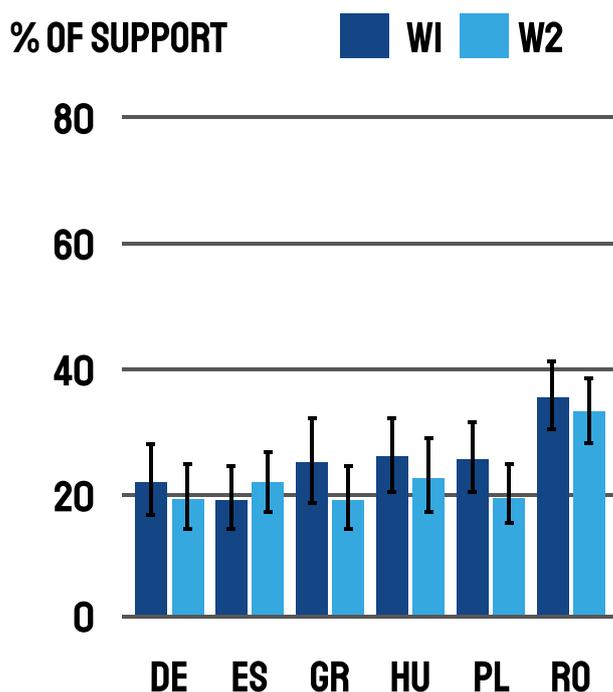
### 3.1. SUPPORT FOR A BAN ON “SLIMS”

Policymakers should ask themselves whether affected consumers would, in fact, be supportive of a ban on slim cigarettes. A research team including institutions from across the EU and Canada sought to answer this question using data from surveys undertaken in 2016 and 2018. They found that, in Poland, support for a ban on slims among smokers and recent quitters was 19% in 2018, having decreased significantly from 26% in 2016. This decline in support was also replicated in Germany, Hungary, Greece

and Romania, with a marginal rise in support for a ban only coming from Spain (19% vs 21%). Overall, across all six surveyed countries, between 2016 and 2018, there was a decline in support for a slims ban from 23% to 21%<sup>28</sup>.

Not only is there little appetite for a ban on slim cigarettes, but support is also declining across the EU, and is significantly declining in Poland.

**GRAPH 2** SMOKERS AND RECENT QUITTERS SUPPORT FOR A BAN ON SLIM CIGARETTES IN SIX EU MEMBER STATES IN 2016/18



Source: Nogueira SO et al. *Beyond the European Union Tobacco Products Directive: smokers' and recent quitters' support for further tobacco control measures (2016–2018)*, *BMJ Tobacco Control*. March 2021

<sup>28</sup> Nogueira SO, Driezen P, Fu M, et al. Beyond the European Union Tobacco Products Directive: smokers' and recent quitters' support for further tobacco control measures (2016–2018), *BMJ Tobacco Control*. 16 March 2021 (online only). Available at: <https://tobaccocontrol.bmj.com/content/early/2021/03/16/tobaccocontrol-2020-056177>

### 3.2. USE AND PERCEPTIONS OF “SLIMS”

EU policymakers have suggested that slim cigarettes are intended to give the impression of reduced harm despite not being marketed as such and containing the same ingredients as regular-sized cigarettes.

However, there is little or no evidence to suggest that consumers of slim cigarettes are being misled. Research commissioned by the European Commission in 2017 found that the vast majority of Poles - 91% - do not believe that slim cigarettes are reduced harm products<sup>29</sup>. Furthermore, 98% of Poles did not associate slims with the claim “they help you lose weight”<sup>30</sup>. In fact, only 7% thought they were “easier to smoke” than regular-sized cigarettes, and 79% of Poles disagreed with the statement that slims are “attractive (e.g. feminine, elegant)” – notably higher than

the EU average of 74%<sup>31</sup>. A further recent report on consumer preference and perception of specific categories of tobacco and related products, compiled by the consultancy Open Evidence for the European Commission, confirmed that “a connotation of femininity,” associated with slims, “is less strongly rooted than it has been in the past”<sup>32</sup>. These statistics demonstrate that consumers are exercising a preference for slims based on other factors.

The Open Evidence report also notes that, contrary to historical assumptions surrounding the marketing of slim cigarettes to young women, there is “an almost even prevalence of slim cigarette smoker [sic] in women and men”<sup>33</sup>. Among those aged between 18-25, there was only a 2% difference in prevalence between men and wo-

<sup>29</sup> European Commission, *Special Eurobarometer 458 - Attitudes of Europeans towards tobacco and electronic cigarettes*. 30 May 2017. Available at: <https://europa.eu/eurobarometer/surveys/detail/2146>

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> European Commission. *Consumer preference and perception of specific categories of tobacco and related products*. May 2021. Available at: <https://op.europa.eu/en/publication-detail/-/publication/c6378b33-b8a7-11eb-8aca-01aa75ed71a1>.

<sup>33</sup> Ibid.



men, rising to 5% difference in the 26+ age category<sup>34</sup>, further supporting the proposition that connotations of femininity and elegance are not, in fact, drivers of slim cigarette smoking. It is odd, therefore, that the Commission's aforementioned TPD review report ignores these findings, instead citing the now-outdated statistic that, "More women smoke slim cigarettes (10%) than men (2%)"<sup>35</sup>. Furthermore, the Open Evidence report found that younger people are no more likely to smoke slims than older people: 11% of smokers aged 18 – 25 used slims, compared to 12% of those aged 26 and over<sup>36</sup>. This suggests that slims are not disproportionately targeted at, or appealing to, younger smokers.

In addition, typical slims users smoke fewer cigarettes than smokers of regular-sized cigarettes: on average, EU smokers consume 14.2 cigarettes per day, with 45% smoking 10 or fewer sticks per day<sup>37</sup>. While there is no exact figure for the

average daily consumption of slim cigarettes, the Open Evidence report notes that a typical slims smoker consumes 10 sticks or fewer daily<sup>38</sup>, pointing to data showing that 77% of 18 – 25s, and 74% of those aged over 26 smoke 10 or under cigarettes per day. This may, in part, be due to the relatively high cost of a pack of slims in contrast to regular-sized cigarettes. In any case, these figures suggest that any specific regulatory focus on slims is misdirected, given that slims users are far from the heaviest smokers in the EU. Finally, it is surprising that the European Commission declined to collect data on perceptions of slim cigarettes in its most recent Eurobarometer report, published in 2021, despite having collected such data in 2017. The 2021 survey collected information from 28,000 participants across all 27 EU Member States and would have been a valuable mechanism through which to collect large scale, representative consumer data on slims.

### 3.3. INTENTION TO QUIT SMOKING AMONG POLISH SMOKERS

The intention behind a potential ban on slim cigarettes is, presumably, to encourage users of the category to quit smoking entirely. Otherwise there would be no overall impact on population or individual health resulting from the introduc-

tion of the measure. 26% of Poles are current smokers<sup>39</sup>. Few of these – 13% of men and 12% of women – intend to make attempts to quit smoking in the near future<sup>40</sup>. Data collected by the European Commission as recently as May 2020

<sup>34</sup> Ibid,

<sup>35</sup> European Commission. *Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Application Of Directive 2014/40/EU Concerning The Manufacture, Presentation and Sale of Tobacco and Related Products. 20 May 2021. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1621500846386&uri=COM%3A2021%3A249%3AFIN>*

<sup>36</sup> European Commission. *Consumer preference and perception of specific categories of tobacco and related products. May 2021. Available at: <https://op.europa.eu/en/publication-detail/-/publication/c6378b33-b8a7-11eb-8aca-01aa75ed71a1>.*

<sup>37</sup> European Commission, *Special Eurobarometer 506 - Attitudes of Europeans towards tobacco and electronic cigarettes. 3 February 2021. Available at: <https://europa.eu/eurobarometer/surveys/detail/2240>*

<sup>38</sup> European Commission. *Consumer preference and perception of specific categories of tobacco and related products. May 2021 Available at: <https://op.europa.eu/en/publication-detail/-/publication/c6378b33-b8a7-11eb-8aca-01aa75ed71a1>.*

<sup>39</sup> European Commission, *Special Eurobarometer 506 - Attitudes of Europeans towards tobacco and electronic cigarettes. 3 February 2021. Available at: <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/91136>.*

<sup>40</sup> Kantar for the Chief Sanitary Inspectorate, 'Report from a nationwide survey on the subject of attitudes towards tobacco smoking', October 2019. Available at: [https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu\\_Raport-Kantar-Public-dla-GIS\\_2019.pdf](https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu_Raport-Kantar-Public-dla-GIS_2019.pdf).

also shows that only 12% of Poles are ex-smokers – one of the lowest rates in the EU<sup>41</sup> – behind only Hungary and Romania. Furthermore, historical data from 2017 – the latest available – shows that only 10% of Polish ex-smokers were slims smokers<sup>42</sup>. Quitting rates are, therefore, no higher among slim cigarette smokers than among users of other tobacco products. If anything, they are lower. Noting that Polish smokers are unlikely to quit, that slims users are especially unlikely

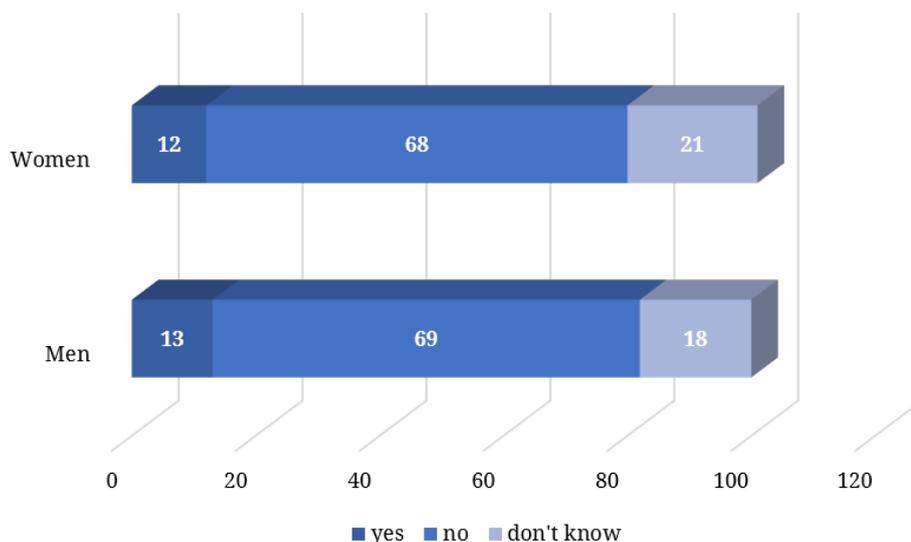
to quit and, as abovementioned, they are not currently being misled in their perception of slim products, there is no reason to believe that they will quit smoking entirely if their preferred product is removed from the market. Polish slims smokers are more likely to replace their preferred category of products with either regular-sized cigarettes or with products sourced from the shadow economy. This would not have the desired impact on smoking prevalence.

### 3.4. IMPACT ON THE RETAIL ENVIRONMENT

There are currently 100,000 retailers in Poland who sell tobacco products, employing a total of around 500,000 workers<sup>43</sup>. These include newsstands, newsagents, petrol filling stations and convenience stores<sup>44</sup>, generating significant turnover and attracting customers looking for

tobacco who go on to make additional purchases of other products. Grocery retailers, such as those cited above, are joined by speciality tobacco outlets and speciality tobacco displays in department stores. Retail sales points are, in turn, supplied by wholesalers, which numbered

**GRAPH 3** STUDY: DO YOU INTEND TO MAKE AN ATTEMPT TO QUIT SMOKING IN THE NEAREST FUTURE? (%)



Source: Kantar, Report from a nationwide survey on the subject of attitudes towards tobacco smoking, October 2019

<sup>41</sup> European Commission, *Special Eurobarometer 506 - Attitudes of Europeans towards tobacco and electronic cigarettes*. 3 February 2021. Available at: <https://europa.eu/eurobarometer/surveys/detail/2240>.

<sup>42</sup> European Commission, *Special Eurobarometer 458 - Attitudes of Europeans towards tobacco and electronic cigarettes*. 30 May 2017. Available at: <https://europa.eu/eurobarometer/surveys/detail/2146>

<sup>43</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>44</sup> Kantar for the Chief Sanitary Inspectorate, 'Report from a nationwide survey on the subject of attitudes towards tobacco smoking', October 2019, available at: [https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu\\_Raport-Kantar-Public-dla-GIS\\_2019.pdf](https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu_Raport-Kantar-Public-dla-GIS_2019.pdf).



around 400 in 2019<sup>45</sup>. Overall, tobacco is a key revenue stream for the whole retail sector and the wider economy.

A 28.5% decline in tobacco sales – the proportion of the overall domestic market represented by slims – is a significant threat to huge numbers of retailers. More realistically, some slims smokers will switch to regular-sized cigarettes, but a significant proportion are likely to source their preferred products from the shadow economy. Even a small drop in tobacco sales would undoubtedly lead a number of these smaller, struggling retailers to close, given that many are already facing significant hardship as a result of the Covid-19 pandemic. It is noteworthy that a Canadian study has demonstrated that a growth in illicit trade – ultimately reaching

19% of national sales in Canada – resulted in the closure of 2,300 Canadian shops in 2009<sup>46</sup>. This is a realistic prospect for the Polish market should slim cigarettes be banned.

In any given country, domestic tobacco sales support a significant number of jobs in retail. Although there are no direct statistics for Poland, a comparable market is Brazil, as it has a legal market of equivalent size. In Brazil, 5,000 jobs in retail are directly supported by the tobacco industry<sup>47</sup>. Even a conservative drop in tobacco sales of 10% or 20% resulting from a ban on slims is likely to be highly damaging to the retail trade, particularly affecting small retailers such as newsagents and newsstands who are unable to make up lost revenue elsewhere.

<sup>45</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>46</sup> International Tobacco Journal. *Illicit cigarette trade flourishes on the US-Canadian border*. 10 January 2011 (accessed 15 April 2021) Available at: [http://www.tobaccojournal.com/Illicit\\_cigarette\\_trade\\_flourishes\\_on\\_the\\_US-Canadian\\_border.50351.0.html](http://www.tobaccojournal.com/Illicit_cigarette_trade_flourishes_on_the_US-Canadian_border.50351.0.html).

<sup>47</sup> Oxford Economics. *The Economics of the Illicit Tobacco Trade in Brazil*. November 2019.



## 4. IMPACT ON THE SHADOW ECONOMY

One of the main unintended yet most damaging effects of a ban on the sale of slim cigarettes is a potential increase in illicit trade. This would comprise both the smuggling of cigarettes from outside the EU into Poland and unauthorised manufacturing within the country, for sale domestically or elsewhere. In recent years, since 2015, Poland has successfully reduced the size of its shadow economy in tobacco products, from 19% in 2015 to 9.9% in 2019<sup>48</sup>, assisted by a freeze in excise rates during these years. Rising domestic cigarette sales – and corresponding increases in excise tax revenues – coincided with a simultaneous decline in the market for counterfeit and contraband cigarettes<sup>49</sup>. A similar trend is observable for slims, with 23.0% of overall Polish slims consumption originating from non-domestic sources in 2015, dropping to 13.3% in 2019<sup>50</sup>. This is despite a 31% rise in the consumption of legal domestic slims products over the same period, an increase of 2.6 billion sticks<sup>51</sup>.

A ban on slims would threaten to reverse this trend. Poland has the longest external land border in the European Union, comprising a 418 km border with Belarus and a 535km border with Ukraine, making this a large potential entry point for products - including slims - produced outside the EU region to be smuggled into Poland. Just under half (47%) of non-domestic slims currently found in Poland originate in Belarus, where they are subject to much lower taxes and are purchased easily<sup>52</sup>. Almost all of the non-domestic slims of Belarussian origin are of the Minsk and Nz brands produced by Grodno Tobacco, a major part-state-owned cigarette manufacturer in Belarus<sup>53</sup>, and one in which investments are being made to expand production lines<sup>54</sup>. According to estimates, there are over a million foreigners working in Poland from the East, mainly from Ukraine<sup>55</sup> and Belarus<sup>56</sup>, many travelling across the border on a daily basis, and these workers can – and do – easily smuggle products over the border in small quantities.

<sup>48</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>49</sup> Ibid.

<sup>50</sup> KPMG. Project Stella, June 2020. Unpublished data. In 2015, non-domestic slim consumption was 2.49bn sticks in 2015 versus legal domestic slim consumption of 8.33 bn sticks. In 2019, non-domestic slim consumption was 1.68 bn sticks, versus legal domestic slim consumption of 10.94 bn sticks.

<sup>51</sup> Ibid.

<sup>52</sup> KPMG. Project Stella, June 2020. Unpublished data.

<sup>53</sup> KPMG. *Illicit cigarette consumption in the EU, UK, Norway and Switzerland*, 2019 Results. 18 June 2020. Available at:

<https://www.stopillegal.com/docs/default-source/external-docs/kpmg-report---2019-results/kpmg-report-illicit-cigarette-consumption-in-the-eu-uk-norway-and-switzerland-2019-results.pdf>

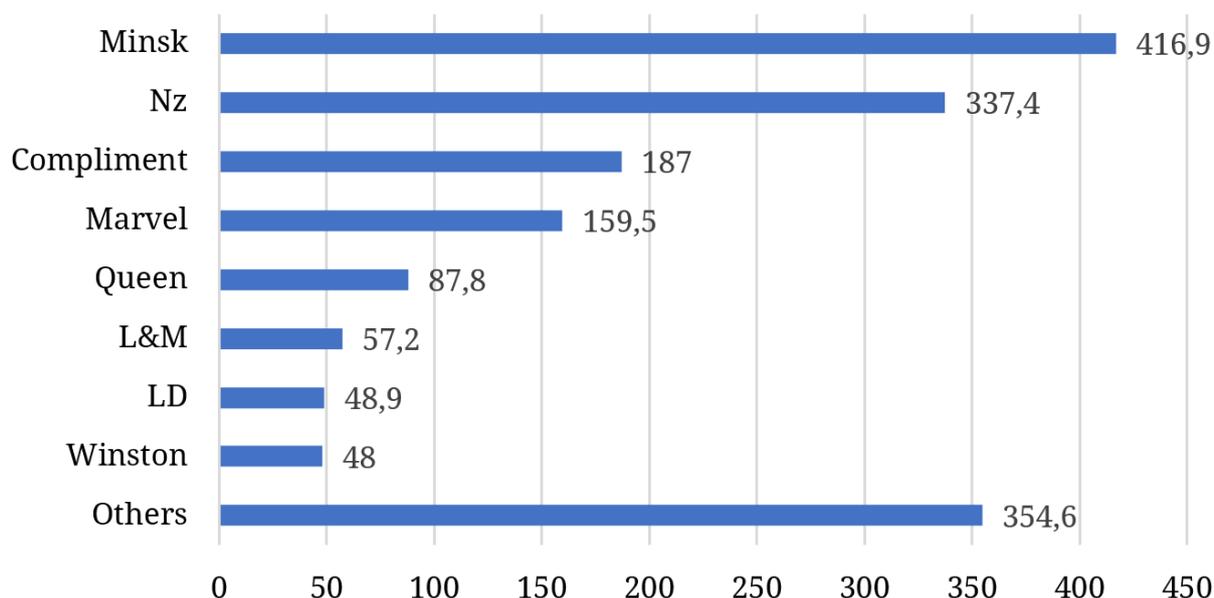
<sup>54</sup> Belsat, *The Belarussian authorities want to increase tobacco production and fill all of Europe with cigarettes*. 12 April 2017 (accessed 20 April 2021) Available at:

<https://belsat.eu/in-focus/ulady-belarusi-hochuts-pavyalichyts-vytvorchasts-tytunyu-i-zavalits-tsygaretami-usyu-europu/>

<sup>55</sup> Business Insider, *For the first time since the immigration boom, fewer Ukrainians will come to Poland*. 18 December 2019 (accessed 15 April 2021) Available at:

<https://businessinsider.com.pl/twoje-pieniadze/praca/imigracja-zarobkowa-z-ukrainy-w-2020-roku-liczba-pracownikow-za-wschodniej-granicy/dpbmhl>

<sup>56</sup> LEXPOLAND *Belarusians are increasingly going to work in Poland*. 3 August 2020 (accessed 15 April 2021) Available at: <https://lexpoland.com/belarusans-increasingly-going-work-poland/>

**GRAPH 4** MAIN NON-DOMESTIC SLIMS BRANDS IN POLAND, 2019

Source: KPMG, Project Stella, June 2020

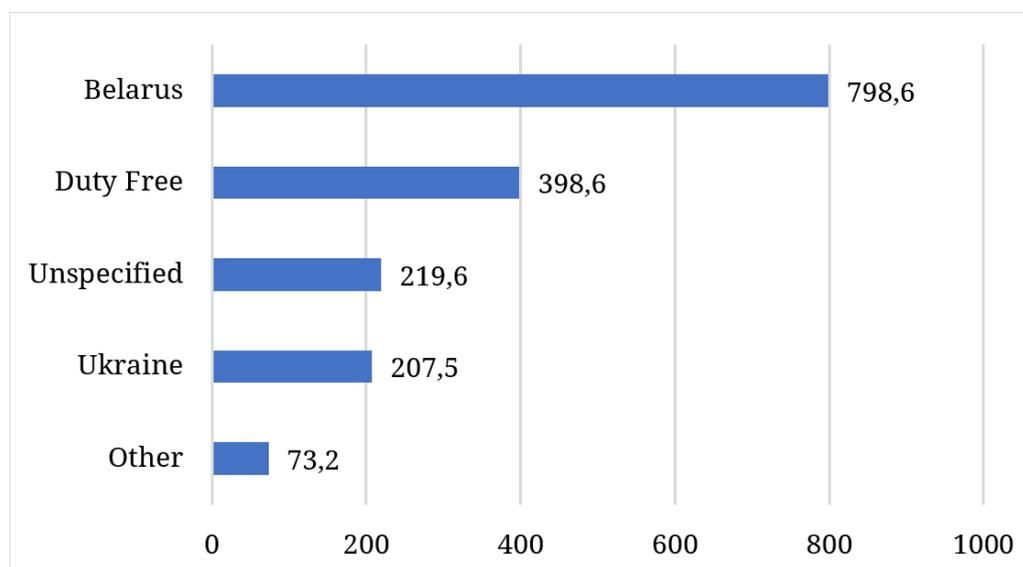
Despite Poland having seen some significant improvements in controlling the market, it still has the second highest consumption of ‘illicit whites’<sup>57</sup> out of EU countries, at 2.11 billion in 2019, and the third highest volumes of counterfeit cigarettes, at 0.93 billion<sup>58</sup>. Consumption through cross-border smuggling was at its highest ever across the EU in 2019<sup>59</sup>. An EU-wide ban on slims is likely to compound the problem and lead to

a significant rise in cross-border smuggling. Consumers are likely to make purchases in countries where slims are still legal, including Poland’s neighbours, Ukraine and Belarus. Consumers will also make use of duty-free sales channels around the world. The impact of this will be felt on tax revenues as EU countries, but especially Poland, lose the revenue to other countries.

<sup>57</sup> Illicit white cigarettes are brands manufactured legitimately in one country but smuggled and sold in another without duties being paid.

<sup>58</sup> KPMG. *Illicit cigarette consumption in the EU, UK, Norway and Switzerland, 2019 Results*. 18 June 2020. Available at: <https://www.stopillegal.com/docs/default-source/external-docs/kpmg-report---2019-results/kpmg-report-illicit-cigarette-consumption-in-the-eu-uk-norway-and-switzerland-2019-results.pdf>

<sup>59</sup> Ibid.

**GRAPH 5** COUNTRY LABELLING OF NON-DOMESTIC SLIMS

Source: KPMG, Project Stella, June 2020

An increase in smuggling in small quantities for personal use is not the only threat, however. A ban on the sale of slims, a category which represents over 28% of the total Polish market in tobacco products, is highly likely to attract the attention of organised crime groups seeing a significant opportunity to trade in contraband products. Prohibiting the sale of a product – slims – that has been present on the market for many years and which is in high demand is undoubtedly likely to attract the interest of organised crime syndicates. It is worth noting that, during the Covid-19 pandemic, organised crime groups have adapted very effectively, exploiting weaknesses in the supply chain and developing an

e-commerce-based distribution chain<sup>60</sup>, using online marketplaces, purpose-built hosted websites and social media platforms, for example<sup>61</sup>. Given the volume of parcels moving through customs facilities on a daily basis, officials are unable to inspect each consignment, instead relying on profiling strategies, which are circumvented by organised criminals using a low-volume, high-frequency approach<sup>62</sup>. This trend can be expected to continue; in fact, the OECD warns that, “*The economic downturn and continued disruptions in supply chains will undoubtedly create additional opportunities for criminals, and most likely will lead to a substantial change in illicit trade volumes, routes and composition in the medium term*”<sup>63</sup>.

<sup>60</sup> OECD. *Chair’s Note: Illicit Trade in a Time of Crisis*. 23 April 2020. Available at: <https://www.oecd.org/gov/illicit-trade/oecd-webinar-illicit-trade-time-crisis-23-april.pdf>.

<sup>61</sup> Royal United Services Institute (RUSI) *E-Commerce, Delivery Services and the Illicit Tobacco Trade*. 17 October 2018. Available at: <https://www.rusi.org/publication/occasional-papers/e-commerce-delivery-services-and-illicit-tobacco-trade>

<sup>62</sup> Ibid.

<sup>63</sup> OECD. *Chair’s Note: Illicit Trade in a Time of Crisis*. 23 April 2020. Available at: <https://www.oecd.org/gov/illicit-trade/oecd-webinar-illicit-trade-time-crisis-23-april.pdf>.

More consumers are attracted by the low prices and product ranges offered by the illicit market than policymakers would like to imagine. A survey by Oxford Economics demonstrates that consumers from any background would readily turn to the illegal market based on availability. In fact, 40% of high-income respondents (>€150,000) said that they had purchased “illicit” or “possibly illicit” cigarettes, higher than the 37% of low-income respondents responding in the affirmative to the same question. Furthermore, 40% of full-time employees said that they had purchased “illicit” or “possibly illicit” goods, versus 37% of unemployed persons, with a European population average of 38%. Very few consumers said that they expected to be prosecuted for illicit purchases, which is perhaps a reflection that they do not think they are engaging in illegal activities given that goods in question are sold through legitimate online marketplaces, or are grey imports, which are meant for legal sale in another country. Younger persons – potentially more internet savvy – are more likely to make illicit purchases, with 50% in this age category admitting to this practice<sup>64</sup>.

The Oxford Economics survey also found that price was far from the only reason for consumers turning to illicit goods. 42% of respondents said that they purchased illicit products because “it was the only available source”. Should a ban on slims be implemented, the shadow economy will become the only source of the product. Furthermore, 38% reported “there is no noticeable

*difference in quality of service*” and a further 38% report that the illicit good were “quicker and/or easier to buy”. It is also noteworthy that 64% of respondents agreed that supporting local businesses is a reason to buy legitimate goods – but with small retailers potentially unable to sell slims in the future, then this reason will be negated<sup>65</sup>. Slims would only be available for purchase in Poland from illicit channels.

The unlawful manufacturing and sale of tobacco products has far-reaching consequences for Poland's economy. Firstly, the shadow economy in tobacco products represents a significant loss to the state budget, valued at PLN 2.65 billion in 2019 and accounting for 9.9% of the overall market<sup>66</sup>. A ban on slims in conjunction with other pressures – such as increasing excise duties on tobacco products and the economic fallout from the pandemic – could easily drive the illicit market well beyond the 19.9% market share seen in during 2010-2015<sup>67</sup>. Secondly, any increased activity would necessitate additional and costly law enforcement resources<sup>68</sup> as traditional seizure-led activities become increasingly ineffective<sup>69</sup>, requiring new tactical approaches including the upskilling of personnel and refocussing efforts on cybercrime to combat the growing e-commerce in illicit products. Any renewed growth in the shadow economy could reduce revenue and increase the costs associated with law enforcement, both of which could be particularly damaging during the ongoing COVID-19 crisis which is already stretching budgets.

<sup>64</sup> Oxford Economics. *Combatting Illicit Trade: Consumer Motivations and Stakeholder Strategies*. June 2018. Available at: <https://www.oxfordeconomics.com/thought-leadership/combating-illicit-trade>.

<sup>65</sup> Ibid.

<sup>66</sup> Centre for Social and Economic Research (CASE), *The Significance Of The Tobacco Product Manufacturing To Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482)

<sup>67</sup> Ibid.

<sup>68</sup> Royal United Services Institute (RUSI) Newsbrief. *Small Parcels, Big Risks: The Forgotten Security Dimensions of the EU's Digital Single Market Strategy* 13 December 2018. Available at: <https://rusi.org/publication/newsbrief/small-parcels-big-risks-for-gotten-security-dimensions-eus-digital-single>.

<sup>69</sup> Royal United Services Institute (RUSI) *E-Commerce, Delivery Services and the Illicit Tobacco Trade*. 17 October 2018. Available at: <https://www.rusi.org/publication/occasional-papers/e-commerce-delivery-services-and-illicit-tobacco-trade>.

## 5. TOBACCO CULTIVATION IN POLAND



Poland has been the second largest producer of raw tobacco in the EU since 2016<sup>70</sup>, behind Italy. With 28,770 tons of raw tobacco, Poland accounted for 19.4% of production in the EU in 2019<sup>71</sup> – a proportion that has been increasing each year. Poland’s strength in the cultivation of raw tobacco has endured despite the region trending towards a steady phase-out of tobacco growing, resulting in part from the EU-wide abolition of subsidies for tobacco cultivation in 2015.

Tobacco cultivation in Poland is difficult due to the low temperatures and insufficient insulation – it is the northernmost tobacco growing area in the world<sup>72</sup> – but tobacco farmers have succeeded, in part due to significant investments they have made to overcome challenges. Tobacco cultivation is labour-intensive and requires specialised knowledge. Achieving the highest standards to meet industry expectations requires Polish tobacco growers to invest heavily in appropriate and costly technological equipment, machinery and facilities, plant protection products and qualified staff with expertise in agrotechnology and plant protection.

Many growers are small family-run farms. Statistics gathered by national authorities show that, in 2017, tobacco was grown in about 62,000 farms,

<sup>70</sup> FAOSTAT (the UN agricultural market research agency). Available here: <http://www.fao.org/faostat/en/#data/QC/visualize>.

<sup>71</sup> Ibid.

<sup>72</sup> D. Laskowska, T. Doroszewska (2015), Tobacco cultivation in Poland - current agronomic and organizational-economic conditions, *Studia i Raporty IUNG-PIB* Book 43(17): pp. 43-63;



with an average sowing area of 2.09 hectares. In over 40% of farms, tobacco was grown on less than 1 hectare<sup>73</sup>. Around 50,000 people – both year-round, highly-skilled staff and seasonal workers – were employed in tobacco cultivation in 2017<sup>74</sup>.

These farms do not have the suitable soil and microclimatic conditions to enable the switch to other crop species. Sandy soils, such as in the Lublin region, where 72.8%<sup>75</sup> of Poland's tobacco crop is grown, are practically suitable only for Virginia tobacco growing. These small, family-run farms cannot profitably grow crops or other plants that require large acreages<sup>76</sup> or a higher quality of soil. Nor can their facilities, such as drying houses, simply be re-directed to other agricultural production uses<sup>77</sup>. In the event of tobacco crop liquidation, thousands of growers may be left without a source of income and with substantial credit burdens<sup>78</sup>, and the sector's capital and resources would ultimately be lost.

Furthermore, the knock-on effects would be significant: tobacco is grown in the less developed areas of Poland, which are characterised by a higher unemployment rate. The Lublin Province – where the bulk of tobacco is grown – already has a rate of unemployment that is over 30% higher than the national average<sup>79</sup>.

It is worth noting that the profitability of tobacco cultivation in Poland, as in other EU countries, is already declining, particularly after the withdrawal of subsidies to farmers, which coincided with an increase in labour costs in the agricultural sector. Any reduction in manufacturing in Poland, resulting from an end to the production of slims, is likely to have a significant negative impact on demand for raw material.

This leaves tobacco farmers with limited options: either liquidation, or finding another buyer for their produce. With no licensing of raw tobacco, and no declaration requirements, farmers are

<sup>73</sup> Statistics from the Polish Institute of Agricultural and Food Economics (IERiGŻ) and Statistics Poland, cited in Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>74</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>75</sup> Ibid. Data based on Statistics Poland, Land use and sown area in 2018 and 2017 (CSO 2017c; CSO 2018b, CSO 2019g).

<sup>76</sup> Kwalczyk, Magdalena. *Growing tobacco in Poland less and less profitable?* 17 June 2019. Available at: <https://www.agrofakt.pl/uprawa-tytoniu-polsce-coraz-oplaczalna/>.

<sup>77</sup> Forsal. *Tobacco growers will lose their right to EU subsidies*, 20 February 2014 (accessed 26 February 2021). Available at: <https://forsal.pl/artykuly/779232,plantatorzy-tytoniu-straca-prawo-do-doplat-ue.html>.

<sup>78</sup> Ibid.

<sup>79</sup> The average unemployment rate in Poland at the end of 2020 was 6.2%, the unemployment rate for Lublin province was 8.2%. Central Statistics Office, Poland. *Registered unemployed persons and unemployment rate. As of the end of December 2020*. Available at: <https://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/bezrobotni-zarejestrowani-i-stopa-bezrobocia-stan-w-koncu-grudnia-2020-r-,2,101.html>.



able to sell their tobacco across the EU as they please – including to the manufacturers of illicit products. This is an increasingly common phenomenon, and one that is acknowledged by the European Commission<sup>80</sup>. A growth in illicit manufacturing supply chains operating completely within the EU has already been observed<sup>81</sup>, and Poland has been identified as the largest source of illegal factories<sup>82</sup>, suggesting that a home-grown shadow economy for slims is a significant threat. That said, illicit manufacturing in Poland is currently predominantly for the Western European

market where increasingly high volumes of illicit whites and counterfeit products are being identified: a decline in the Polish tobacco industry is a problem likely to impact many other EU Member States. Indeed, recent reports have identified rises in counterfeit tobacco products across the EU<sup>83</sup>. A ban on slims, resulting in a decline in associated manufacturing will lead to a greater availability of raw tobacco compounded with an existing underused infrastructure in Poland. The shadow economy is likely to thrive in such an environment.

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<sup>80</sup> European Commission Staff Working Document. *Evaluation of the Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco*. 12 February 2020. Available at:

[https://ec.europa.eu/taxation\\_customs/sites/taxation/files/10-02-2020-tobacco-taxation-report.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/10-02-2020-tobacco-taxation-report.pdf).

<sup>81</sup> Europol. *European Union Serious and Organised Crime Threat Assessment (SOCTA)*. 12 April 2021. Available at:

<https://www.europol.europa.eu/activities-services/main-reports/european-union-serious-and-organised-crime-threat-assessment>.

<sup>82</sup> KPMG. *Project Stella. Illicit Cigarette Manufacturing in the EU*. November 2019. Available at: [https://www.stopillegal.com/docs/default-source/external-docs/kpmg-project-stella/project-stella---illegal-manufacturing-within-the-eu---kpmg-report-11122019.pdf?Status=Temp&sfvrsn=438574d7\\_6](https://www.stopillegal.com/docs/default-source/external-docs/kpmg-project-stella/project-stella---illegal-manufacturing-within-the-eu---kpmg-report-11122019.pdf?Status=Temp&sfvrsn=438574d7_6).

<sup>83</sup> KPMG. *Illicit cigarette consumption in the EU, UK, Norway and Switzerland, 2019 Results*. 18 June 2020. Available at:

<https://www.stopillegal.com/docs/default-source/external-docs/kpmg-report---2019-results/kpmg-report-illicit-cigarette-consumption-in-the-eu-uk-norway-and-switzerland-2019-results.pdf>.



## 6. IMPACT ON TOBACCO PRODUCT MANUFACTURING IN POLAND

Eurostat data shows that Poland's share of cigarette production volume in 2018 was 30%, 4 percentage points below Germany, the market leader, and 14 percentage points ahead of Romania, in third<sup>84</sup>. The last decade has seen the manufacture of tobacco products in Poland increase by 47%: from 144 billion cigarettes in 2010 to 213 billion cigarettes in 2019<sup>85</sup>. Four of the world's largest tobacco companies - British American Tobacco, Imperial Tobacco, Japan Tobacco International (JTI) and Philip Morris International<sup>86</sup> - have manufacturing facilities in the country. The number of jobs wholly or partially related to the tobacco industry totals 600,000; the equivalent of 33,300 full-time jobs<sup>87</sup>.

Tobacco product manufacturing is a significant contributor to GDP, with the value of tobacco manufacture estimated at PLN 45.9 billion in 2019<sup>88</sup>. This is estimated to have translated into value-added of PLN 6.9 billion for the tobacco processing and manufacturing sector, representing 2.8% of overall manufacturing value added and approx. 0.3% of total GDP<sup>89</sup>.

Manufacturing facilities produce cigarettes for both domestic use and export. Four out of every

five (79.8%) of cigarettes manufactured in Poland are exported<sup>90</sup>, and in 2019, the EU's share in total exports was 93.1%<sup>91</sup>. While a breakdown of exports of slim cigarettes versus regular-sized cigarettes is unknown, clearly an EU-wide ban on slims would affect Poland disproportionately in relation to the other EU Member States.

Beyond those industries involved directly in tobacco processing, the manufacturing supply chain also includes domestic producers of tobacco-related goods, such as filters, packaging, rolling paper and other design features. Poland's sizeable share in tobacco manufacturing, alongside its convenient geographical location with proximity to large sales markets, a skilled workforce, high quality output and competitive labour costs in relation to Western countries<sup>92</sup>, has also attracted significant additional investment from the international tobacco corporations themselves. For example, following the establishment of a cigarette factory in Poland in 2009, JTI established a components factory in 2014 and a smoking and "other tobacco products" factory in 2017. Similarly, BAT develops production capacity at the factory in Augustów. In addition, BAT took over the Polish group CHIC, the owner

<sup>84</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>85</sup> Ibid.

<sup>86</sup> Listed in alphabetical order.

<sup>87</sup> Ibid.

<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid.

<sup>91</sup> Ibid.

<sup>92</sup> K. Kozdra, SGH, *Characteristics of the tobacco industry in Poland*, 2018.

of the electronic cigarette sales network and modern R&D center. Assuming that Poland remains an attractive market, there are also further opportunities for development, especially in the manufacture of and research into novel tobacco and nicotine products. The country could and should aspire to be a leader in the development of modern solutions aimed at mitigating the negative health effects of combustible tobacco products.

Moreover, international tobacco corporations often have offices, subsidiaries, distribution centres and shared service centres in Poland of significant size, which provide business support services such as research and development, accounting, purchasing, and legal and tax services to their smaller counterparts in other countries. As such, additional employment beyond manufacturing has been created in other specialist areas such as trade and sale, logistics, administration, finance and accounting, law and tax.

The total production capacity of the facilities located in Poland is approximately 245 billion cigarettes per annum<sup>93</sup>. The tobacco industry

has made significant investments: in 2019, the industry's capital expenditures amounted to around PLN 1.3 billion<sup>94</sup>, consisting predominantly of the expansion of production capital. With 213 billion cigarettes produced annually, this amounts to 15% of spare capacity, currently. This is a potential opportunity if the Polish market can remain competitive within the EU and globally. However, should an EU-wide ban on slims disproportionately hit Polish manufacturing – which is extremely likely – manufacturers may consider such operations too expensive to run at partial capacity, and there is a risk that they will begin to pull out of their operations in the country.

Clearly, an EU-wide ban on the sale of slims would have significant repercussions for manufacturing and the wider tobacco industry and associated service providers in Poland. One would expect both disinvestment in manufacturing facilities, as well as the potential relocation of support service hubs set up by international tobacco corporations, moving accounting, logistics, purchasing services to other sizeable or growing markets.



<sup>93</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>94</sup> Ibid.

## 7. IMPACT ON PUBLIC FINANCES

In 2019, excise duties on manufactured tobacco products accounted for state budget revenues of PLN 20.9 billion per annum, with receipts from excise duty on dried tobacco contributing a further PLN 800 million<sup>95</sup>. The total share of tobacco products and dried tobacco in budget revenues from excise duty in 2019 was about 30.3%<sup>96</sup>. Furthermore, revenues from VAT imposed on manufactured tobacco products amounted to PLN 6.42 billion in 2019<sup>97</sup>. The combined burden of consumption taxes (excise and VAT) translated into revenue of around PLN 27.3 billion in 2019, accounting for 10.6% of state budget revenue from these taxes combined<sup>98</sup>.

Separately, the tobacco industry generates revenue for the government both from raw tobacco and the sale and distribution of manufactured products. Because Poland is a net exporter of tobacco products with a predominantly domestic manufacturing chain, the state budget receives

substantial revenue from income taxes. These comprise corporate income tax (CIT), which is paid by companies participating in the various chains of cigarette manufacturing process, and personal income tax (PIT), which is paid on the wages and salaries of tobacco industry employees. The 33,300 full-time jobs in the value-added chain of tobacco product manufacturing translate into total PIT revenues amounting to approximately PLN 168.5 million per annum<sup>99</sup>. In addition, CIT revenue from tobacco processing companies reached about PLN 305 million in 2018, and CIT paid by large companies manufacturing intermediate products and tobacco machinery contributed a further PLN 29 million<sup>100</sup>. In addition, CIT revenue resulting from trade and distribution is estimated at around PLN 50 million<sup>101</sup>. The total revenue from CIT therefore amounts to around PLN 384 million, of which around PLN 256 million goes to the state budget and PLN 77 million to local government budgets<sup>102</sup>.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

<sup>97</sup> Ibid.

<sup>98</sup> Ibid.

<sup>99</sup> Ibid.

<sup>100</sup> Ibid.

<sup>101</sup> Finance Ministry, data from tax returns according to Article 27b in the Act of February 15 1992 on tax on legal persons (Journal of laws Dz.U. 2017 position 2343, as amended) and in the Act of November 24, 2017 amending the act on income tax on legal persons (Journal of Laws Dz.U. 2017 position 2369). Cited by the Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy, 2020*. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>102</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy, 2020*. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).



## 8. CONCLUSION

Slims represent over 28% of the domestic cigarette market in Poland, with sales of 11bn slims on the domestic market in 2019. Smokers of slim cigarettes are aware of what they are buying and, contrary to the concerns of certain EU lawmakers, not misled into believing that slims are products of “reduced harm” when compared to regular-sized cigarettes. A strong majority do not associate slims with the word “attractive”, “feminine” or “elegant”, despite claims made by EU lawmakers, leading a report commissioned by the European Commission to conclude that “a connotation of femininity,” associated with slims, “is less strongly rooted than it has been in the past”<sup>103</sup>.

European data shows that, contrary to many assumptions, slims smokers are split evenly by gender and by age: the products are not disproportionately used by young women<sup>104</sup>. Furthermore, slims smokers consume fewer cigarettes per day<sup>105</sup> - typically less than ten - than smokers of regular-sized cigarettes, who smoke an average of 14.2 sticks per day<sup>106</sup>. These figures suggest that any specific regulatory focus on slims is misdirected, given that slims are not primarily used by young people and that slims users are far from the heaviest smokers in the EU.

Tobacco products are a significant revenue stream for Polish retailers of all sizes, particularly in light of hardships posed by the Covid-19 pandemic, and not least because they encourage regular footfall, thereby increasing sales of other groceries and driving turnover. Even a small drop in tobacco sales would undoubtedly lead a number of these smaller, already struggling retailers to close, with revenues instead benefitting the shadow economy.

Moreover, Poland has substantial tobacco growing and tobacco manufacturing industries, with around 80% of cigarettes exported, the vast majority to other EU Member States. The tobacco industry’s total value-added including all the tobacco and tobacco-related sectors, as well as agriculture, was an estimated PLN 10.9 billion in 2019, with 88% of this being generated through tobacco product exports<sup>107</sup>. In total, the tobacco industry represents about 0.5% of total GDP and 2.2% of added value contributed across Polish industry<sup>108</sup>. An EU-wide ban on the sale of slims would therefore have a highly detrimental and disproportionate effect on the Polish economy.

Given the contribution to GDP it is unsurprising that state budget tax revenues from the manufacture and sale of tobacco products – excise duties,

<sup>103</sup> European Commission. Consumer preference and perception of specific categories of tobacco and related products. May 2021 Available at: <https://op.europa.eu/en/publication-detail/-/publication/c6378b33-b8a7-11eb-8aca-01aa75ed71a1>

<sup>104</sup> Ibid.

<sup>105</sup> Ibid.

<sup>106</sup> European Commission, Special Eurobarometer 506 - Attitudes of Europeans towards tobacco and electronic cigarettes. 3 February 2021. Available at: <https://europa.eu/eurobarometer/surveys/detail/2240>.

<sup>107</sup> Centre for Social and Economic Research (CASE), The Significance Of The Tobacco Product Manufacturing To Poland’s Economy, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482).

<sup>108</sup> Ibid.

VAT, personal income tax (PIT) and corporate income tax (CIT) - are significant. In 2019 they amounted to PLN 28.7 billion, representing 7.8% of total state budget tax revenue<sup>109</sup>. The Polish government values these revenue streams, as exemplified by a regular desire to increase excise duties. However, revenues are under threat from a ban on slims, which would impact domestic retail sales as well as the farming and manufacturing industries. Even a modest 10% reduction in manufacturing and a 10% reduction in legal domestic sales would have a substantial impact on state budget tax revenues.

Furthermore, with 600,000 jobs reliant on tobacco cultivation and manufacturing<sup>110</sup>, and no way to re-purpose land used for tobacco farming, manufacturing equipment and facilities, or to make use of a workforce highly skilled in this specific sector, the impact on the labour market would be substantial, and would fall on regions already facing higher employment than the national average. Not only would the impact of tens of thousands of lost jobs on income taxes be significant, but a significant proportion of newly unemployed persons are likely to require financial assistance from the state while they re-train and seek jobs in other industries in a competitive post-pandemic environment.

A ban on slim cigarettes is likely to result in increased consumer interest in slim products from illegal sources. Evidence demonstrates that the vast majority of Polish smokers are neither interested in quitting<sup>111</sup> nor supportive of a ban on slims<sup>112</sup>. Additional evidence suggests that a significant proportion may be tempted to seek

out illicit products, especially if their product of preference is no longer available in domestic retailers, but can be found easily and cheaply on online marketplaces<sup>113</sup>, or can be bought during day trips to neighbouring countries. Already, 9.9% of tobacco products consumed in Poland are illicit<sup>114</sup>, the majority originating from neighbouring Belarus and Ukraine which are well-established smuggling routes given their lower prices. The removal of a highly popular and longstanding category of product from the market will also undoubtedly be considered as a huge opportunity for organised crime, in an increasingly challenging environment for law enforcement as the shadow economy moves online.

In sum, there is no good evidence to support a ban on slims. There are no obvious benefits to individual or population health as there is nothing to suggest that current slims smokers would quit smoking. Rather, there are many reasons to believe that a significant proportion would be tempted to turn to the illicit market. A ban on slims would therefore only prove detrimental to Polish retailers, farmers, manufacturers and other tobacco-associated industries, as well as having significant impact on state revenues and requiring more expenditure on law enforcement to curb illicit traders adept at making use of both physical and online sales channels.

Poland would be impacted by a slims ban more than any other EU Member State, given its strong domestic slims market, its tobacco growing and manufacturing industries, and its proximity and links to other markets where slims would remain available and accessible.

<sup>109</sup> Ibid.

<sup>110</sup> Ibid.

<sup>111</sup> Kantar for the Chief Sanitary Inspectorate, 'Report from a nationwide survey on the subject of attitudes towards tobacco smoking', October 2019, available at: [https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu\\_Raport-Kantar-Public-dla-GIS\\_2019.pdf](https://gis.gov.pl/wp-content/uploads/2018/04/Postawy-Polak%C3%B3w-do-palenia-tytoniu_Raport-Kantar-Public-dla-GIS_2019.pdf).

<sup>112</sup> 19% of Polish smokers and recent quitters were found to support a ban on slim cigarettes in 2018. Nogueira SO, Driezen P, Fu M, et al. *Beyond the European Union Tobacco Products Directive: smokers' and recent quitters' support for further tobacco control measures (2016–2018)*, *Tobacco Control*. 16 March 2021 (online only). Available at: <https://tobaccocontrol.bmj.com/content/early/2021/03/16/tobaccocontrol-2020-056177>

<sup>113</sup> Oxford Economics. *Combating Illicit Trade: Consumer Motivations and Stakeholder Strategies*. June 2018. Available at: <https://www.oxfordeconomics.com/thought-leadership/combating-illicit-trade>

<sup>114</sup> Centre for Social and Economic Research (CASE), *The Significance of the Tobacco Product Manufacturing to Poland's Economy*, 2020. Available at: [https://www.case-research.eu/files/?id\\_plik=6482](https://www.case-research.eu/files/?id_plik=6482)

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