

The Extent of Illicit Trade of Cigarettes in Pakistan

INTRODUCTION

The illicit tobacco trade is a contentious issue in Pakistan, with the government concerned about lost revenue due to tax evasion and the industry arguing that high taxes lead to increased illicit due to lax tax administration. This debate has recently intensified, with the industry propagating that the tax hike in February 2023 has significantly fueled illicit trade. The industry claims that illicit trade of cigarettes increased to 60 percent in southern Punjab.¹ However, a recent WHO study² found that the illicit trade in Islamabad is around 23.1%, suggesting that the industry's claims are exaggerated.

Social Policy and Development Centre (SPDC) conducted a nationwide survey of over 5,000 smokers between October and December 2023. Using this survey data, this research brief summarizes estimated indicators of the illicit trade of cigarettes in Pakistan. SPDC conducted a similar survey in 2021-22, allowing comparisons where applicable.

INTRODUCTION

The analysis is based on the information obtained from examining cigarette packs and the responses of interviewees (smokers). The following information is used to generate the estimates presented in this brief, while detailed estimates will be published in the upcoming research report:

- Photographs of cigarette packs: Pictorial and written health warning, printed retail price and tax stamps (2023 survey).
- Interviewees' responses: The brand used and price paid by the respondent

KEY MESSAGES

- The extent of illicit trade of cigarettes is estimated at 33%, much lower than the industry's claims.
- The market share of smuggled brands is 12%. Illicit trade is largely carried out by domestic firms.
- Prevalence of loose cigarette sales is 35%.
- The illicit trade of the brands covered by the Track and Trace System has been effectively reduced.

Non-tax-paid cigarettes mainly include: a) counterfeit cigarettes manufactured without the trademark owner's authorization, b) undeclared production by legitimate brand owners, and c) 'smuggled'³ brands without graphic warnings and printed retail prices.

While smuggled brands can easily be determined as non-tax-paid due to the absence of packaging compliance, counterfeit domestic brands cannot be identified from the packs since packaging compliance is evident on all domestically produced brands. The installation of the Track and Trace System (TTS) has now addressed this issue to a certain extent, but the system has only recently been introduced and not all cigarette companies are covered yet. Therefore, it would not be appropriate at this stage to use the absence of tax stamps as a

criterion of illicit trade. Another important indicator is the sale of packs below the notified minimum retail price. Considering these indicators, the survey results are summarized as follows.

POPULAR CIGARETTE BRANDS

Capstan is the most popular brand among Pakistani smokers, accounting for 31.5 percent of the market (Figure 1). Altogether, 84 percent of smokers use 19 brands, each with a share of at least one percent. The majority of these brands are manufactured locally and are registered with the Federal Board of Revenue (FBR). However, this registration is applied under the Sales Tax Act, and not being registered does not necessarily imply that taxes have not been paid. Among the packs examined, there are 27 unregistered local brands with an aggregate share of 6.8 percent. Similarly, the number of observed smuggled brands is 72, with a share of less than 12 percent. It is worth noting that there are only two smuggled brands having a market share of more than one percent, indicating that the cigarette market is dominated by domestic brands.

Figure 1: Cigarette brands used by smokers, 2023-24

	Share (%)	Locally Produced	Registered with FBR
Capstan	31.5	Local	Yes
Morven	6.5	Local	Yes
Kisan	6.0	Local	Yes
Pine	5.9	Smuggled	No
Red & White	5.5	Local	Yes
Gold Leaf	4.9	Local	Yes
Café	4.0	Local	Yes
Gold Flake	3.4	Local	Yes
Press	2.6	Local	No
Olympic	2.1	Local	Yes
Lord One KSF	2.1	Local	Yes
Gold Street	1.5	Local	Yes
Dubai KSF	1.4	Local	Yes
Cricket	1.2	Local	No
Platinum	1.2	Smuggled	No
Classic	1.1	Local	Yes
More One	1.1	Local	Yes
President	1.1	Local	Yes
Canton HL	1.0	Local	Yes
Others *	15.9	-	-

* Brands with a share of less than one percent.

PRICES AND PACKAGING COMPLIANCE

As shown in Figure 2, photographs of 3,061 (2,592 plus 469) packs were available while 3,115 (2450 plus 665) respondents stated the price they paid for a pack. Altogether, there are 3,400 cases where either price or photograph or both are available; this information is used for determining whether a cigarette pack is non-tax-paid.

Figure 2: Prices and packaging compliance
(Number of observations)

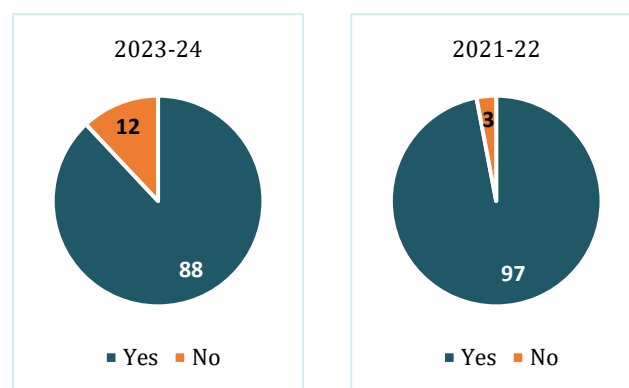
		No price stated	The price paid by respondents		Total
			Up to Rs 127	Rs 127 plus	
Warnings	Yes	246	472	1,874	2,592
	No	39	135	295	469
	n.a. ^a	0	58	281	339
	Total	285	665	2,450	3400

^a Photographs of packs were not available.

Warnings on cigarette packs

The estimates based on the weighted average, show that overall 88 percent of the packs were found to be compliant with packaging requirements, which includes written and pictorial health warnings, printed prices and warning about prohibiting sales to minors. There is a clear pattern that almost all domestic producers comply with packaging requirements. As shown in Figure 3, the proportion of packaging compliance has reduced compared to 2021-22 (97 percent).

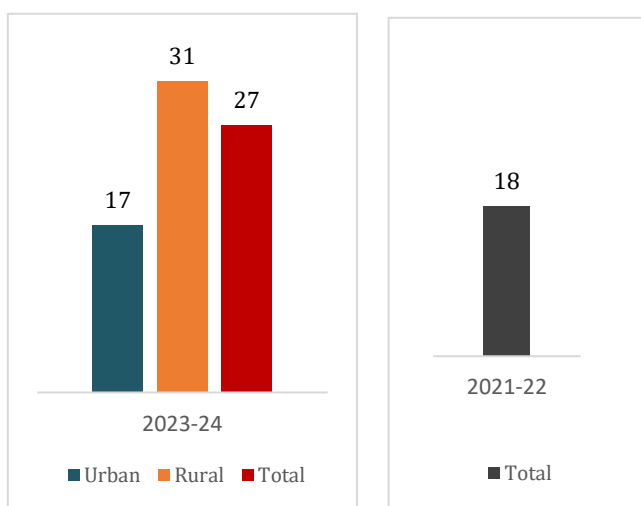
Figure 3: Prices and packaging compliance (%)



Packs sold below the minimum price

Overall, the stated per pack price of 12 percent of smokers was below the minimum price notified by the government – Rs 127 per pack of 20 cigarettes. No significant urban-rural difference is observed. The incidence of underprice sale has increased as compared to 2021-22. The notified minimum price in 2021-22 was Rs 63 and the stated purchase price of 18 percent of smokers was below the minimum price.

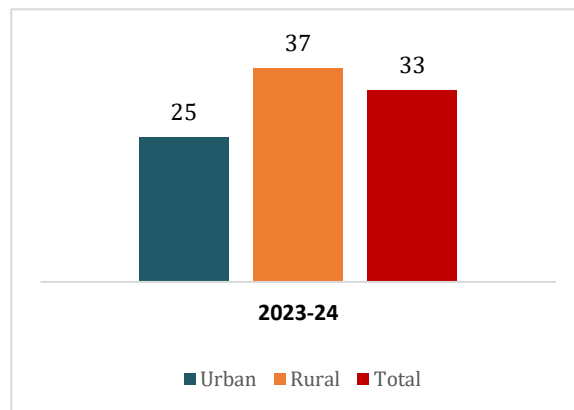
Figure 4: Packs sold below the minimum price, (%)



The overall extent of illicit trade

As shown in Figure 2, there is an overlap between the two sets of information – price stated by the smokers and pack examination. Therefore, simply adding the two indicators (packaging compliance and underprice sale) for computing the extent of illicit trade will be inaccurate. After eliminating the overlapping effect, a composite indicator of the illicit trade was estimated, which determines that the purchased pack is illicit due to either of the two features. The results show that the overall extent of illicit trade of cigarettes in 2023-24 is 33.2 percent. The incidence of illicit trade is much higher in rural areas (37 percent) compared to urban areas (25 percent).

Figure 4: The extent of illicit trade, (%)

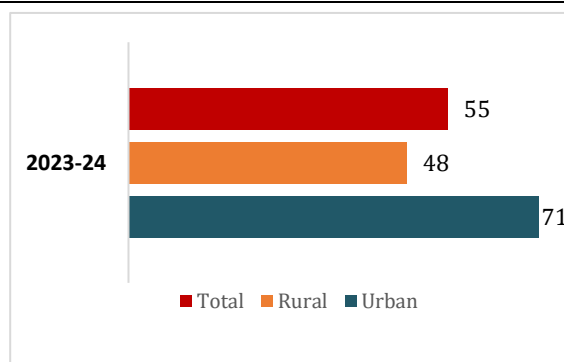


Tax stamps on packs

Currently, the TTS has been implemented in nine cigarette manufacturing companies. However, at the time of the survey, it was installed in three large companies while implementation was still in the early stages. As shown in Figure 5, stamps were found on 55 percent of the packs. Substantial regional disparity was noted, with tax stamps found on 71 percent of cigarette packs in urban areas, compared to only 48% in rural areas.

The implementation of TTS, though partial, has yielded encouraging outcomes in combating cigarette smuggling to a certain extent. For example, the 2021-22 survey showed that 97 percent of packs of a popular low-price brand *Kisan* were sold below the minimum price. This ratio declined to 34.7 percent in 2023-24.

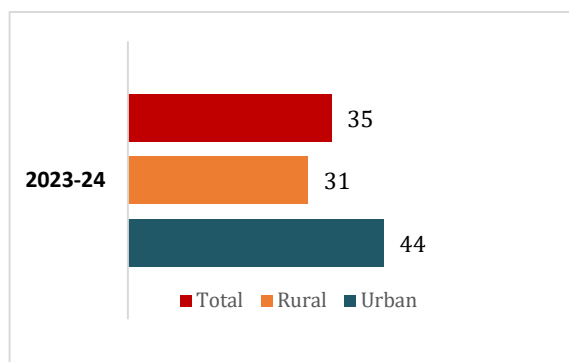
Figure 5: Stamps found on cigarette packs, (%)



Sale of loose cigarettes

The sale of loose cigarettes is prohibited by law but is very commonly practiced by retailers and consumers in the country. Non-implementation of this law is evident from the survey results, which show that 35 percent of smokers purchased loose cigarettes. The ratio is higher in urban localities (44 percent) compared to rural areas (31 percent). The sale of loose cigarettes is not confined to low-price brands but it spans all types of brands. Also, the prevalence of loose cigarette sale has increased compared to 2021-22 (30.2 percent).

Figure 6: Prevalence of loose cigarette sale, (%)



CONCLUSION AND POLICY IMPLICATIONS

The illicit cigarette trade in Pakistan is evident, but its prevalence is much lower than the claims made by the cigarette industry. Also, the market share of smuggled brands is 12 percent, implying that the illegal cigarette trade is largely carried out by domestic manufacturers. Though the extent of illicit trade has increased, the track and trace system has achieved promising results. It is recommended that:

- The FBR should extend coverage of the track and trace system to all cigarette manufacturing units/firms in the country.
- The crackdown on untaxed and smuggled cigarettes, which are widely available in the market, needs to be intensified.
- The Finance Bill 2024, which is currently under debate in the Parliament, has proposed that retail outlets selling without tax stamps should be liable to be sealed. The competent authority/FBR should formulate the rules of business for this legislation as soon as the Bill is passed by the Parliament.

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¹ <https://www.brecorder.com/news/40293720>

² Study on incidence of illicit trade of cigarettes in Pakistan: A case study for Islamabad Capital Territory, WHO Pakistan, 2024

³ is important to mention that cigarette packs with non-compliant packaging are generally known in the country as 'smuggled' brands. Nevertheless, the possibility of some 'smuggled' brands being produced locally cannot be ruled out.