

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products*. It focuses on Poland, where the illicit trade in tobacco products is an emerging issue. The importance of the topic is due to the high and rising penetration of the Polish tobacco market and to Poland's important role in the illicit traffic of tobacco products to the EU. Increasing concerns about illicit tobacco have spurred an increase in the fight against the ITTP and the launching of the second national strategy in 2012.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters:

- Chapter one deals with **the five drivers of the ITTP**: society and economy, the legal market, regulation, the crime environment and enforcement. **The drivers are important areas whose structures may positively or negatively impact on the ITTP. To enable comparison with other country profiles, four key indicators have been selected for each driver.** The data for the driver indicators come from comparable sources (latest available years). When possible, the report provides the most up-to-date data from national sources.
- Chapter two **focuses on the four components of the ITTP**: demand, supply, products, *modus operandi* and geographical distribution.
- Chapter three identifies the **key factors of the ITTP in Poland and frames the drivers in the components**, analysing how different elements of the drivers influence the components of the ITTP.

THE FIVE DRIVERS

- **Society and economy**: twenty years of social and economic reforms have given Poland a solid and growing economy. Poland average wealth remains below the EU and OECD averages, also because of economic disparities within the country.
- **Legal market**: Poland is the main manufacturer of tobacco products in Europe and the third exporter in the world. In 2009, the government deregulated and reduced public support to the tobacco market. The sector contracted and the availability of raw tobacco and disused manufacturing equipment increased. The industry is also changing and growing under the influence of greater exports and higher importance of multinational tobacco companies. With respect to consumption, increasing prices drive down selling volumes and induce smokers to switch to cheaper products. Nevertheless, prevalence is high in general and increasing among women.
- **Regulation**: regulation of the tobacco market is medium in Poland. Tax incidence on cigarettes is among the highest in the world but the country invests scant resources in tobacco control policies. There is a medium-low level of supply chain control, a medium-high level of control on tobacco consumption, and a medium level of control over sales, advertising and promotion.

- **Crime environment:** Poland has low crime levels, with medium-low corruption and a medium informal economy. However, numerous organised crime groups are active in the country. Drug prevalence is in general low; only the use of cannabis is rather widespread among young people. Synthetic drugs have become increasingly common.
- **Enforcement:** the effectiveness of Polish law enforcement is increasing. The fight against the ITTP has improved in recent years, due to a larger involvement of national agencies, international cooperation and new equipment. The obligations on tobacco manufacturers mainly derive from voluntary agreements between the industry and the European Commission.

THE FOUR COMPONENTS OF THE ITTP

- **The demand:** the low price of illicit tobacco is the main driver of the demand for it. Avoiding taxes and buying tobacco products for less than half the legal price increases the accessibility of these products and is an opportunity for tobacco consumers. In Poland, consumers can find illicit tobacco products on the streets, in open markets, and on the Internet.
- **The supply:** profitability and opportunity are the main drivers of the supply of illicit tobacco and are crucial factors for all the actors involved in the ITTP, independently of their degree of organisation. In Poland, organised groups and single smugglers are involved in the supply chain of the ITTP. Proximity with the main source countries of cheap/illicit tobacco to the East and with rich markets to the West contributes to making Poland both a key destination and a transit country of illicit tobacco products.
- **The products:** it is difficult to assess the extent of the ITTP in Poland owing to the lack of publicly available official estimates of the illicit tobacco market. The available data indicate that the impact of the ITTP is increasing and that its penetration in the tobacco market is above 13%. Illicit whites are the most widespread product on the black market; contraband cigarettes, counterfeits and unbranded raw tobacco are also available.

- **Modus operandi and geographical distribution:** smugglers mainly use motorways and railways connecting Poland and its eastern neighbours to introduce cigarettes in the country. Smugglers aiming at other EU Member States pass through Poland to Germany on highways. Counterfeiting relies on the availability of raw tobacco and cheap machinery. The exploitation of the internet and of postal services by the ITTP is increasingly common in Poland. The tobacco black market is much more widespread and is rooted in the East of the country.

FRAMING THE COMPONENTS IN THE DRIVERS

The four key factors of the ITTP

The report identifies four key factors of the ITTP in Poland. They are fundamental determinants of the illicit trade and affect all its components. Hereafter, four subsections analyse how the five drivers affect the key factors and in turn the components of the ITTP. The key factors are:

- **Accessibility:** the price of illicit tobacco, and particularly its relative price compared to legal products, is a crucial factor in determining the scope and prevalence of the ITTP.
- **Availability:** the diffusion of illicit tobacco products have an important impact on the ITTP.
- **Profitability:** the ITTP is an extremely profitable activity owing to the high income that it offers compared with its operational costs.
- **Risk:** the threat of *detection/accusation/conviction* and the sanctions imposable impact on the diffusion of the ITTP.

This study analyses the complex interactions among the drivers, the key factors and the components of the ITTP. The following figures synthesise the main interactions, highlighting the multifaceted nature of the ITTP in Poland.

Figure 1. The interaction between the demand for illicit tobacco and the five drivers

Source: Transcrime elaboration

negative effect (increases the ITTP)	positive effect (decreases the ITTP)
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THE DEMAND FOR ILLICIT TOBACCO AND THE DRIVERS

The main factors affecting the demand are the **accessibility** and the **availability** of illicit tobacco (Figure 1).

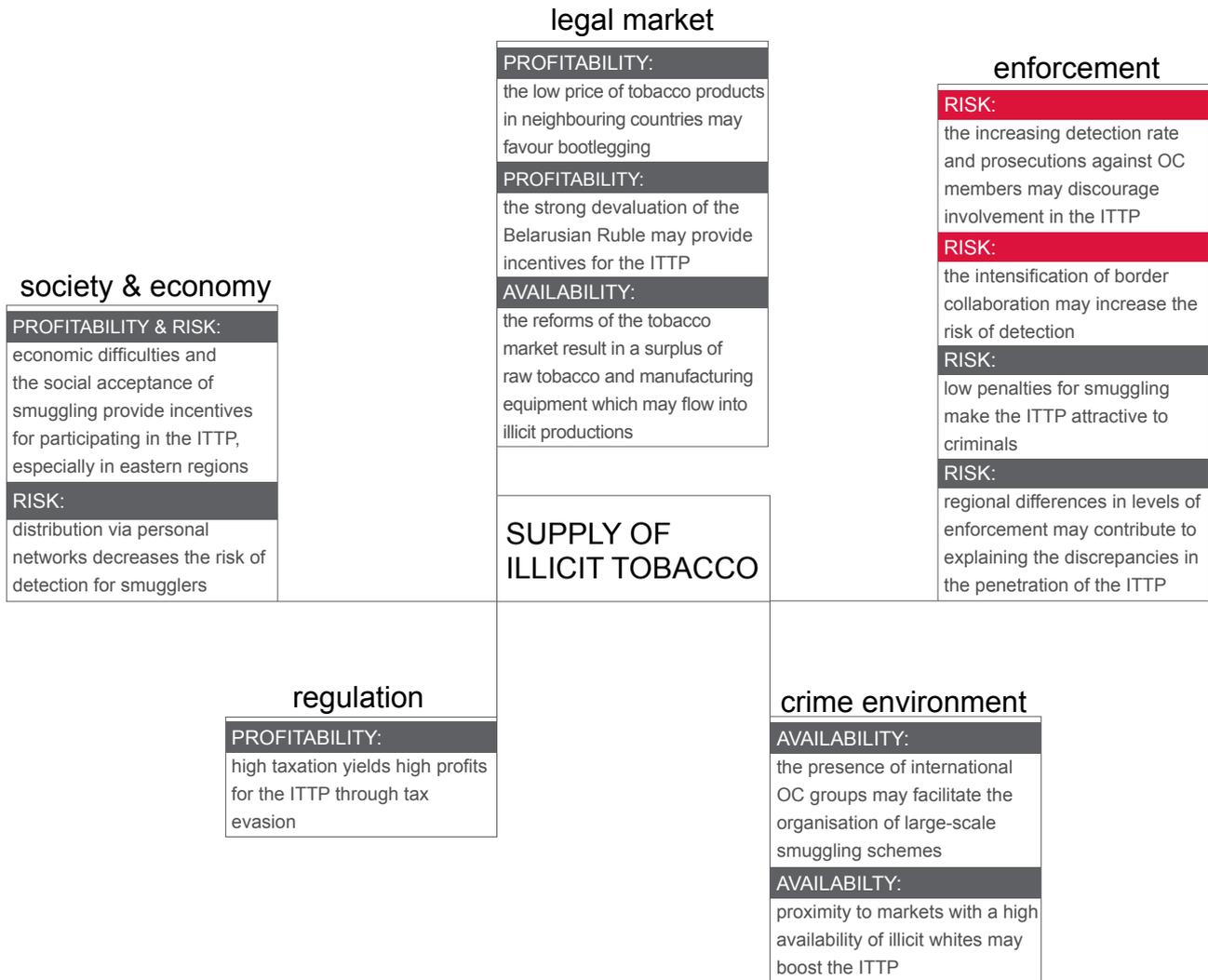
Society and economy. Unemployment and economic difficulties may favour the demand for illicit tobacco due to its low price. The ITTP allows economically disadvantaged groups to maintain their consumption habits; this is particularly true in the eastern regions, which have benefited less from the country's important economic growth.

Legal market. The continuous increases in tobacco prices have generated a downtrading trend, which has made HRT and green leaves more attractive; it may also favour the diffusion of cheaper and more accessible illicit tobacco products.

Regulation. Poland levies high taxation on cigarettes. Increases in the tax level on legal tobacco augment the relative accessibility of tax-free illicit tobacco. Moreover, regulatory interventions like the prohibition of cigarette vending machines and the planned ban on menthol and slim cigarettes may involuntarily boost the illicit market.

Figure 2. The interaction between the supply of illicit tobacco and the five drivers
 Source: Transcrime elaboration

negative effect (increases the ITTP) positive effect (decreases the ITTP)



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Crime environment. Smuggled and counterfeit products enjoy a certain acceptance in Poland; this fact may favour the expansion of the ITTP. Drug consumption is generally low, but the growing popularity of cannabis among young people may favour the expansion of the ITTP by providing additional distribution channels.

Enforcement. There are no public policies to raise awareness about the dangers of illicit tobacco in Poland. This may prevent the reduction of black-market consumers.

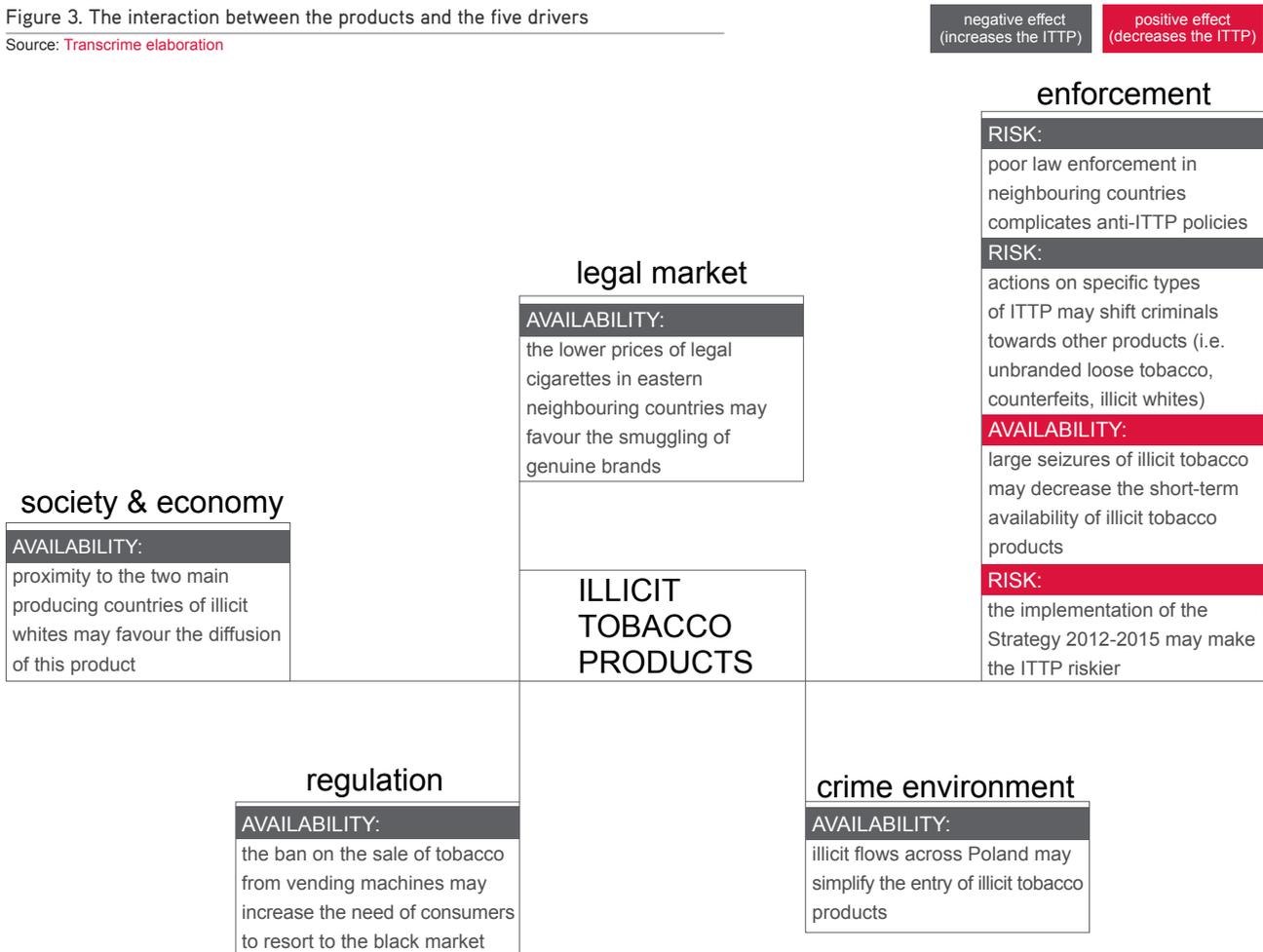
THE SUPPLY OF ILLICIT TOBACCO AND THE DRIVERS

Profitability, availability and risk are important factors for the supply of illicit tobacco (Figure 2).

Society and economy. Economic difficulties, lack of legitimate jobs and the availability of alternative income sources may foster participation in the ITTP. This may be the case of eastern regions, where the ITTP is more widespread. The distribution of illicit tobacco products through personal channels may be a way to reduce the risk of detection for smugglers and may increase the incentives to engage in the traffic.

Figure 3. The interaction between the products and the five drivers

Source: Transcrime elaboration



Legal market. The pricing and taxation policies of neighbouring countries may have negative side effects on the size of the Polish illicit market. The 2009 reform of the Polish tobacco industry and the economic crisis that hit Belarus may also increment the supply of illicit products. Liberalisation led to an increase in the availability of uncontrolled raw tobacco, while the devaluation of the Belarusian Ruble made cigarettes coming from that country cheaper.

Regulation. High tax levels expressed in monetary terms yield high profits for the ITTP. On the one hand, smugglers exploit cross-border differentials between tobacco taxation in Poland and that in neighbouring countries; on the other hand, they evade taxes on tobacco.

Crime environment. The presence of criminal groups may favour the development of sophisticated smuggling schemes, which may also involve the use of bribery. Poland borders on the countries where the majority of European illicit whites are manufactured; this may boost their diffusion.

Enforcement. The effectiveness of Polish law enforcement is increasing, and this may discourage smugglers despite the low level of penalties. International cooperation and joint action plans against the ITTP play an important role in reducing the traffic.

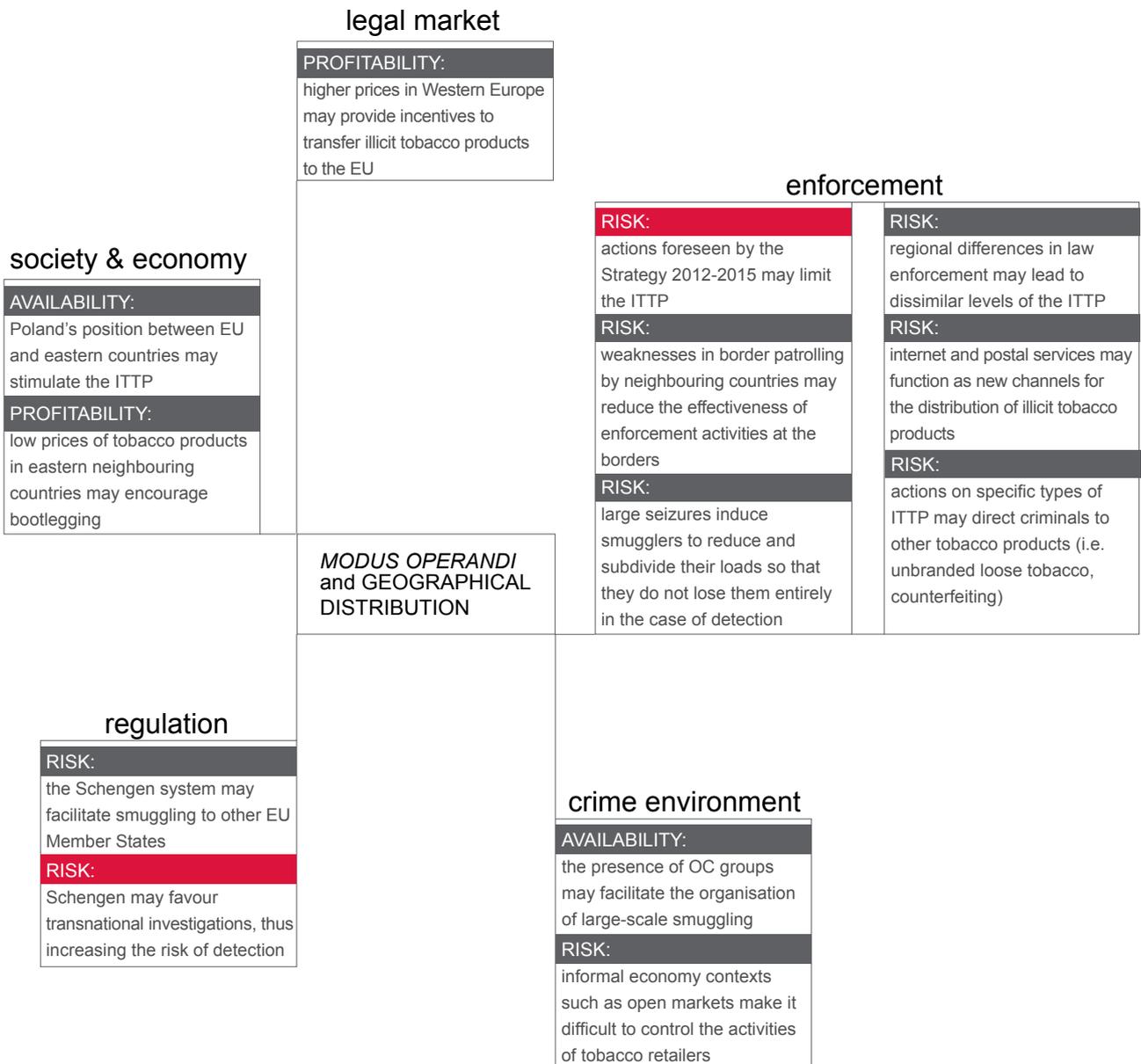
THE PRODUCTS AND THE DRIVERS

The main factors determining the development and diffusion of different types of products are **availability** and **risk** (Figure 3).

Figure 4. The interaction between the *modus operandi* and the geographical distribution of the ITTP and the five drivers
 Source: Transcrime elaboration

positive effect
(decreases the ITTP)

negative effect
(increases the ITTP)



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Society and economy. The diffusion of hand rolling tobacco (henceforth HRT) may enable smugglers to expand the traffic of this product. HRT can be highly profitable, especially because of its low cost of production.

Legal market. The Russian Federation and Belarus are critical producers of illicit whites. Prices of cigarettes in eastern neighbouring countries are lower than in Poland. These differentials stimulate the ITTP.

Regulation. Restrictions on the use of vending machines may create opportunities for the selling of illicit products especially when legal retailers are closed.

Crime environment. The presence of criminal groups may favour the establishment of illicit tobacco factories, whose management requires organisation and capital. Moreover, these groups are often involved in other illicit international traffics, which may provide them with channels to bring foreign cigarettes into Poland.

Enforcement. Increasing commitment to the fight against the ITTP has resulted in growing numbers of seizures and in the implementation of the second national strategy against the ITTP. Nonetheless, law enforcement on certain products may involuntarily stimulate the development of other forms of ITTP, such as the use of postal services and the illicit diffusion of loose tobacco. Conversely, the lack of control over the ITTP in neighbouring countries may facilitate the flow of illicit products to Poland.

THE *MODUS OPERANDI* AND GEOGRAPHICAL DISTRIBUTION AND THE DRIVERS

Risk and profitability play a crucial role in influencing the *modus operandi* and the geographical distribution of the ITTP (Figure 4, p.12).

Society and economy. Poland's geographical position, close to countries with cheaper tobacco to the East and the EU to the West, affects the distribution of the ITTP. Polish regions close to the eastern borders have higher levels of non-domestic packs.

Legal market. Higher prices of tobacco products in Germany, and in the EU in general, may push tobacco smugglers to extend their activity into Western Europe.

Regulation. The effect of Schengen Agreement on the ITTP is ambiguous. On the one hand, crossing borders is easier and less risky. On the other hand, Schengen Agreement has improved transnational collaboration among law enforcement authorities, thus heightening the risks of detection for criminals. The regulation of the supply chain relies on agreements between leading tobacco factories and European institutions and may prove unable to prevent the ITTP. Reform of customs laws may reduce individual smuggling.

Crime environment. The presence of criminal groups may favour the development of complex smuggling schemes involving even legal actors like customs officers. Surveillance of contexts characterised by a widespread informal economy is difficult and may increase opportunities for smugglers.

Enforcement. More effective law enforcement may induce smugglers to develop new systems to avoid controls and to explore different illicit markets.

CONCLUSIONS

There are no official estimates of the prevalence of illicit tobacco in Poland, and this makes it difficult to provide a clear picture of the ITTP. Most unofficial estimates concerning 2011 and 2012 consider the ITTP to account for about 13% of the market. However, sources such as Euromonitor International indicate a penetration of 24%. Regional differences in the consumption of illicit cigarette are substantial. The levels of non-domestic packs are above 30% in the East of the country, while they decrease moving westwards. Illicit whites are the most widespread product consumed; but contraband cigarettes and counterfeits are also available. Seizures suggest that HRT is growing in importance. Nevertheless, there is no current official estimate on its incidence in the market.

Smugglers exploit Poland's proximity to countries with low tobacco taxation and lax monitoring of the supply chain to obtain cheap tobacco products that they later traffic in Poland or move further to other EU markets. Investigations indicate that organised crime groups also engage in cigarette counterfeiting and manufacturing of illicit tobacco products.

The present study demonstrates that more research and accurate data would allow a better assessment of the ITTP in Poland. Considering the limited number of previous studies and the lack of data, the results of this study are provisional. They offer a first analysis of the ITTP in Poland and show that more research is needed in this field.

The ITTP is a complex problem, not limited to an issue of law enforcement and criminal justice policy alone. In Poland, the ITTP seems to have increased over recent years. The Government has reacted with various measures. Nevertheless, despite the launch of a second action plan in 2012, additional preventative measures, such as national public awareness campaigns, are necessary. Effective action against the ITTP requires comprehensive strategies including criminal law, administrative sanctions and other indirect measures aimed at reducing crime opportunities.

The evolution of the project has shown that countries have very different situations in relation to the available data on the ITTP. In some cases, the quality of the available data is low and there are no official, regularly updated, data. Inevitably, this may affect the quality and reliability of the results. In these cases, institutions, businesses and other stakeholders concerned with the ITTP should consider how to improve the data collection on illicit tobacco. This will result in an improvement in the knowledge of the ITTP and, in turn, in better tobacco control policies, since quite often the impact of specific policy measures upon crime may be overlooked due to the lack of reliable data.

Following the completion of the first phase of the project focused on collecting facts and data through the country profiles, Transcrime will perform a comparative analysis of the selected countries. This will provide additional insights in the complexity of the ITTP and allow for the elaboration of policy recommendations.