



Foundation for Forward Thinking's Study Sheds Light on Illicit Tobacco Trade in Pakistan

Lahore, June 9, 2024 - The Foundation for Forward Thinking (FFO), a leading think tank in Lahore, has launched the report of an extensive study on the burden of the illicit tobacco trade in Pakistan. FFO's research examines the social issues and economic implications of this illicit industry, providing valuable insights for policymakers and stakeholders, said Mr. Muhammad Faisal, CEO of FFO at the launching ceremony of this report at Lahore.



He said the study was conducted in May 2024, as a market-based smokers survey and discarded packs observations in four districts of Lahore, namely Lahore, Kasoor, Sheikhpura, and Nankana Sahib. He revealed the study uncovers the significant impact of the illicit tobacco trade on both the economy and public health. By assessing various factors, FFO's report highlights the challenges faced and proposes strategic solutions for combating this issue.

The report, "Caught in the Crossfire: The Real Cost of Cigarette Price Hikes in Pakistan," investigates the impact of rising cigarette prices in four districts of the Lahore division. The study found a **42.4%** prevalence of illicit cigarette use, a significant increase of **171%** from the 15.66% rate observed in a similar FFO study conducted in 2019 in provincial capitals.

This alarming surge in illicit trade coincides with a 154% hike in the Federal Excise Duty (FED) on tobacco. FFO's research indicates that this policy has backfired, leading to a decline in tax revenue from legitimate businesses and a failure to curb the illicit market, he points out further, which Muhammad Faisal further emphasized.

Additionally, he detected that one of the key findings of the study is the unintended consequences of recent cigarette price hikes. While intended to discourage smoking, these price increases have led to the growth of the illicit market and significant tax losses for the legitimate tobacco industry. FFO's research emphasizes the need for a comprehensive approach to tobacco control that addresses these issues effectively, he spoke further.

Furthermore, Faisal further unveiled the key findings of the survey report and termed as shocking, the rise in Federal Excise Duty (FED) has fueled a **171%** increase in illicit cigarette trade since 2019.

-) 42.4% of cigarettes consumed in surveyed districts are illicit.
-) 87% of illicit cigarettes are sold loose, bypassing track-and-trace systems.
-) This results in significant revenue losses for the government due to tax evasion.
-) The growth of illicit trade has made cheap and smuggled cigarettes readily available.

The situation poses serious health risks to consumers and demands immediate attention from policymakers and law enforcement, he emphasized. Besides, the study discusses the effectiveness of the Track and Trace System (TTS) in curbing the illicit tobacco trade. He acknowledges the challenges faced by the TTS and suggests enhanced enforcement measures to overcome them.

He draws the attention of the relevant stakeholders, that this report serves as a call to action for policymakers and stakeholders to work together to create a more effective tobacco control strategy for Pakistan. By addressing the root causes of the illicit trade, Pakistan can protect public health, generate legitimate tax revenue, and create a level playing field for the legal tobacco industry.

Considering the study's findings, FFO recommends a strategic plan that includes progressive tax reforms, improved enforcement mechanisms, and a national-level commitment to combat the illicit tobacco trade. These proposed strategies aim to reduce the burden on the economy and protect public health.

Dr. Ziauddin Islam Former Head of the Tobacco Control Cell, Ministry of NHSRC Pakistan and former Technical Person of the Government of Pakistan for WHOS FCTC, commented that “this research highlights the critical role of comprehensive tobacco control strategies in tackling the growing illicit tobacco trade. He raised the important question of whether it makes sense for the tobacco control community in Pakistan to continue calling for tax increases despite knowing the damage caused by illicit trade. Instead, there should be a strong demand that the government implement the MPOWER strategies in their entirety, including real-time monitoring of production and sales of tobacco products through an unbiased, foolproof track and trace system. This is crucial, as the current system has failed to perform, as proven by the committee formed by the Prime Minister of Pakistan.

With the completion of this groundbreaking study, FFO aims to spark a well-informed discussion among policymakers and stakeholders, driving the development of effective tobacco control policies in Pakistan. The comprehensive research report is now publicly accessible on the FFO website. Furthermore, FFO hopes that the Ministry of Finance and the Federal Board of Revenue (FBR) will take note of the alarming findings, which reveal the unintended consequences of the recent tax hike, and consider these insights when shaping future tax reforms in the country, to mitigate the illicit tobacco trade's harmful impact on the economy and public health

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