



# Executive Summary & Key Findings



By FFO, Lahore  
[www.ffaoglobal.com](http://www.ffaoglobal.com)  
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## About FFO

Foundation for Forward Thinking (FFO) is a renowned think tank based in Lahore, dedicated to promoting tobacco control and addressing social issues like bonded labor, women's harassment, and community mobilization. With extensive experience in advocacy and policymaking, FFO has established strong connections with grassroots communities, public sector organizations, and stakeholders. FFO has a proven track record in conducting surveys and research studies, including child labor, poverty, and tobacco control surveys.

In 2018, FFO conducted a pioneering smokers-based study on the burden of illicit trade in tobacco products in Islamabad, providing valuable insights into the scope and impact of the illicit tobacco trade. The report, released in 2019, shed light on the extent of illicit cigarette trade in the capital city, revealing a significant burden on the economy and public health.

In 2019, FFO conducted another market-based research study in Lahore and Peshawar, determining the burden of illicit cigarette trade in these cities. The report, released in 2020, provided a comprehensive analysis of the illicit tobacco market, offering actionable recommendations for policymakers and stakeholders.

By shedding light on the illicit tobacco trade, FFO's work has contributed significantly to developing effective strategies for combating this critical issue, ultimately promoting public health and revenue generation in Pakistan. For years, a hidden enemy lurked within Pakistan's borders, silently eroding public health and stealing vital revenue - the illicit tobacco trade. The FF emerged as a determined force against this unseen foe.

This report serves as a culmination of our efforts. Armed with the data we have meticulously gathered; we aim to empower policymakers and stakeholders. Together, using the insights revealed within these pages, we can craft effective strategies to dismantle this shadow market. Our goal is not just to eradicate the illicit tobacco trade but to foster a Pakistan where public health thrives and the economy flourishes. This is the legacy we strive to leave.

## The Paradox of Public Health and Illicit Markets

This report investigates the complex issue of cigarette pricing in Pakistan. While high prices aim to discourage smoking and improve public health, the unintended consequence can be a thriving illicit market for cheap, duty-evaded, and smuggled cigarettes. This not only undermines public health efforts but also negatively impacts the legitimate tobacco industry, leading to lost revenue and decreased competitiveness.

This report sheds light on this paradox, analyzing the effects of recent tax hikes in four districts of the Lahore division: Lahore, Sheikhpura, Nanakana Sahib, and Kasur. We examine the challenges faced by the Track and Trace System (TTS) and its contribution to the flourishing illicit trade.

Through a detailed analysis, this report proposes a comprehensive approach to tobacco control in Pakistan. This approach goes beyond simply raising prices and includes progressive tax reforms, enhanced enforcement measures to combat the illicit market, and a national-level strategic plan with clear, measurable targets.

# CAUGHT IN THE CROSSFIRE: THE REAL COST OF CIGARETTE PRICE HIKES IN PAKISTAN

## EXECUTIVE SUMMARY

As cigarette prices soar in Pakistan, a deeper examination of four districts of the Lahore division: Lahore, Sheikhpura, Nanakana Sahib, and Kasur reveals the unintended consequences of price hikes as sky rotting of illicit cheap and smuggled cigarette products, highlighting the need for a more nuanced approach to tobacco control.

Pakistan is grappling with an economic crisis, marked by a soaring external debt of **\$131.159** billion and significant borrowing from international sources. Amidst this, the tobacco industry remains a substantial contributor to the country's budget, accounting for 2-3% of total tax revenue and 5-6% of federal excise duty collection.

However, the industry faces immense challenges due to tax evasion and the growth of the illicit cigarette market. The recent hike in cigarette prices has led to a thriving market for duty-evaded and smuggled cigarettes, undermining tobacco control measures. This has resulted in substantial tax losses for the legitimate tobacco industry, making it difficult for them to compete with cheaper, illicit products.

Furthermore, implementing the Track & Trace System (TTS) in Pakistan has faced technical challenges and a lack of expertise, leading to a booming illicit trade and significant revenue losses. The loopholes and enhancing enforcement measures are crucial.

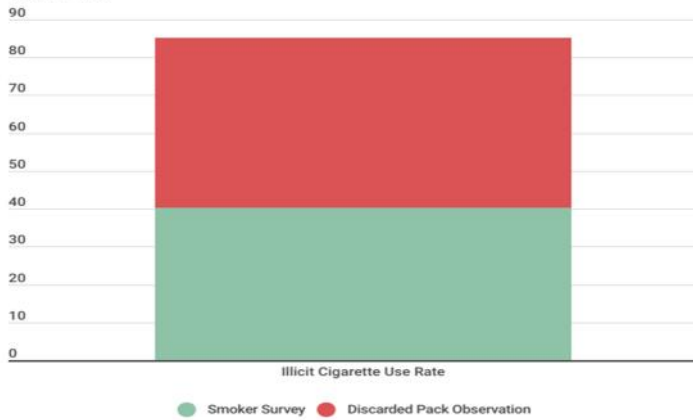
production, while cigarette consumption remains stagnant. The tobacco industry is concerned about the long-term viability of their business due to inappropriate policy measures, which disproportionately affect them. The rising prevalence of counterfeit cigarettes in Pakistan and Azad Jammu & Kashmir raises questions about the efficacy of the TTS.

Pakistan needs to adopt a comprehensive approach to tobacco control, including progressive tax reforms, enhanced enforcement measures, and a national-level strategic plan with numerical targets, as recommended by the WHO FCTC. This will help combat tax evasion and smuggling, reduce tobacco consumption, and protect the legitimate tobacco industry.

The current tobacco taxation structure in Pakistan is compromised by challenges such as a growing illicit market and stakeholder interference. To improve the impact of tobacco tax policies, progressive tax reforms, and closing the loopholes is vital.

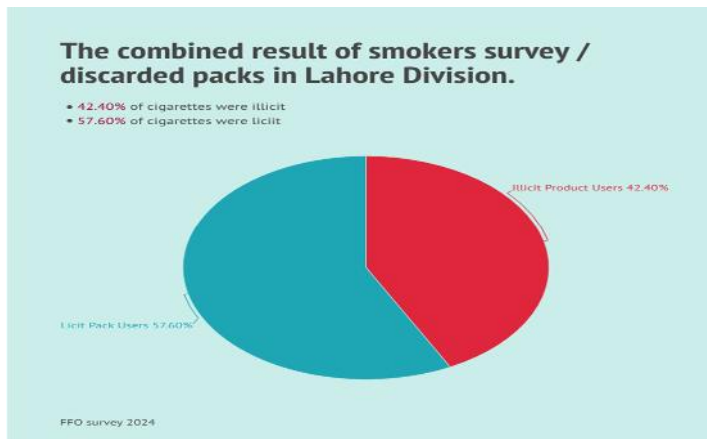
## Illicit Cigarette Use

Combining results from smoker survey and discarded pack observation, the overall illicit cigarette use rate is 42.40%. Smoker survey rate: 40.26%, Discarded pack observation rate: 44.91%.



FFO's Survey 2024

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**Study Design:** Market-based smoker survey and collection of discarded packs was done by FFO in May 2024 in four districts of the Lahore Division namely, Kasur, Lahore, Nankana Sahib, and Sheikhupura.

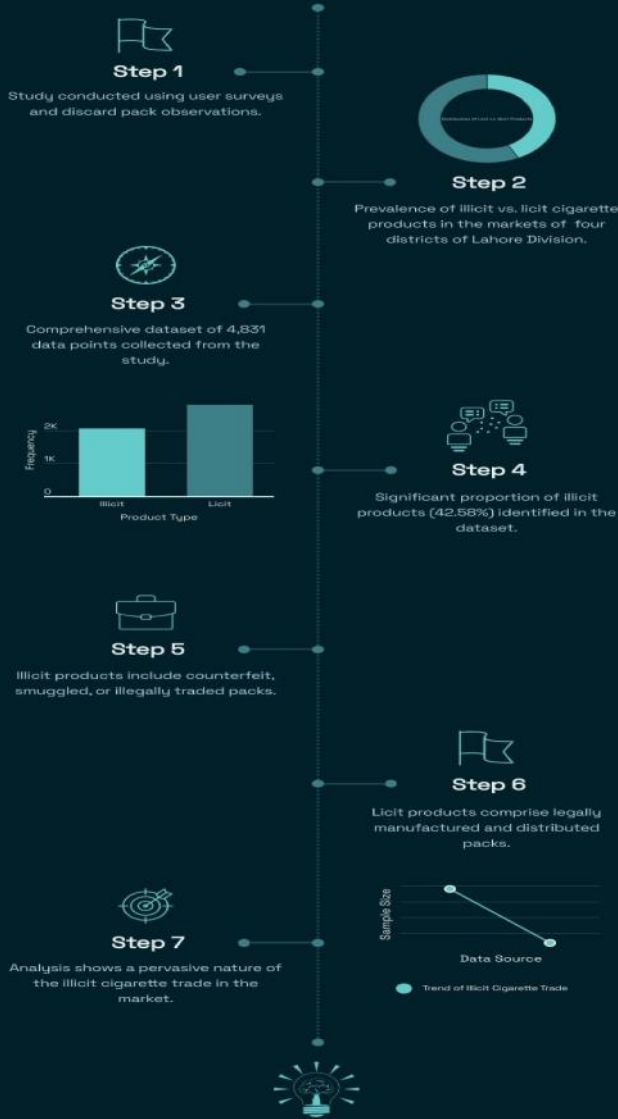
**Key Findings:** A comprehensive analysis combining the results of the smoker survey and discarded pack observation revealed a significant prevalence of illicit cigarette use, with an overall rate of 42.40%. This finding is supported by the smoker survey, which indicated a rate of 40.26%, and the discarded pack observation, which showed a rate of

FFO's 2019 market-based study in Lahore and Peshawar found that 15.66% of cigarette brands were illicit. A 2024 repeat study in the Lahore division revealed a staggering 171% increase in illicit trade, reaching 42.40%. This surge in illicit activity coincided with a 154% hike in the Federal Excise Duty (FED) on tobacco, which ironically led to a decline in tax revenue from tax-compliant businesses. Despite the significant FED increase, revenue

collection from the tobacco industry remained below 200 billion, indicating a failure of the tax administration and track and trace systems to curb illicit trade. The unintended consequences of the FED hike have effectively fueled the growth of illicit trade, highlighting the need for a more effective and comprehensive approach to tobacco taxation and regulation. Furthermore, our survey also observed widespread sales of loose cigarettes (87%) despite the ban in Pakistan. This highlights weak enforcement and undermines track-and-trace efforts, as tracing becomes impossible once packs are opened.

# Analysis

FFO's Illicit Cigarette Trade Study

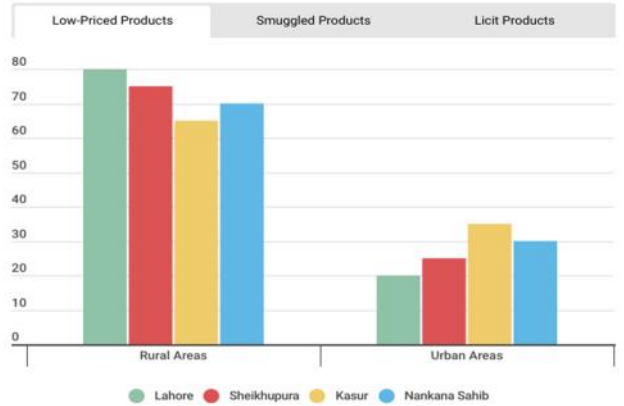


## Conclusion

Dual-method approach with a large and diverse sample enabled detailed analysis of illicit trade's prevalence and characteristics.

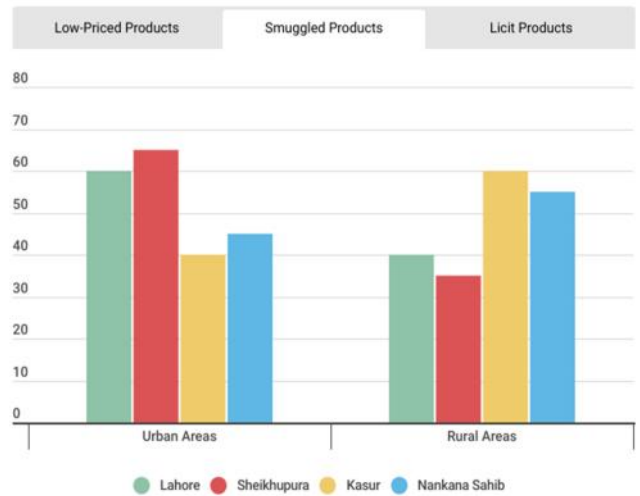
## Consumer Preferences by Product Types and Districts

Analysis of consumer preferences for low-priced, smuggled, and licit products across districts, showcasing varying usage patterns.



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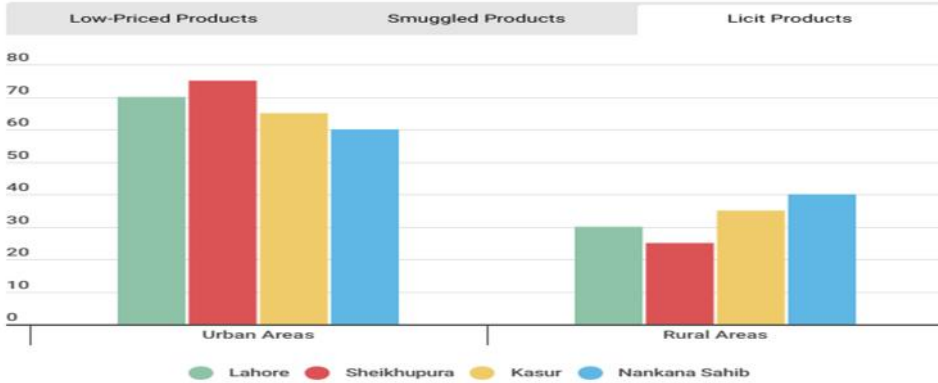
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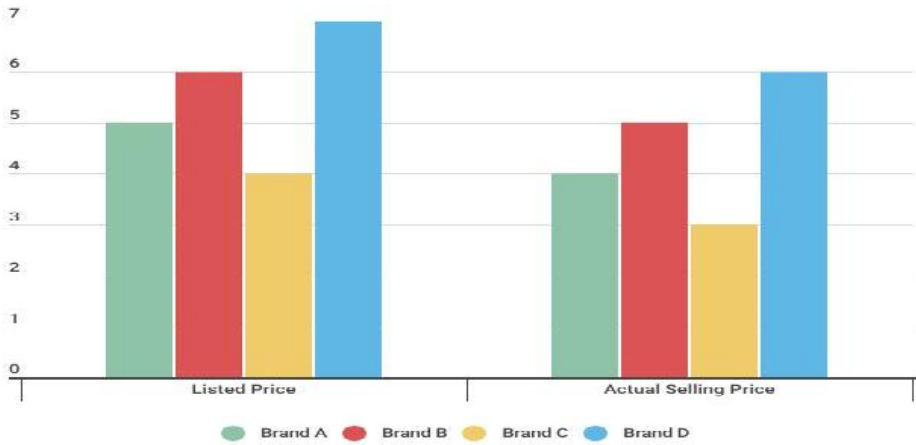
Analysis of consumer preferences for low-priced, smuggled, and licit products across districts, showcasing varying usage patterns.



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## Low Priced Cigarette Brands

The table highlights the significant discrepancies between the prices mentioned on the cigarette packs and the actual selling prices of low-priced cigarettes.



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**Inclusion Criteria for Cigarette packs will be classified as illicit if they meet at least one of the following criteria:**

## Illicit Cigarette Pack Criteria

Criteria for classifying cigarette packs as illicit based on Pakistani regulations and tax laws. Includes price, graphic health warnings, retail price, age restriction warning, manufacturer's information, country of origin, illicit sources, tax stamp, and health warning.

Manufacturer's Information  
Retail Price & Sales Tax  
Illicit Sources **Price** Tax Stamp  
Graphic Health Warnings  
Age Restriction Warning  
Country of Origin

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Price: Sold at a substantially lower price than the minimum allowed price of RS 127.44, or available at a lower price than the printed price on the pack.

2. Graphic Health Warnings: Lack of graphic health warnings in Urdu and English text (covering at least 60% of the front and back of the pack) as required by Pakistani regulations.

3. Retail Price & Sales Tax: Omit printing of retail price and sales tax.

4. Age Restriction Warning: Fail to display the warning "Sales under 18 are prohibited".

5. Manufacturer's Information: Do not display the name and address of the manufacturer.

6. Country of Origin: Do not display the name of the country where the cigarettes are produced or the name and address of the manufacturer and importer.

7. Illicit Sources: Purchased from illicit sources, as reported by smokers.

8. Tax Stamp: Lack a valid Pakistani tax stamp or display an inappropriate tax stamp (e.g., a foreign stamp, unless purchased in another country or a duty-free shop).

9. Health Warning: Display a health-inappropriate warning (e.g., in a foreign language, or no warning at all, unless purchased in another country or a duty-free shop).

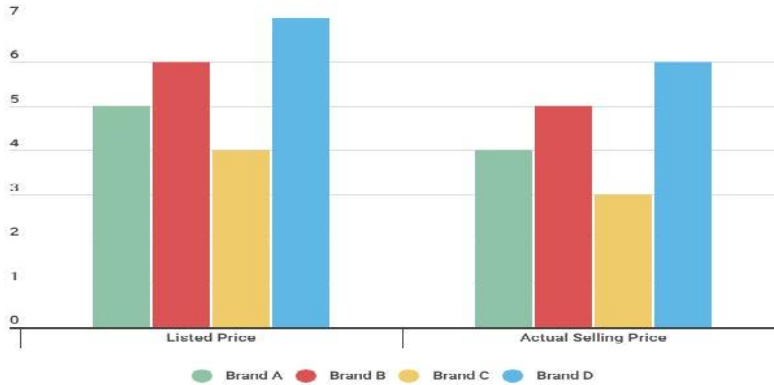
These criteria aim to identify cigarette packs that violate Pakistani regulations and tax laws, indicating illicit trade.





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## Illicit Product Findings

• 40.26% smokers were found using illicit cigarettes



● Illicit Product Users

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## Illicit Product Findings

• 44.91% of discarded packs were illicit cigarettes



● Illicit Packs found