

FROM CLAIMS TO EVIDENCE:

The Extent of Illicit Trade of Cigarettes in Pakistan



Social Policy and
Development Centre

Policy Brief: July 2025

Introduction

Pakistan faces an ongoing debate regarding the illicit tobacco trade. Tobacco industry leaders assert that high taxes promote illegal trade because of insufficient tax enforcement. This argument has persistently been used to make a case for reducing the excise tax rate on cigarettes. This controversy has intensified during the last few months, after a retailers' survey report¹ was launched in February 2025. The survey found that 54% of the cigarette brands available in the market were illicit. However, the results were disseminated in a way that created confusion about the extent of the illicit trade. It was also claimed that the annual revenue loss due to illicit trade was about Rs 300 billion, even larger than the tax collected during 2023-24.

While the prevalence of illicit cigarettes in the market remains a valid concern, the assertion of an alarming increase in illicit trade appears to be a substantial exaggeration due to the following:

- The retailers' survey focused on the availability of various cigarette brands instead of the consumption of cigarette brands. More importantly, the estimates do not consider the market share of these brands, which is crucial in determining the true extent of tax evasion and illicit trade in the cigarette industry.
- The Social Policy and Development Centre (SPDC), based on a nationally representative survey of over 5,000 smokers, estimated the extent of non-tax-paid cigarettes² to be 33% in October-December 2023. The survey captured the impact of the tax and price increase in February 2023.

- Illicit trade is estimated to be 35%, far lower than the industry estimate.
- Illicit trade has scarcely changed since the last estimate 1.5 years ago.
- The proportion of packs with tax stamps is increasing, suggesting that the track and trace system is starting to work.
- Nonetheless, the government of Pakistan has more work to do on monitoring illicit trade and enforcing provisions from the Protocol to Eliminate Illicit Trade in Tobacco Products.
- Registered brands have a share of 74.1%, but they also include non-tax-paid brands.

- There has been no increase in the tax rate since then. Also, from 2022-23 to 2024-25, the average CPI increased by 9.5%, but the average prices of cigarettes increased by only 2.7%. Therefore, without a tax rate enhancement and a significant price increase, there appeared to be no reason for a surge in illicit trade.

Using the same sample frame, SPDC conducted a survey of smokers in April-May 2025. The data collection covered 8,748 households of 486 primary sampling units in 15 districts of Pakistan. Altogether, face-to-face interviews of 6,634 smokers were conducted.³ The information collected included brand smoked, smoking intensity, purchase price and

photographs of cigarette packs. This document summarizes estimated indicators of the illicit trade of cigarettes, whereas detailed estimates will be published in an upcoming research report.

Indicators of Illicit Trade

The following information is used to generate the estimates:

- Photographs of cigarette packs: Pictorial and written health warning, printed retail price, and tax stamps.
- Interviewees’ responses: The brand consumed and price paid by the respondent.

Non-tax-paid cigarettes primarily fall into three categories: (a) counterfeit products, (b) undeclared production by legitimate manufacturers, and (c) smuggled brands⁴ that lack graphic health warnings and printed retail prices. While smuggled brands are easily identifiable due to non-compliant packaging, counterfeit domestic brands are more difficult to detect since they typically meet packaging requirements. The introduction of the Track and Trace System (TTS) has significantly helped mitigate this issue. Initially implemented in July 2022 with three firms, TTS coverage expanded to nine firms by 2024 and, more recently, to thirty firms as of mid-April 2025—encompassing nearly the entire domestic industry.

Given that the TTS expansion has been very recent, relying solely on the absence of tax stamps as a definitive indicator of illicit trade is currently inappropriate. Another key indicator is the sale of cigarette packs below the officially notified minimum retail price, which is currently Rs 162 per 20-stick pack. In summary, a pack is considered illicit or non-tax-paid if the pack is any of the following:

1. Without packaging compliance (these packs have no tax stamps)
2. With packaging compliance, but sold below the minimum price
3. With packaging compliance, but is not registered with the Federal Board of Revenue (FBR)

Popular Cigarette Brands

Capstan by Pall Mall is the most popular brand among Pakistani smokers, accounting for almost 25% of the market (Figure 1). Altogether, the top 20 brands have a collective market share of 76%. The majority of these brands are manufactured locally and are registered with the FBR. Among the packs examined, registered brands dominate the market with a share of 74%. However, they also include non-tax-paid brands. Unregistered and smuggled brands constitute 26% of the market.

Figure 1: Cigarette brands used by smokers (weighted %)

Brand	Share	Registered
Capstan by Pall Mall	24.6	Yes
Pine	7.4	No
Gold Leaf	7.2	Yes
Red & White Special	5.2	Yes
Platinum	4.5	No
Morven by Chesterfield	4.1	Yes
Gold Flake	2.9	Yes
Milano	2.1	No
Lord One	1.9	Yes
Dubai	1.9	Yes
Cafe 25	1.8	Yes
Mond	1.8	No
Capstan KSF	1.8	Yes
Morven Classic	1.7	Yes
More One	1.7	Yes
President	1.3	Yes
Kisan 20	1.2	Yes
Pleasure	1.1	No
Press	1.1	No
Melburn KSF	1.1	Yes
Others-1*	15.8	Yes
Others-2*	8.3	No
Total Registered	74.1	Yes
Total Un-registered	25.9	No

* Brands with a share of less than one percent.

Packaging Compliance

Weighted average estimates reveal that approximately 79 percent of cigarette packs meet the required packaging standards (Figure 2). These standards include the presence of written and pictorial health warnings, printed retail prices, and clear notices prohibiting sales to minors. The data show a consistent trend of compliance among domestic producers, with nearly all adhering to these regulations.

Substantial regional disparity is observed, with tax stamps found on 65% of cigarette packs in urban areas, compared to 52% in rural areas.

Tax Stamps on Packs

As shown in Figure 3, stamps were found on 57% of the packs, increasing from 48% in 2023. Implementing the TTS has yielded encouraging outcomes in combating cigarette smuggling to a certain extent.

Packs Sold below the Minimum Price

Overall, the per-pack purchase price for 24% of smokers was below the minimum price, as notified by the government. Sales below the minimum price are more prominent in rural areas.

Figure 2: Packs with package compliance (weighted %)

	No	Yes
Urban	18.5	81.5
Rural	23.2	76.8
Total	21.5	78.5

Figure 3: Packs with tax stamp (weighted%)

	No	Yes
Urban	35.3	64.7
Rural	47.8	52.2
Total	43.2	56.8

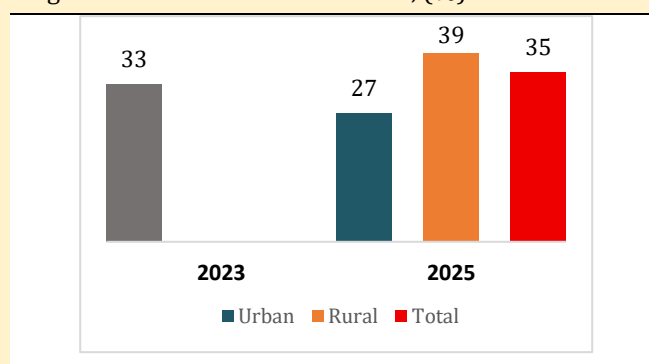
Figure 4: Packs sold below the minimum price (weighted%)

	Below	Above
Urban	15.6	84.4
Rural	28.4	71.6
Total	23.7	76.3

The Overall Extent of Illicit Trade

There is an overlap between the two sets of information – the price stated by the smokers and the 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.

Figure 5: The extent of illicit trade, (%)



The results show that the overall extent of illicit trade of cigarettes in 2025 is 35%. The current estimate is slightly higher than the 33% estimate in 2023. The incidence of illicit trade is much higher in rural areas (39%) compared to urban areas (27%).

Conclusion and Policy Implications

The extent of non-tax-paid cigarettes has remained almost static compared to the previous survey in 2023. The proportion of packs with tax stamps has increased by close to 10 percentage points, reflecting a significant but partial success of the Track and Trace System. Although the estimates are much lower than the industry's claims, the extent of illicit trade (35%) remains a matter of concern. However, this tax administration issue should not be confused with tax policy. Policymakers should thus focus on tapping the potential of taxation along with enhancing regulatory compliance, strengthening enforcement against illicit trade, and adopting tax measures that effectively reduce cigarette consumption and safeguard public health, rather than resorting to counterproductive tax reduction that will drive up consumption and decrease tax revenues.

This research is funded by the Economics for Health (EfH) team at Johns Hopkins University (JHU). EfH-JHU is a partner of the Bloomberg Philanthropies' Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor can they be considered to represent, the views of JHU or Bloomberg Philanthropies.

¹ Unveiling the Gaps: A Nationwide Market Assessment of Track and Trace Compliance in Pakistan's Tobacco Industry, IPOR Consulting, 2025.

² The terms illicit and non-tax-paid are used interchangeably in this document.

³ There were no smokers in 2,114 households.

⁴ It 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.