ANALYZING PAKISTAN'S TOBACCO MARKET, TAXATION EFFECTIVENESS AND ITS IMPLICATIONS

Kashif Zaheer
Senior Lecturer
Riphah Institute of Public Policy
Riphah International University
Islamabad - Pakistan
kashif.zaheer@rocketmail.com

Dr. Naveed Yousuf
Assistant Professor
Government and Public Policy Department
National Defense University
Islamabad - Pakistan
navidsndh@gmail.com

Dr. Rashid Aftab
Riphah Institute of Public Policy
Riphah International University
Islamabad - Pakistan
rashid.aftab@riphah.edu.pk

Abstract:

There are more than 23.9 million people of eighteen years of age or more than this who are smoking cigarettes in Pakistan. Although Pakistan commits with National and International Institutions to cut its prevalence by 30%. But this ratio is growing very rapidly due to multiple reasons. Tobacco users are growing daily by expanding the economy of tobacco in cultivation and cigarette manufacturing. In 2014-15 the government of Pakistan was receving102.209 billion from the tobacco industry. In 2015-16 the amount jumped to 111.886 but suddenly declined to 74.107 in 2016-17. After some policy measures there was again a rise in revenue collection to 88.540 in 2017-18 and Now it 135 billion in 2020-21. The sudden decline from 111 billion to 74 billion makes the policymakers, and legislators attentive towards this major shift. A special Senate committee on tobacco taxation was also formulated to evaluate the real issue behind this major decline in revenue. The third tier controversy, the illicit *cigarettes, lobbying by tobacco firms, flawed policies, weak system of federal Board of Revenue (FBR) were some of the main areas identified by the researchers, legislators and same were reflected in the special committee on tobacco taxation. The weak areas were identified and policy recommendations are suggested. Capacity building of FBR, strong legislation, coordination with Azad Jammu Kashmir Government, implementation on the advice of the Ministry of the Health Regulation, and World Health Organization (WHO) are the suggested policy measures in this study.*

Keywords: Pakistan, FBR, WHO, Tobacco, Health.

Introduction:

As per different resources, tobacco and its use have its inheritance since 3000-5000 BC. Due to different reasons, smoking cigarettes has become one of the most popular forms of tobacco usage in the contemporary epoch. As per the statistics of the world health Organization (WHO), more than one billion people around the globe use tobacco. (WHO, Tobacco 2021). The tobacco industry is one of the big industries in the world which are very well regulated and contribute billions of dollars to the government revenues.

Initially, tobacco smoking in the form of pipes and cigars was adopted by the youngsters as fashion leading to addiction. Laters on vaporizers and Hukas became popular in different forms and flavors. The statistics of WHO are very alarming in the context of its effect on human life. It is said in the report by WHO that, more than five million casualties are reported due to tobacco usage around the world. On one side tobacco industry is contributing a heavy amount of revenue in the pockets of farmers, capitalists, industrialists, and creating employment. On the other side, it's increasing the public and government expenditures on the health sector with alarming nature. It is further estimated that the per year deaths due to this tobacco usage will be double in the next 25 years. This is not the first or last report on the drastic and catastrophic nature of tobacco. There are many reports by United Nations on this very issue. For instance, in 2007 a report was published by UNO by mentioning that, the life expectancy of male and female users of tobacco is at stake. Heark attack, lungs cancer, diabetes, stroke, and pulmonary diseases are a few of the most prominent diseases caused by smoking. (Muhammad Ahsan 2016).

There are different reasons behind the expansion of the tobacco market. Genetic, social, psychological cultural, and fashion are the few significant aspects of youth attraction. The reasons are almost the same in developed and developing countries with minor exceptions.

The youth also gets inspiration to smoke from their parents, friends, and siblings. Initially, it's just entertainment and eventually, it becomes a habit.

There are many studies conducted on this aspect that most of the addictions are carried out by the kids from their parents or echo system. There are very few chances of smoking addiction in the youth who are brought up in a family where tobacco was forbidden (Rashid Ahmed 2008). When there is no bar on the kids or youth they are more inclined towards it with more enthusiasm. It becomes a family norm where elders share this stuff with kids in the family. The University of Karachi has researched this phenomenon. The results were not different from the assumption that where youth is not restricted from smoking they don't consider it even as a bad habit. However, there are many laws introduced by developed and developing countries to ban and sale of smoking products for kids younger than 18 years (Pakistan 2002). Under the social norms which gives the right to the guardians for restricting their children from smoking. It is pertinent to mention that, major tobacco consumers are the students and youth. They contribute to the major part of the population in developing countries. This is the reason they are the contributors to the expansion of tobacco smoking markets and allied industries. In 2019, the manufacturers of tobacco products earned legal revenue worth 818$ billion. The largest contributors to the revenue of tobacco products are gained from the consumption of cigratteess (Department 2021).

The world health organization is also active to reduce the consumption of tobacco around the globe. World Health Organization (WHO) has designed frameworks and signed by many countries to eliminate the illegal usage and trade of tobacco. To improve the health of the public and reduce the usage of tobacco worldwide Framework Convention on the Tobacco Control (FCTC-WHO) has been planned as a regulatory framework to help the countries. This regulatory framework is a complete package in the planning, implementation, and execution of measures and policies to reduce usage. This will help the concerning stakeholders to take some tangible action with quantifiable outcomes (Islam 2021). The measures in this framework are related to training of youth, sensitization of public on its harmful effects, measures on the glorification of tobacco usage, and some relief activities to educate youth to get rid of this bad habit. (Rashid Ahmed 2008). To ban the international and regional illicit trade of tobacco is one of the significant objectives of this convention as per article 15 of FCTC.

Most of the governments are working to reduce and regularize tobacco consumption as it adds expenditures in the health sector to bear the consequences of tobacco consumption. But the landscape of tobacco is continuously evolving with the invention of new products like e-cigarettes and needs some sustainable, comprehensible tobacco control measures (Government 23 November 2021).

Tobacco markets in Pakistan:

The demographic implications of this industry are very industry especially when the country is having a youth bulge. More than 20% of male youth of Pakistan are engaged in tobacco usage and 2% of females are also addicted to this habit. It is significant to mention that, Pakistan is a young country having more than 60% youth in its demography. As discussed earlier the tendency of youth getting addicted to smoking is more so it's leading to serious health consequences for the major portion of society. The death ratio of males and females in Pakistan is about 17% and 6.92% respectively due to smoking in accordance to the reports of Human Development Index, 2016. Pakistan is bearing almost 143208 million rupees as an economic cost, which comprises the cost of the health expenditures and also the indirect cost in the form of loss of productivity like early mortality and morbidity (Masoomeh Shirzai 2012). On the one side smoking is contributing to the government expenditures on health and related facilities. On the other side, it's getting a major chunk in the family budgets. As per different reports, smokers and tobacco users spent almost 8% of their income on this activity. The tobacco industry is using different ways and means to maximize the scale of its market in Pakistan. They are attracting young men and females to use their more sophisticated products if they are not using cigarettes. In addition to marketing tactics, the psychological issues of people are also attracting people towards tobacco smoking. The environment is affected by the toons of cigarette butts. 21432 tons of cigarette butts, empty packs of cigarettes are collected every year in the trash. This adds to the labor exercise and discards the cost of the government. (Jeffrey Drope 2018)

When there is a cost involved as the negative externality of smoking, the governments try to bag the revenue from this industry with some tax interventions. In Pakistan Tobaccois bearing multiple taxations in the form of sales tax, cess, corporate, federal excise duty (FED), and income tax. In 2018–2019, the FED contribution to the economy of Pakistan has estimated as 93 billion rupees and this industry contributed approximately 2.8% of total tax revenue (PIDE 2020) . There are more than 23.9 million people of eighteen years of age or more than this who are smoking cigarettes in Pakistan. Although Pakistan commits with National and International Institutions to cut its prevalence by 30%. But this ratio of tobacco users is growing very rapidly due to numerous causes. (Nation 2019). This situation is dangerous from the perspectives of socioeconomic and compliance with international commitments. Concerning the official reports, every year more than 100,000 people got dead due to tobacco usage. (Burki 2014). COVID-19 has unveiled the health sector of almost all countries. The developed countries remained unable to face the pandemic due to their ability to handle the situation. In marginalized and vulnerable countries the situation was even worse. The health sector of Pakistan was also unable to face the situation very effectively. The government hospital beds are occupied due to some controllable diseases. 5000 smoking-addicted patients are daily admitted to hospitals due to some of the tobacco-related diseases like cancer, heart attack, different strokes, cardiovascular-related diseases, and respirational infections. The negative externalities of tobacco depict its severity and its implications for the health sector. As a result, the health sector economy is getting positive and negative externalities from this tobacco industry. (M Emamhadi 2012). This is the reason, the health experts have given different suggestions to control tobacco usage to avoid useless expenditures on these tobacco-related diseases.

More than 24 million active users are contributing more than one billion dollars to the tax revenue of the government. It has become an attractive pocket for tax collection for the tax collecting agencies in Pakistan due to the rising tax ratio in this industry (nayab, et al. 2018). Pakistan is 1st in terms of tobacco consumption and 10 in terms of tobacco production. As per the report, the production of tobacco is more than 100,000 annually. Although Tobacco is not a major crop of Pakistan and most of the farmers don't grow tobacco due to extra care and the absence of market reach. Punjab is one of the major contributors in the agriculture sector but in the context of tobacco, Khyber Pakhtunkhwa province (KPK) is the largest grower. It grows almost 75% of the overall product. Export of raw tobacco is not a trend in the country. The value addition is neglected and untapped potential of the nation. Like other sectors, the value addition in the tobacco industry also requires some solid policy interventions at the government level with some inclusive initiatives. Most of the tobacco production is consumed by the local industry in legal and illegal production and manufacturing. A very little portion of raw tobacco and manufactured cigarettes are sent to other nations. Due to lack of vision, regulatory frameworks, new products, modern techniques, and lack of facilitation, export is declining. (Muhammad Arif Nadeem Saqib 2018). Many tobacco products are being exported by other nations, but Pakistan is engaged in the export of Cigars, Raw tobacco, and Cigarettes. The concerning institutions are not giving any framework or benefits to the tobacco exporters.

Year	Quantity Exported			Amount Realized			Total Value Million Rs
	Tobacco Million Kg	Cigarette Million Sticks	Cigars Million	Tobacco Million Rs	Cigarette Million Rs	Cigars Million Rs	
2011-12	8.79	62.38	-	2608.37	123.91	-	2732.29
2012-13	8.05	31.32	-	2453.62	61.98	-	2515.60
2013-14	6.658	83.962	2.09	2346.116	164.092	-	2510.208
2014-15	4.273	30.405	0.620	1448.068	67.949	1.242	1517.259
2015-16	3.19	34.00	2.09	1145.93	82.63	5.30	1233.86
2016-17	3.799	42.746	4.375	1550.931	88.663	9.551	1649.145
2017-2018	8.70	2.7	5.96	25.539	0.05	0.15	25.735

Source: Pakistan Tobacco Board

In Pakistan, this sector is monopolized by two big international giants of the tobacco industry. Pakistan Tobacco Company and Philip Morris are the two multinational brands working in Pakistan in the tobacco sector. They both carry approximately 98% of the total market share and the remaining producers are local Pakistani brands having little or no worth for the tobacco consumers. As it is discussed previously this sector is contributing 2% to total tax but employing very little labor which is .4 to .5 %. Although the tobacco sector is contributing billion to the revenue of the nation but the labor force employed in this sector is very limited. Only .1% of the total employment of Pakistan is employed in the tobacco processing and manufacturing industry.

The production of tobacco was estimated at 129878 tonnes in Pakistan in 2018. It seems the tobacco companies are going to increase their potential of production as they increased their demand from the growers by 10.86 m kg to 56.48 million kilograms for 2021-22 (Khan 2021). The major contribution of Pakistan's economy remained agriculture for many decades and is still one of the significant sectors for the sustainability of the nation. The contribution of tobacco in the agriculture sector is very low. It is .14 percent of the total agricultural contribution of the country. Pakistan exports cigarettes but it is unfortunate to note the trade imbalance. The nation exports less quantity of cigarettes but imports more in quantity due to many reasons. (Atlas 2018). The rate, taste, quality, attraction of brands are the few contributors that incline the consumers to purchase imported cigarettes. This phenomenon leads the aggregate towards imbalance in the trade of tobacco.

Legislation, Frameworks, and regulations

Legislations and policy measures can help in the regulation of any sector. The policy process and legislation is a comprehensive consultative process to legitimate the government decision. As per our research, there is no comprehensive legislation on tobacco taxation, prohibition, or regulation by the government legislative institutions. Certain institutions passed their policies, strategies, and plans where the area of tobacco was covered. For instance, the first legislation concerning tobacco was covered in the ordinance of Motor Vehicles in 1965.

The Cigarettes (Printing of Warning) Ordinance, 1979 (Ordinance No. LXXIII of 1979) is considered one of the major laws to comprehensively deal with the marketing strategies of the tobacco industry. After this legislation, many executive notifications were introduced. Printing and publishing policies, strategies, and frameworks were put into place for tobacco products after the ordinance (Qureshi 2021).

There was a prohibition on the public smoking of cigarettes by this ordinance in motor vehicles in Pakistan. Later on, the government of Pakistan introduced certain new measures to completely ban public smoking in 2002. In the legislation of 2002, the public spaces were defined as schools, public transport, hospitals, and public gatherings to ensure the rights of people who are nonsmokers.

Based on these ordinances and legislative measures, the government organizations and institutions started defining frameworks and orders. This helped in the regulation of the tobacco industry in the context of its marketing, production, pricing, and open distribution. Before the legislation of 2002, there was no comprehensive law to deal with many aspects of the tobacco industry. There were marketing campaigns, hoardings, TV commercials, and door-to-door publicity of tobacco products. The industry was fascinating to the youth to use tobacco to uplift their living standard. Based on this law, the Government of Pakistan signed the regulatory convention of WHO named FCTC-WHO in 2005. After signing this treaty the government asked its institutions via certain statutory orders to ban the sponsorships, marketing campaigns, advertisements to make compliance with FCTC recommendations and regulatory framework. This framework encouraged government institutions to increase the price of tobacco products via taxation. The Federal Board of Revenue helps the government in framing certain tiers of taxation to reduce tobacco consumption and increase revenue. It is considered by imposing higher taxes on tobacco its usage can be decreased. This is assumed that higher taxes can affect the purchasing capacity of the consumers and resultantly they consume less. But it also needs to be taken into consideration that, tobacco consumption is an addition and the addiction can't be completely taken into consideration with little measures. (Haider 2018.). Governments imposed different sorts of taxes to regulate this sector. The FED, Sales tax, and certain local taxes were incorporated to discourage and regulate this sector. One of the prime reasons was to ensure the rights of nonsmokers as per the recommendations of FCTC as compliance with this treaty. Sin tax was also suggested but can come into existence due to certain reasons. With time these regulatory taxes became the main cause of income of the federal revenue authorities. For instance, the government of Pakistan bagged 1 billion USD as a federal excise duty from this sector.

As per the recommendations of WHO and Pakistan's health ministry stakeholders, maximizing the taxes on tobacco consumption can minimize tobacco usage. The maximation of taxes on tobacco not only helps to get more revenue but also declines expenditures on health sectors. But on the other hand, FBR and representatives of the tobacco industry deny this equation and call for strict regulatory measures. It is a common narrative that weak regulations are encouraging the illicit trade in the tobacco industry.

Revenue collections, Illegal trade, and enforcement Networks:

Illegal trade and smuggling of the products having tobacco as the primary ingredient and its illicit sale at the stores create huge loss to the national revenue. This also questions the efficiency of implementing agencies, law enforcement authorities, and the nexus of traders with the organizations. The FBR's efficiency is also at stake in this sector due to these illicit trade factors and open sale at the market a; long with legal products. This is a direct invasion of the national revenue by the smugglers and illicit traders, distributors, and weak regulators.

In 2015-16, the tax collection was Rs. 114 billion, and in the next year 2016-17, there was a sudden shortfall in the tax collection on the tobacco sector and only 83 billion were collected. This was attributed by the revenue agencies to the illegal markets and the rising tax on legal tobacco products.

Year	**Revenue** (amount in billion Rs)
15-2014	102.209
16-2015	114.3
17-2016	83
18-2017	88.540
2018-19	114
2019-20	117
2020-21	135

In 2016, In Land Revenue Enforcement Network was established for the monitoring, evaluation, and regulation of the tobacco sector. This enforcement network is also known as IREN. The illegal cigarette manufacturing industry has become very large and its size is continuously growing due to policy failures, communications barriers, political issues, and legislative gaps. The government institutions are working to curb the issue of illegal trade and manufacturing of tobacco products to ensure the writ of the government, collect revenues, and compliance with international regulatory frameworks.

FBR established its IREN squads to counter the revenue evasion by the illegal manufacturers and distributors. In August 2021, IREN seized 1480 million cigarette sticks having worth Rs 3074.11 million in different locations of the country. It is estimated by the Federal Board of Revenue that illicit industry encroached revenue of 261 crores in this regard. These ongoing actions comply with the FCTC-WHO framework, and the Prime Minister of Pakistan's directions (Revenue 2021). To the compliance with the directions of the World Health Organization, Ministry of Health, FCTC Framework, and social organizations, the Government is raising the taxes on tobacco products to discourage their consumption. The manufacturer and distributors are shifting the burden of tax on the end-users. As a result, the price of legal tobacco products is going to rise every passing year. This is not the case from the perspective of illicit cigarettes manufacturers. They avoid taxes and sell tobacco products at lower rates as compared to legal manufacturers. They take advantage of getting a bigger portion of the target market for the sale of their products.

In 2021 the revenue loss to the Pakistan reserves was estimated as Rs. 80 billion and it was 27 billion rupees almost 10 years ago (Haq 2021). The smuggler mafia is very strong and they create threats to the members of the law enforcement authorities and level allegations against them. (DURRE NAYAB 2018). It's not easy for the tax establishments to take measures to eradicate the tax avoidance from items that are harmful to the economy and health. There are many reasons, the political will and administrative autonomy are the key determinants to control illicit ventures. In addition to this, there are certain lobbies hired by the mafia to lobby in their favor. It is legal to lobby and advocate the cause in their favor in developed countries. . Certain interest groups are involved in different domains to plead the cause of multiplication of wealth (Nasir Mushtaq 2011). This is a completely unacceptable phenomenon in an inclusive model of governance. The legal producers are paying more and more whereas the illicit manufacturers are enjoying the major tax evasions and share in the market without any hurdle due to noncompliance of regulatory measures. (Siddiqui 2019).

In 2018, the government of Pakistan introduced a two-tier policy. In this policy, government institutions categorized cigarettes into two main types. In one class elite or luxury brands were kept and in another brand lower quality brands were grouped. As discussed earlier, the top contributors to tobacco taxation are the two international brands in Pakistan. They share the 98% tax burden of this industry. In compliance with the FCTC framework, the government increased the tax on the two tiers. The companies naturally shifted the tax burden to the customer and the price of the packs per pack increased from 70 to 80 Rs after the implementation of the policy by the government agencies (Chatha 2018). It is a very interesting phenomenon when the government increases the tax on tobacco taxation, the customer shifts from legal, elite, and luxury brands to lower, the third tier, and illicit brands as the basic principle of the law of demand. The prices of the lowest brands were observed more from the legal manufacture brands and the lowest price in the illicit distributors was observed as 20 Rs. The illicit manufacturers, distributors, and retailers don't pay taxes and sell brands at less prices. FCTC compliance required many interventions from different perspectives. The countries that are going to comply with the FCTC framework do have another setback from the smugglers. When government tends to increase the taxes their prices increase as compared to regional producers and create a matter of attraction for smugglers (Afridi 2018). These higher taxes are shifting the customers to illicit, illegal, and smuggled brands. The Federal Board of Revenue has stated that the illicit brands gathers a market share of 36.2 percent in 2017-18. (News 2019).

Most of the signatories of the FCTC-WHO are increasing the prices of tax on tobacco products, but in Pakistan policy is not very clear. The institutions are unable to adopt very comprehensive and sustainable policies. The three-tier taxation policy went unable to reach the target of taxation and smoking reduction. The Federal Board of Revenue decreased the tax on the third tier, especially on luxury brands. The price was lowered from 32.98 Rs to 16 Rs for the year 2017-18. This decrease in the taxes is noncompliance to the international treaties, conventions, and signatories. The reduction in the tax rates is also against the philosophy of economics of demand to discourage the tobacco consumers with heavy tax rates. The introduction of third-tier policy has created a loss of more than 30 billion and it's said, these tax experiments are done on the behalf of lobbies of the tobacco industry. After the lowering of tax, the tobacco manufacturers started producing the quantity to earn their revenue thus creating loss to the government revenue and health implications in long term. The upcoming government revised the tax policy of 2018 and tried to create a balanced tax policy. (DURRE NAYAB 2018).

The tax deposits by the local manufacturer are a very minor portion as compared to the tobacco used by the firm. For example, in 2014-15, two multinationals deposited an amount of 89 billion whereas the local producers paid only 1.5 Rs billion. A toilet of 90.44 Rs billion was collected by the government agencies in the year.

In the next year, in 2016-2017, the aggregate collection of 66.131 Rs billion was received. The multinational companies paid.64 Rs. billion was deposited by the international manufacturers of Pakistan whereas the local producers submitted only Rs. 2 billion in the national revenue. (News 2019). Lowering taxes was a matter of great relief for the companies as it increased their net revenue. (Organization 2014). The introduction of lower tax policies multiplied the wealth of the tobacco producers in the legal market of tobacco. Philip Morris is the enjoyed he added in the profit turnover of 46% as a result of lowering the tax prices in case of a third-tier policy. It was approximately a double increase in the net profits of the company due to flexibility in the prices created by tax reductions. The gross profit declared by Pakistan Tobacco company was recorded as 103 percent more and Philip Morris earned 160% more as compared to the last year. r (REPORT 2019).

Regional tobacco markets and their implications

Pakistani customs rules describe that the act of smuggling of tobacco is a crime, however, the laws have not been followed and implemented in true spirit and the crime is going on. Most of the problems occurred due to the illegal trading of tobacco companies that have not been presented by the media. It is a universal principle that when an industry is proving bad to any nation, the laws of land came into existence to save the rights of the aggrieved masses. Similarly, in Pakistani laws, there is a continuous debate on the health tax to help the health sector to serve the diseases of the tobacco addicted people. (N. Iqbal 2010). Due to high taxes on the legal sector the lower-income tobacco consumers shift to illegal tobacco products. It is the fundamental cause and principal reason behind the reduction the revenue collection of taxes from the tobacco industry. The shift of consumers to illegal from locally produced and manufactured creates not only loss to national revenue but also badly affects the health (Sarfaraz 2019). Mainly, it is said that the networks of the smugglers have been operationalized from the Afghan region through the Afghan Transit Trade (ATTA) agreement to spare from tax, it is implemented in the agreement of International legal commitment and conventions, for all those landlocked countries that haven't sea-based trades. For Afghanistan, the Karachi port remained the main transit of trading without any kind of limitations complicated or comprehensive taxes in coordination with the tax regimes in Pakistan. These unregulated trade transits are used by the smugglers to exploit the economy of Pakistan. The Afghans are smuggling weapons, drugs, machinery, and other products including tobacco products. These tobacco products are sold in illegal markets without any major restrictions most of the time. (N. Iqbal 2010).

One of the officials at the Board of Revenue stated that Pakistan has been losing more than Rs.7.4 billion annually due to an increase in illicit trade and the smuggling of cigarettes. These records set by the FBR to the Ministry of Health show that about 87 million tobacco has been illicitly consumed by addicts in Pakistan (N. Iqbal 2010). The unlawful sales of the tobacco trade are seriously hazardous for health as it has cheap quality at their prices and constitutes a deleterious impact on the health of the people. Statistical data of Oxford Economics showed that Pakistan has been placed at the number one on the rank of illicit trade in Asia where the illegal cigarettes volume is about 326 billion. The principal reason for this tax net is the level of prices of tobacco by the legal company, many of the tobacco brands could not afford by the low and middle-class families (Sarfaraz 2019). In June 2017, the FBR has recommended and changed the structure of taxes on various brands of cigarettes that were decreased to compete with the price of an illegal cigarette. The FBR has given this responsibility to the committee called Inland Revenue Enforcement Network (IREN) which was established to strategize, monitor, and control the formation of trade to counter the non-duty paid cigarettes and raw forms of tobacco from the country. However, the structure of tax collection of the third tier has been brought under the higher tax net to regularize the local manufacturer of tobaccos. (Economics 2017).

The current government introduced the two-tier mechanism of taxation on tobacco goods has been used by the government. The formula to tax tobacco carries two primary parameters. The first parameter is based on the weight which is levied on the tobacco in its raw form. The other form of tax is placed on the finished product based on the quality of the products. These are the methods to distinguish luxury brands from cheaper brands. The third tier formula was unleashed to help the FBR to distinguish the brands based on quality. The philosophy of the third-tier tax can be regarded as Ad-valorem taxes. These are placed on the value of the good and its imposed on the cash worth ratios of luxury varieties of the cigarettes. In 2016 this third tier was introduced.

The method that has been used for increasing the prices also affects the prices of local production of tobacco. Nevertheless, regardless of the implementation of such complicated formula tax regimes, Pakistan has the cheapest price tags of cigarettes in the region. For example, The 20 cigarette packet of Marlboro cigarettes in Pakistan was almost US$1.21 compared to Colombo, Sri Lanka where the price is 5.91 US $ and it's also lower than India where the price is US$3.03.

The rates of cigarettes are lower than other nations in the region. This argument creates space to improve the tax system in compliance with the World Health Organizations' and Ministry of health's observations and recommendations.

Country	Average Price of Marlboro (in USD)
Pakistan	1.25
Sri Lanka	6.41
Saudi Arabia	6.4
India	3.08
Bangladesh	2.56
Iran	2.39
China	3.17

Source: Number, 2017 Asia: Price Rankings by Country of Pack of Cigarettes (Marlboro)

It is very clearly mentioned in the above comparative table that Pakistan is offering the lowest prices of the Maelboro brand instead of a continuous rise in the tax policy for the tobacco industry. The same can be seen in some other luxury brands. FCTC Framework emphasizes increasing the tax rate to push smokers to avoid smoking. The government is also adopting the policy in letter and spirit. But unfortunately, the enforcement agencies lack the capabilities to implement the policy in a true sense. Increasing prices is not a very difficult task. The real task is to implement it and circle the illegal manufacture, put their manufacturers under observation, and control tax evasion.

Policy issues and recommendations:

The government can earn better revenue by considering the following recommendations.

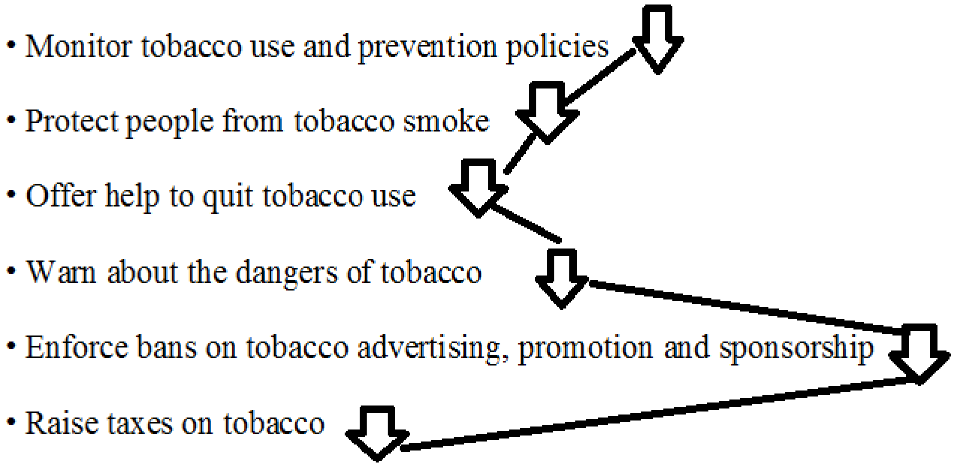
It is a narrative built by many policy advocates and analysts in Pakistan and abroad that, when you raise the price of cigarettes in your country, there is a reduction in usage, especially in teenagers. As they have limited pocket money and when the prices are high, the reach of cigarettes is out of their expenses. In addition, there are many studies where the raising in prices has been identified as one of the most effective and efficient tools in controlling tobacco usage. Many of the lower segments of society are directly affected and responsive to tobacco prices. The same has been seen in many countries where the rise in prices resulted in a reduction in usage.

To regularize the tax structure and eliminate tax evasion in the tobacco industry, it is proposed by the experts to tax on the Green Leaf Threshing (GLT). This helps the revenue collecting agencies to measure and estimate the exact tax from the production. In 2019 the Government of Pakistan proposed a rise of Rs 290 on GLT as compared to tax collection in 2018 which was only Rs10. This hike was proposed to increase the tax collection and regularize the sector. But unfortunately, this burden was only shared by the two cigarettes manufacturers. These two tobacco products producers were having a complete share of 60% in the sale but contributed 98% of the tax share. There were other 21 producers in the market. They were also engaged in the production of tobacco products with a share of 40% sale in the market but a tax share of only 2%.

As discussed earlier, the expenditures on the health facilities due to tobacco products consumption are increased. Tobacco users are taking the rights of nonsmokers. They are getting health facilities from their tax money. To save the interest of nonsmokers is also one of the major guidelines by the WHO. It was proposed by the Ministry of Health to add a Health levy on the tobacco industry to reduce the usage of tobacco. This proposal was initially accepted but later on, this proposal was not taken into consideration.

It was 2014 when the Government of Pakistan officially endorsed the Framework Convention on Tobacco Control (FCTC). Pakistan ratified article 06 of the framework and signed the same in 2004. In this convention, Pakistan has committed to raising prices and updating tax policies as per the FCTC document. As per the guidelines of the World Health Organization, the excise and related taxes must not be less than 70% of the retail price for tobacco products.

MPOWER is a complete framework to regularize, reduce and monitor the tobacco activity in the country. By adopting this MPOWER, nations can reduce the size of the tobacco industry to the desired level. This MPOWER is a significant portion of the FCTC convention and encourages its signatories to implement it. The MPOWER also helps its signatories to document the compliance for FCTC requirements (WHO, MPOWER 2008). The components of MPOWER are as given below. This MPOWER is derived from the WHO document and policy papers.



To overcome the issue of illicit markets, the Federal Board of Revenue suggests decreasing the taxation on the tobacco industry. They have a very solid argument as they are losing a major chunk of revenue due to illicit markets. Ministry of Health has objections to this policy recommendation to lower the tax rates. It is believed by the stakeholders of the health ministry that, lower the tax rates is against FCTC compliance. More than 24 million tobacco consumers are a direct burden on the health system. Tobacco users are directly facing the diseases like cancer, heart attack, different strokes, cardiovascular-related diseases, and respirational infections. One can easily imagine the severity of smoking by analyzing its nefarious externalities on the health sector. (library 2022).

The illicit cigarettes production industry is one of the major losses to the health, revenue, and writ of the government. It is mentioned by the FBR in its reports that 37% of tobacco products are manufactured in the illegal industry. Most of these nonduty and nontaxed products are produced in Azad Kashmir and FBR do have certain restriction in the jurisdiction of Azad Kashmir. It is the reason FBR considers raising taxes instead of taking strong law enforcing measures. Bu this is not a long-term solution to this rising and expanding market. The tracing and tracking coordination system are some of the significant options to curb this illegal market. In 20018, FBR was directed via a letter to establish check posts on some major routes from Azad Kashmir on 18.09.2018 to strictly enforce the law of the land. The objectives of these check posts were mentioned to curtail the movement of nonduty/non-taxed tobacco products.

In compliance with the letter, the FBR teams visited the border areas of Azad Kashmir adjoining the Khyber Pakhtunkhwa (KPK) and Punjab to establish the check posts. The field formation officers of FBR identified 10 points at different locations in Sialkot, Rawalpindi, and Abbottabad for the check posts. As per the reports of the FBR these 10 points are used by the illicit tobacco producers for the supply of input and delivery of finished products. It is also pertinent to mention that, the raw material of tobacco products is also supplied from KPK and Punjab to Azad Kashmir. It was asked to the fields' officers of FBR to constitute the rapid response mobile squads along with check posts on the designated and identified routes.

A lack of coordination between the federal revenue agency of Pakistan and revenue authorities in Azak Kashmir is observed. Ministry-level interventions and communications linkages are required to be placed. This will benefit both the Federal Board of revenue and the State revenue department in terms of revenue collections.

There is a need to establish joint enforcement cells to curb the smuggling and illicit market mechanism. The secretary-level talks and supervisions are mandatory to mainstream the industry on both sides.

As the nation is a signatory to the WHO conventions, there is a need for a well-placed and comprehensive National Tobacco Policy by keeping onboard all the stakeholders.

Another miscommunication is being observed between the Ministry of Health Services, Ministry of Finance, and Federal Board of Revenue. They are all carrying different philosophies in the perspective of tax imposition, illegal trade, and tobacco production. The FBR considers it significant to score maximum profit in short term with considering the economic cost as a result of this industry to the health sector. Ministry of health services considers only tobacco reduction without revenue damages in short term. After consultation, they need to clear their philosophy off this sector.

It is the primary responsibility of the Pakistan Tobacco Board to work for good quality tobacco to generate more revenue. Again it's against the revenue philosophy of the ministry of health services as they are against the expansion in the tobacco industry.

References

Afridi, Sarosh Khan. "PREVALENCE OF GUTKA; A FORM OF SMOKELESS TOBACCO'S CONSUMPTION AMONGST PATIENTS SEEN AT BAQAI DENTAL COLLEGE HOSPITAL, KARACHI." *PAKISTAN ORAL & DENTAL JOURNAL*, 2018: 1-5.

Atlas, Tobacco. *Google.* 05 05, 2018. https://tobaccoatlas.org/country/pakistan/.

Burki, Shahid Javed. *The Economics of Tobacco and Tobacco Taxation in Pakistan.* Islamabad: Bill and Melinda Gates Foundation, 2014.

Chatha, Irfan Ahmad. "Pre-Budget 2018-19 Policy Brief: Govt. Kitty Vs Public Health – The Case of Reduction in Prices of Cigarettes in Pakistan." *Sustainable Development Policy Institute*, 2018: 1-5.

Department, Statistica Research. *Worldwide tobacco market value 2012-2025.* Statistica, 2021.

DURRE NAYAB, MUHAMMAD NASIR, JUNAID ALAM MEMON, MAHMOOD KHALID, ANWAR HUSSAIN. "ECONOMICS OF TOBACCO TAXATION AND CONSUMPTION IN PAKISTAN." *Pakistan Institute of Development Economics, Islamabad.*, 2018: 07-09.

Economics, Oxford. *Asia Illicit Tobacco Indicator 2017: Pakistan.* Oxford Economics, 2017.

Government, US. *Notes from the Field: E-cigarette Use Among Middle and High School Students—National Youth Tobacco Survey, United States, 2021.* Washington DC: Office on Smoking and Health, National Center for Chronic Disease Prevention and Health Promotion, 23 November 2021.

Haider, M. "Govt asked to continue 3rd tier slab system for tobacco taxation." *The News*, 2018.

Haq, Dr Ikram ul. *Illicit cigarette trade.* March 21, 2021. https://www.thenews.com.pk/print/812295-illicit-cigarette-trade (accessed February 2022, 15).

Iqbal, M., Khan, A. I., Imtiaz, M., Ahmed, N., & Khan, M. A. " FBR Biannual Review." 2016.

Iqbal, Nadeem. "ILLICIT CIGARETTE TRADE IN & THROUGH PAKISTAN." *TRACING ILLICIT TOBACCO TRADE IN*, 10 01, 2010: 71-74.

Islam, Dr Ziauddin. *Targeting tobacco use in Pakistan.* Islamabad, May 30, 2021.

Jawad, Schultz , Shahid, Shakeel and and Chaudhry. "Attitudes towards Tobacco Consumption among." *Journal of Otolaryngology-ENT Research*, 2015: 1-2.

Jeffrey Drope, PhD and Neil W. Schluge. *Tobacco Atlas.* Atlanta, Georgia.: The American Cancer Society, 2018 .

Kamal Niaz, Faheem Maqbool, Fazlullah Khan, Haji Bahadar,Fatima Ismail Hassan and Mohammad Abdollahi. "Smokeless tobacco (paan and gutkha) consumption, prevalence, and contribution to oral cancer." *US National Library of Medicine National Institutes of Health.*, 2017: 1-3.

Khan, Muqaddam. *Tobacco firms aim to procure 22pc more crop in 2021.* December 24, 2021. https://www.dawn.com/news/1597555 (accessed February 1, 2022).

library, Free. *PAC urges FBR to curb tobacco use.* Jan 22, 2022. https://www.thefreelibrary.com/PAC+urges+FBR+to+curb+tobacco+use.-a0540199296.

M Emamhadi, M Jalilvand. "Predictors of Paan, Nass and Gutka (Oral Tobacco) Use among University Students." *International Journal of Medical Toxicology and Forensic Medicine*, 2012: 1-2.

Masoomeh Shirzai, Mahmood Sarani. "Supari Consumption is a Common Oral Habit Among Women in." *Int Journal High Risk Behav Addict*, 2012: 1-3.

Muhammad Ahsan, Muhammad Saad, Memoona Jawed, Sohail Akhtar,Muhammad Bilal, Afia Ahmed,Abdul Haseeb. "Impact of tobacco health warnings on smokers in Pakistan." *Journal of Pakistan Medical Association*, 2016: 1-5.

Muhammad Arif Nadeem Saqib, PhD, Ibrar Rafique, MPhil, Huma Qureshi, MD, Muhammad Arif Munir, PhD, Rizwan Bashir, MSc, Babur Wasim Arif, PhD, Khalid Bhatti, MA, Shahzad Alam Khan Ahmed, MA, Lubna Bhatti, MBBS. "Burden of Tobacco in Pakistan: Findings From Global Adult Tobacco Survey 2014." *Nicotine & Tobacco Research, Volume 20, Issue 9*, 2018: 1138–1143.

Nasir Mushtaq, Saghir Mushtaq, Laura A Beebe. "Economics of tobacco control in Pakistan: estimating elasticities of cigarette demand." *BMJ Publishing Group*, 2011: 1-3.

Nation, The. *Alarming number of Tobacco users in Pakistan* . 10 19, 2019. https://nation.com.pk/19-Apr-2018/alarming-number-of-tobacco-users-in-pakistan-report (accessed 03 30, 2020).

nayab, Durre, nasir Muhammad, Alam Memon Junaid, khalid mahmood , and Hussain Anwar. *Ecoonmics of tobacco taxation and consuption in Pakistan.* Islamabad: PIDE, 2018.

News, The. "Tax cut on cigarettes didn't benefit govt." *International The News,* March 29, 2019: 2-4.

Organization, World Health. "Tobacco Taxation." *World Health Organization*, 2014: 1-4.

Pakistan, Governemnt of. *National Assembly* . 01 02, 2002. https://na.gov.pk/uploads/content/scan0001(5).pdf (accessed 02 15, 2022).

PIDE. "Tobacco Tax Policies: Formulation, Effectiveness, and Challenges." Islamabad: PIDE, 2020. 01.

Qureshi, Dr Maria Ahmad. *The Dynamics of Pakistan's Economy: A situational Analysis.* Islamabad : QBAL, 2021.

Rashid Ahmed, Rizwan-ur-Rashid, Paul W. McDonald, S. Wajid Ahmed. "Prevalence of cigarette smoking among young adults in Pakistan." *Journal of the Pakistan Medical Association* , 2008: 1-10.

REPORT, RECORDER. "Philip Morris (Pakistan) Limited." *Business Recorder*, APRIL 11, 2019: 03.

Revenue, Fedearal Board of. *Inland Revenue Enforcement Network's performance in current FY-2021*. Press Report, Islamabad : FBR, 2021.

Sarfaraz, Sohail. "Around 87 million illicit cigarettes being consumed daily across country." *Business Recorder*, 01 17, 2019: 02-3.

Siddiqui, Salman. "Cigarette manufacturer backs FED of Rs300 per kg." *Express Tribune*, 06 23, 2019: 01-02.

WHO. *MPOWER.* Geneva: World Health Organization, 2008.

—. *Tobacco* . 07 26, 2021. https://www.who.int/news-room/fact-sheets/detail/tobacco (accessed January 24, 2022).