

Cigarette tax hike in Pakistan resulted in reduced consumption and a shift towards cheaper brands



Social Policy and
Development Centre
June | 2024

Introduction

In response to public health concerns surrounding high smoking prevalence, the Pakistani government enacted a substantial increase in the Federal Excise Duty (FED) on cigarettes during the fiscal year 2022-23. This policy intervention, with the most notable rise of around 150 percent occurring in February 2023, resulted in a corresponding increase in cigarette prices. To study consumers' responses to price changes, the Social Policy and Development Centre (SPDC) conducted a nationwide survey of more than 5,000 smokers between October and December 2023. This research brief provides a summary of some key findings from the survey, drawing comparisons, where applicable, to a similar survey conducted in 2021-22.

In Pakistan, domestically produced cigarettes are subject to two major indirect taxes—the Federal Excise Duty (FED) and the General Sales Tax (GST). The FED accounts for about 80% of the total tax revenue collected from the tobacco sector. The FED rate is applied in two price tiers: low-price (referred to as economy brands) and high-price (referred to as premium brands). Currently, a brand is categorized as low-priced if the on-pack printed retail price does not exceed Rs9,000 per thousand cigarettes, whereas cigarettes with a retail price above this threshold are treated as high-priced brands. The FED rate on economy and premium brands is Rs 5,050 and Rs 16,500 per thousand cigarettes, respectively. The rate of GST is 18 percent. Furthermore, the government sets a minimum price, which is currently Rs 127.4 per 20-cigarette pack, including GST.

Cigarette Brands and Smoking Practices

- Capstan is the most popular brand among smokers in Pakistan, and it captures almost one-third of the market (Figure 1). The broader cigarette market is dominated by economy brands, which constitute **94 per cent** of the total consumption.

- **19.2% reduction** in cigarette consumption
- **26.3% smokers cut down** cigarette consumption due to price increase
- **Smokers switched from premium to economy brands** as the share of premium brands declined from 20% to **6%**
- Though prohibited by law, **35%** of smokers reported buying **loose cigarettes**
- **27.6%** of the smokers purchased packs **below the minimum price** prescribed by the government

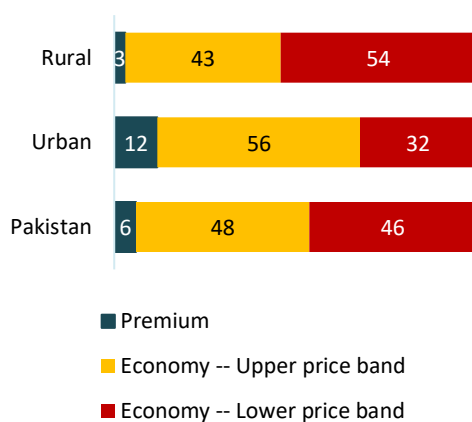
Figure 1: Cigarette brands used by smokers, 2023-24
(% shares)

	Pakistan	Urban	Rural
Capstan	31.5	39.8	27.0
Morven by Chesterfield	6.5	6.9	6.3
Kisan	6.0	6.1	6.0
Pine	5.9	6.2	5.7
Red & White Special	5.5	5.8	5.3
Gold Leaf	4.9	9.3	2.5
Cafe	4.0	2.1	5.1
Gold Flake	3.4	2.6	3.8
Press	2.6	1.0	3.4
Olympic	2.1	1.2	2.7
Lord One KSF	2.1	0.6	2.9
Gold Street	1.5	1.3	1.6
Dubai KSF	1.4	0.1	2.2
Cricket	1.2	0.4	1.7
Platinum	1.2	0.8	1.4
Classic	1.1	0.6	1.5
More One	1.1	0.5	1.4
President	1.1	0.3	1.5
Canton HL	1.0	0.2	1.4
Others*	15.9	14.2	16.6

* Brands with a share of less than one percent.

- An intriguing pattern emerges in terms of the prices of economy brands. The printed retail prices of these brands cluster into two distinct segments: (1) the most popular brands priced very close to the FED tier threshold, and (2) the majority of other brands priced very close to the government-mandated minimum price. To facilitate a more nuanced analysis, the economy brands are categorized into two sub-groups: upper-price-band and lower-price band. The average per-pack market price of the upper and lower price bands is Rs 223 and Rs 128, respectively.
- Within the economy brands, the respective shares of the upper-price-band and lower-price-band are 48 percent and 46 percent. The latter is more popular in rural areas, with a share of 54 percent (Figure 2).

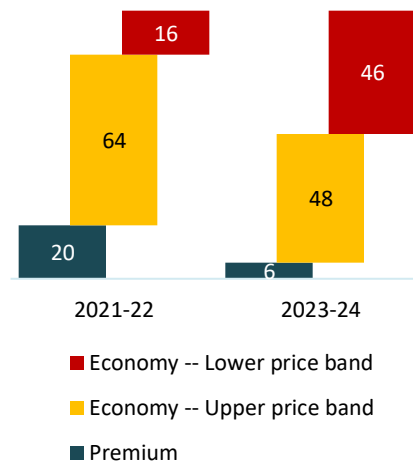
Figure 2: Cigarette brands used by smokers by region (% shares)



- As a result of the price hike in February 2023, smokers have switched to the economy brands. As shown in Figure 3, the share of premium brands has declined from 20 percent in 2021-22 to 6 percent in 2023-24.
- The brand switching is evident within the economy brands as well. Although the aggregate share of economy brands increased from 80 percent to 94 percent, the share of lower-price-band increased enormously—from 16 per cent to 46 per cent. On the other hand, the share of the

upper-price-band declined from 64 per cent to 48 percent.

Figure 3: Shift in consumption of cigarette brands (% shares)



Effect on Cigarette Consumption

- A question was asked in the survey about the daily consumption of cigarettes before and after the price increase in February 2023. Overall, 26 per cent of the respondents affirmed that they had started smoking fewer cigarettes than before.
- The estimates suggest that cigarette consumption has declined by **19.2 per cent**. No significant regional difference is observed in the change in consumption.

Figure 4: Decline in cigarette consumption (% reduction after February 2023)

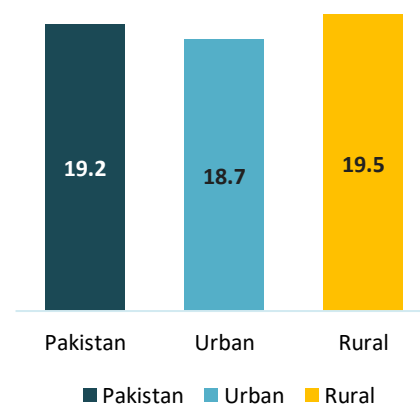
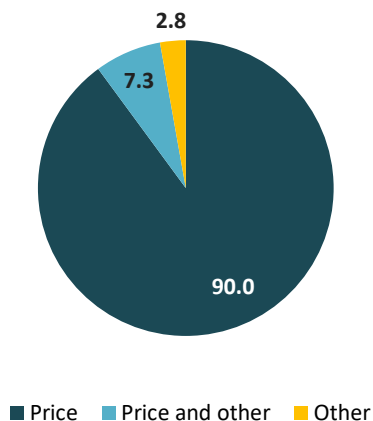
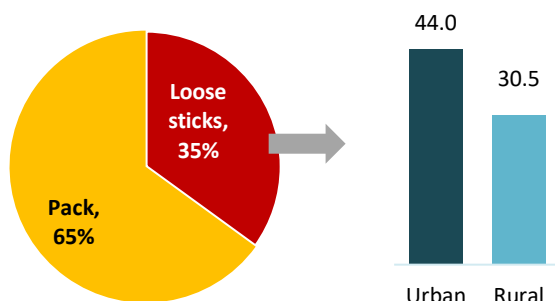


Figure 5: Reasons for reducing cigarette consumption
(% of respondents)



- Respondents were also asked about the reasons for reducing consumption. Increased prices were stated as the main reason for smoking fewer cigarettes by 90 per cent of respondents (Figure 4).
- The average smoking intensity is 12 cigarettes per day. Smoking intensity in urban and rural areas is 11 and 13 cigarettes per day, respectively.
- While the sale of loose cigarettes is prohibited by law in Pakistan, 35 percent of smokers reported buying loose cigarettes: the ratio is higher in urban localities (44 percent) compared to rural areas (31 percent).
- The price of cigarette packs purchased by 26.7 per cent of smokers was below the minimum price prescribed by the government.

Figure 6: Purchase of packs and loose cigarettes
(% of respondents)



Policy Implications

- A substantive gap exists between tax rates applied to low-priced and high-priced brands. The large price variation, caused by tax rate differentials, creates opportunities for smokers to opt for cheaper brands rather than quitting. It is recommended that the government should move towards a uniform FED rate for all cigarette brands.
- A significant proportion of smokers reported reducing their consumption in response to a price increase in February 2023. Therefore, the potential of cigarette taxation should be exploited to achieve Pakistan's tobacco control policy objectives.
- Tax administration is another crucial area to focus on to enhance the effectiveness of tobacco control policies. The incidence of selling loose cigarettes and packs below the minimum price is alarming. The government need to enforce bans on illegal sales of single sticks and underpriced packs by imposing penalties on those who flout the rules. The enforcement measures could be similar to those proposed in the Finance Act 2024 about sealing of retailers' outlets if they are found selling illicit cigarettes such as packs without tax stamps.

The Social Policy and Development Centre (SPDC) is funded by the Tobacconomics team at the Johns Hopkins University Bloomberg School of Public Health (JHSPH) to conduct economic research on tobacco taxation in Pakistan. JHSPH is a partner of the Bloomberg Philanthropies' Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of JHSPH or Bloomberg Philanthropies.



Social Policy and Development Centre
G-22, B/2, Park Lane Clifton Block 05,
Karachi | www.spdc.org.pk