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Poland

Tobacco and Products

Annual

2003

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Report Highlights:

Poland's tobacco imports rose dramatically in the first half of 2002. This occurred prior to Polish Government implementation of its substantial domestic production protectionist tariff increase. The government shifted the form of its tobacco sector subsidization in 2002 to make it more in line with that of the EU. Despite subsidies, domestic tobacco production and cigarette consumption continue a downward trend. Upon EU accession in May 2004, current Polish raw and finished tobacco item import duties will decline to lower EU external duty rates, but cigarette prices are expected to double because of higher EU excise taxes.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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EXECUTIVE SUMMARY

Although official data on production and harvested area for CY2002 are not yet available, the first estimates show a slow increase of production. There were 22,000 tons of tobacco purchased locally by the end of March 2003. The general downward trend in tobacco area planted is expected to continue in MY 2003/04 and beyond as demand decreases due to anti-smoking campaigns and likely much higher post-accession tobacco product taxes. The government instituted new tobacco production quotas for 2003 based on past production. They also plan to subsidize manufacturers' purchases of slightly over 28,000 tons of domestically grown tobacco. The government is also expected to support leaf exports.

During 2002, the government raised import duties from 30 to 105 percent on imported unmanufactured tobacco as a means to force cigarette manufacturers to use more domestic tobacco. The 105 percent level is within Poland's WTO commitments. However, rumors about possible increases induced manufacturers to almost double their imports in the first half of 2002.

Cigarettes sales in 2002 were slightly higher than in 2001, but this is not an indication of increased consumption. Approximately 40 percent of all adult males and 24 percent of females in Poland smoke.

Production in 2002 was 79.3 billion pieces, 1.8 percent less than in 2001. The sale of cigarettes slightly increased in 2002 to 75.42 billion pieces, 1.42 percent more compared with 2001 sale.

Both tobacco manufacturers and farmers are pressing the government to take stronger actions to prevent imports of illegal cigarettes. Cigarette imports have also declined as Western manufacturers have invested and produce within Poland. Few cigarettes are now legally imported with ninety-nine percent of legally sold cigarettes available on the Polish market being produced in Poland.

Exports of unmanufactured tobacco were 24 percent lower in first eleven months of 2002 compared with the same period of 2001. Imports doubled from 32,154 tons in 2001 up to 51,512 tons during the first eleven months of 2002. Both cigarette imports and exports decreased in 2002 compared to 2001.

TOBACCO

Production

Tobacco production in 2002 was similar to the previous year at about 22,000 tons. However, tobacco area decreased by about 10 percent to 11,000 hectares (official data will be available in the mid-May when last year's census results will be finalized). This declining trend in area planted is expected to continue in 2003. In the middle of last year, the Government of Poland (GOP) increased the import tax on unmanufactured tobacco from 30 up to 105 percent. The rumors about GOP intentions during the first half of 2002 spurred an almost doubling of unmanufactured tobacco imports in 2002 and considerably increased already big stocks.

Farmers of the Tobacco Farmers' Union expect the 2003 leaf harvest to exceed that of 2002. They hope to harvest around 28,000 tons of tobacco in 2003 which is approximately the amount targeted for subsidies.

In 2002 all tobacco farmers had to apply for production quotas which were set based on quantities of tobacco sold by the farmer over the previous three years. Starting in 2002, tobacco subsidies are paid to the purchasers, not farmers. The purchase of over 28,000 tons of tobacco will be subsidized by the GOP in 2003. This is a 2 percent increase compared with the 2001 quota. In 2002/2003, the government subsidized each purchased kilogram of tobacco by PLN 2.3 (\$ 0.58). Up to the end of March 2003, the GOP spent around PLN 51 million (\$13 million) on tobacco subsidies. The cigarette manufacturers purchased 22,024 tons of local tobacco from 2002 crops, 83 percent of the quantity purchased in 2001/2002.

Tobacco is grown in Poland by approximately 20,000 farmers. Over the last two years approximately 10,000 farmers stopped producing tobacco, because they could not meet tobacco industry requirements - too small farms and crops. The average size of a typical tobacco farm is approximately 0.63 hectares. The largest tobacco growing areas are located in the south near Zamosc, Kielce, Krakow and Augustow up north. The dominant varieties are Virginia (around 55-60 percent), Burley (around 30 percent) and dark tobacco like Skroniowski and Kentucky (10 percent).

Consumption

The government requirement over a five year period that privatized tobacco companies purchase 40 percent of domestically-produced tobacco ended in 2001. However, to help local farmers, cigarette manufacturers promised to mostly purchase local production. According to their calculations, they could purchase 16,000 tons of tobacco without subsidies or almost 24,000 with subsidies. Main clients and processors are Universal Leaf Tobacco Poland, Philip Morris Polska S.A., Tobacco Factory in Lublin and Tobacco Company Merkury Ltd.

Domestic tobacco production covers about 50 percent of industry demand. Virginia and Burley are purchased by tobacco plants and used as a filler for branded cigarettes. The remaining 50 percent of raw material is imported. These are mainly aromatic, oriental varieties which cannot be grown in Poland due primarily to unfavorable climatic conditions and susceptibility to diseases.

The law on organization of fruit and vegetables, tobacco and hop markets dated November 29, 2000, regulates the local tobacco market. It harmonizes Polish legislation with that of the EU. It covers conditions of tobacco processing, tobacco production limits and regionalization of tobacco growing. On May 7, 2002 the Minister of

Agriculture set an annual national limit on tobacco production for 2002-2005 at 55,000 tons. The national reserve limit is set at 1,100 tons per year.

Stocks

According to cigarette manufacturers in Poland, there are around 60,000 tons of unmanufactured tobacco stocks.

Trade

In spite of a quite high quota contracted by cigarette producers with local farmers, imports of unmanufactured tobacco did not decrease in 2002. Although final data are not available, the figures for the first eleven months show almost doubled quantities. While in 2001 there were 32,154 tons of unmanufactured tobacco imported by Poland, in the first eleven months of 2002 it was 51,512 tons. This can be explained by the increase of the import duty on unmanufactured tobacco, which was long planned by the Government and realized in September 2002 boosting it from 30 up to 105 percent.

The quantities delivered by the United States in eleven months of 2002 were much higher than in all 2001 (3,235 tons versus 1,938 tons). While in 2000 the U.S. was the third biggest supplier of raw tobacco, in 2001 it was fifth, after Brazil, Zimbabwe, Turkey and Malawi.

It is expected that in 2003, imports will come back to levels from 2000-2001 or be even lower due to the very high import tax and large stocks. Traditionally, most imports consist mainly of light tobacco varieties and some oriental types of tobacco.

Exports of unmanufactured tobacco were 24 percent lower in the first eleven months of 2002 compared with the same period of 2001. There were 4,478 tons exported, mainly to Russia, Lithuania, France, Kazakhstan and Ukraine.

Tariff changes and non-tariff barriers

In spite of government promises not to increase the tariff on unmanufactured tobacco in 2002, the GOP decided to introduce the increase (up to 105 percent, minimum EUR 2.17/kg) as of mid-September 2002. Tobacco is one of the few agricultural commodities which has the same tariffs for virtually all suppliers.

Based on bilateral trade agreements, tariff rate quotas in CY 2003 are available for:

Hungary	2401.10	Tobacco, non-processed	52.5% min. 1.085 EUR/kg	700 tons
Bulgaria	2401.10	Tobacco, non-processed	52.5% min. 1.085 EUR/kg	200 tons

Policy - EU Accession

During EU membership negotiations, Poland requested a 70,000 ton tobacco production quota. In 2002, this amount was the production limit set by the regulation of the Minister of Agriculture as of May 7, 2002. In 2003-2005 the annual production limit will be 55,000 tons, including 30,500 tons of Virginia type tobacco, 20,000 tons of Burley, 6,000 tons of dark air-cured and 4,000 tons of dark fire-cured. As a result of negotiations closed on December 13, 2002, the EU set the post-accession tobacco production quota at 37,933 tons, including 22,200 tons of Virginia, 12,633 tons of Burley, 1,867 of dark air-cured and 1,233 tons of dark fire-cured. Also, Poland requested that typical Polish varieties of tobacco be included into an annex to the Council regulation (EWG) # 2075/92 of June 30, 1992. The EU Tobacco Committee will take a decision on this question. Farmers expect that subsidies will increase and be paid directly to them when Poland joins the EU. It is also expected that the price of cigarettes produced in Poland will double, mainly due to higher EU excise taxes. Also, following EU accession, local import duties on raw tobacco and tobacco products will decrease considerably to EU external rates. Current Polish tariffs are much higher, even under preferential tariff rate quotas.

Marketing

Polish tobacco is produced on private farms and sold to tobacco processing plants primarily on a contractual basis. Processing companies operate independently in all areas including foreign trade.

CIGARETTES

Production

Production in 2002 was 79.3 billion pieces, 1.8 percent less than in the same period in 2001. The sales of cigarettes slightly increased in 2002 to 75.42 billion pieces, it means 1.05 billion or 1.42 percent more compared with 2001 sale. The producers do not see it as a success as they estimated a 2-3 percent increase. The most dynamic were House of Prince, Altadis and British-American Tobacco. Phillip Morris and Reemtsma noticed a decrease by 1.86 and 1.66 percent.

Over the last few years, the situation in the tobacco sector has declined. This is primarily a result of an increasing non-smoking campaign and illegal cigarette imports. Due to these factors, the production of cigarettes is declining.

Cigarettes are produced in nine plants (two processors closed in 2001) owned by independently-managed companies (mainly foreign). According to privatization agreements, the companies were required to modernize. To respond to a growing demand for light cigarettes with low tar and nicotine content, cigarette manufacturers introduced modern production lines. In 1999, light cigarettes represented 38 percent of sales but 50 percent in 2002. In addition, using special tobacco funds (cigarette manufacturers have to transfer 0.6 percent of the purchased tobacco value to these funds), they provided technical assistance for farmers switching to new tobacco varieties.

Ninety-nine percent of cigarettes available on the Polish market are produced in Poland, although an unknown quantity of smuggled cigarettes also exist. There are 320 cigarette brands.

Local cigarette producers' position on the market:

	2000	2001	2002
	%	%	%
Philip Morris	33.3	36.5	31.3
Reemtsma	19.29	18.5	22.2
House of Prince	13.36	12	16.4
Altadis (former Seita)	10.35	11.5	15.1
BAT	14.57	14.5	11
Others	7.87	7	3.9
Imports	1	1	1

Since January 1, 2001, cigarette manufacturers are required to obtain production permits rather than licenses from the Ministry of Agriculture. Manufacturers are also required to pay tobacco growers for purchased tobacco within 30 days or they can lose their production permit for one year or longer.

Production policy

Since June 2000, there is an excise tax system on cigarettes which consists of a per unit tax fixed for each quarter and equal for all brands of cigarettes, domestic or imported, as well as an additional tax of 25 percent of the sales value. The 25 percent tax is applied to a maximum retail price which must be printed on cigarette packaging. In addition, the excise tax cannot be lower than 90 percent of the excise tax for the most popular cigarettes sold during the previous year. In cases where no retail price is shown on the package, excise taxes of 70 percent apply to locally produced cigarettes and 230 percent to imported cigarettes. Most brands already have the price on their package. The categories and excise taxes are:

CN Code	Description	Excise tax in PLN per 1000 pcs and/or in percent:
	Tobacco products:	
2402.2	cigarettes	PLN 57.00 + 25 % of retail price
2402.1	cigars, cigarillos from tobacco or tobacco substitute	PLN 123.00
2402.1	other tobacco products	60 %
2403.10.10.0	imported smoking tobacco, whether or not containing tobacco substitutes in any proportion, in packaging smaller than 500 g	150 %

The excise tax system generated PLN 7.31 billion (around \$2 billion) in tax revenues from cigarette production in 2002, which was 25 percent of all excise revenues.

The Ministry of Finance is considering increasing the per unit tax up to PLN120 per 1,000 pcs and percentage tax up to 40 percent. Cigarette producers are not unanimous in their opinions about the proposal, but generally are criticising it. There is also a proposal of the Parliamentary Agricultural Commission to increase taxes each year until 2008. At the beginning, the percentage tax is proposed to be 27.5 percent and per unit tax - PLN 53.5. This would enable Poland to avoid a sharp increase in retail prices when Poland joins the EU, and makes it possible for Poland to realize all obligations (minimum per unit tax of EUR 64 per 1000 pcs and percentage tax - 57 percent) before 2008.

Since November 15, 2001, the content of tar in cigarettes sold in Poland cannot be higher than 12 mg and nicotine 1.2 mg. Stronger cigarettes are prohibited, although unknown amounts are reportedly smuggled into Poland.

Consumption

Considering the quantity imported by the end of October 2002, it seems the increase did not limit the trade activity of cigarette producers. They estimated a sharp increase of prices on some kinds of cigarettes, but 2002 prices were used for a whole first quarter of 2003.

Among Poland's nearly 38 million people, there are about 9-10 million who smoke. Approximately 40 percent of adult men and 24 percent of women smoke. Per capita consumption is 2,500 cigarettes per year. Legal sales of cigarettes in 2002 were 75.42 billion, slightly higher than 74.4 billion sold in 2001. Around 20 percent of cigarettes sold in the market (around 14 billion) are thought to be smuggled. Due to lower taxes in neighboring countries, smuggled cigarettes are 50 percent cheaper in Poland. Farmers and tobacco manufacturers are urging government authorities to take measures to stop smuggling. After Poland joins the EU, the official consumption of cigarettes could considerably decrease due to much higher taxes. Consequently, smuggled cigarette sales will likely continue if not increase. As a result of anti-smoking campaigns, over 2 million Poles are estimated to have given up smoking within the last ten years. At the same time, the amount spent by the government health service on smoking related illnesses has risen.

Trade

Official cigarette imports continue to decline due to increasing domestic production of Western brands in Poland. In the first three quarters of 2002, only 3.8 million pieces were imported compared to 6.8 million pieces in the whole 2001. Only 1,000 cigarettes were imported from the U.S. in 2001. There are no records about US cigarette imports in 2002.

Polish exports of cigarettes seems to be down in 2002 compared to 2001 results. During the first nine months only 1.3 billion pieces were exported, while in the same period of 2001 exports reached 5.5 billion pieces. The largest foreign buyers of Polish cigarettes in 2002 were Ghana, Djibouti, Korea, and Slovenia. Exports to the United States were recorded at 18,000 pieces in 2001.

Tariffs and non-tariff barriers

For CY 2003 tariffs and tariff rate quotas were established at the levels listed below:

CN Code	Description	Quota and Import Duty	Above quota tariffs
2402	Cigars and cigarettes:		
2402.10	Cigars	2.5 tons at 55 %	173 %, not less than EUR 19/1000 pcs
2402.20.10-90	Cigarettes	75 tons at 90 %, min EUR 9/1000 pcs	173 %, not less than EUR 19/1000 pcs
2402.9	Other	2.5 tons at 90 %	173 %, not less than EUR 19/1000 pcs
2403	Other mfd, homogenized and reconstituted tobacco:	300 tons at:	
2403.10, 2403.90	pipe tobacco	120 %	230 %
2403.91	homogenized or reconstituted tobacco	55 %, min EUR 1.13/kg	230 %
2403.99.10	chewing and snuff tobacco	65 %	230 %
2403.99.90	other	55 %, min EUR 1.13/kg	230 %

The following quotas and tariff rates were established for 2003 with the Czech and Slovak Republics:

CN Code	Description	Quota and Import Duty
2402	Cigars, cigarettes and other manufactured, homogenized and reconstituted tobacco:	50 tons for each country
2402.10	Cigars	27.5 %
2402.20.10-90	Cigarettes	45 %, not less than EUR 4.5/1000 pcs
2402.90	Other	45 %
2403.10	pipe tobacco	60 %
2403.91	homogenized or reconstituted tobacco	27.5 %, not less than EUR 0.565/kg
2403.99.10	chewing and snuff tobacco	32.5 %
2403.99.90	other	27.5 %, not less than EUR 0.565/kg

Marketing

Based on a November 1999 amended health act, all outdoor tobacco promotion or promotions through sponsorship are prohibited. Cigarettes cannot be sold in schools, health care institutions and sports facilities. Since January 2002, all forms of tobacco product advertisement were prohibited in Poland. Only direct marketing and Internet advertising is permitted. Health warnings must cover one-third of all labels on advertisements for tobacco products and must be clearly legible. Although advertisement is prohibited, the tobacco companies started to publish their own or finance others magazines, part of which have tobacco advertisements and are distributed through individual subscription.

Tobacco, Unmfg. - PSD Table

PSD Table						
Country	Poland					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	12600	12600	11000	11300	0	10800
Beginning Stocks	18516	18516	30000	25410	30000	53410
Farm Sales Weight Prod	22200	25000	30000	24000	0	22000
Dry Weight Production	20000	22500	26350	22000	0	20000
U.S. Leaf Imports	2500	1938	2500	3500	0	2000
Other Foreign Imports	28000	30216	28000	51500	0	24000
TOTAL Imports	30500	32154	30500	55000	0	26000
TOTAL SUPPLY	69016	73170	86850	102410	30000	99410
Exports	5400	6822	6000	5500	0	6000
Dom. Leaf Consumption	14000	14000	24300	15000	0	15000
U.S. Leaf Dom. Consum.	2500	1938	2500	3500	0	2000
Other Foreign Consump.	17116	25000	24050	25000	0	25000
TOTAL Dom. Consumption	33616	40938	50850	43500	0	42000
TOTAL Disappearance	39016	47760	56850	49000	0	48000
Ending Stocks	30000	25410	30000	53410	0	51410
TOTAL DISTRIBUTION	69016	73170	86850	102410	0	99410

Tobacco, Unmfg. - Imports

Import Trade Matrix			
Country	Poland		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan-Dec	Units:	000 MT
Imports for:	2001		2002
U.S.	1939	U.S.	3235
Others		Others	
Brazil	9817	Brazil	18266
Zimbabwe	3747	Zimbabwe	5816
Italy	3055	Turkey	5448
Turkey	2428	Malawi	4886
Malawi	2374	Greece	2883
India	1694	Italy	1992
China	1478	Argentina	1714
Greece	1186	India	1502
France	596	France	853
Total for Others	26375		43360
Others not Listed	3840		4917
Grand Total	32154		51512
* 2002 data covers Jan-November period			

Tobacco, Unmfg - Exports

Export Trade Matrix			
Country	Poland		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan-Dec	Units:	000 MT
Exports for:	2001		2002
U.S.	16	U.S.	
Others		Others	
Lithuania	2257	Russia	1724
Russia	1522	Lithuania	994
Ukraine	1036	France	700
Kazakhstan	585	Kazakhstan	315
France	541	Ukraine	209
Germany	235	Germany	205
Belgium	233	Belgium	187
Italy	208	Venezuela	83
Romania	125	Romania	36
Total for Others	6742		4453
Others not Listed	64		25
Grand Total	6822		4478
* 2002 data covers Jan- November period			

Tobacco, Mfg. - Cigarettes - PSD

PSD Table						
Country	Poland					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	72540	75646	73000	75100	0	75000
Non-Filter Production	4030	4954	3500	4200	0	4000
TOTAL Production	76570	80600	76500	79300	0	79000
Imports	30	7	50	6	0	5
TOTAL SUPPLY	76600	80607	76550	79306	0	79005
Exports	6500	7401	6500	3886	0	6500
Domestic Consumption	70100	73206	70050	75420	0	72505
TOTAL DISTRIBUTION	76600	80607	76550	79306	0	79005

Tobacco, Mfg. - Cigarettes - Imports

Import Trade Matrix			
Country	Poland		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	1000 pcs
Imports for:	2001		2002
U.S.	1	U.S.	
Others		Others	
UK	4996	Malaysia	1000
Germany	1033	Latvia	1000
Australia	405	UK	800
Czech Rep.	376	Switzerland	480
		Czech Rep.	255
		Germany	146
Total for Others	6810		3681
Others not Listed	25		124
Grand Total	6836		3805
*2002 data covers first nine months only.			

Tobacco, Mfg. - Cigarettes - Exports

Export Trade Matrix			
Country	Poland		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	1000 pcs
Exports for:	2001		2002
U.S.	18	U.S.	
Others		Others	
Belgium	1858980	Ghana	369600
Djibouti	877840	Djibouti	312310
Ghana	747610	South Korea	102708
Latvia	792910	Slovenia	93940
Mauritania	378000	Maritania	84000
Cyprus	338000	Moldova	30340
UAE	254624	Switzerland	15648
Yugoslavia	233880		
Total for Others	5481844		1008546
Others not Listed	1919417		252503
Grand Total	7401279		1261049
*2002 data covers first nine months only.			