

The Revenue Loss Due to Illicit Cigarette Trade in Pakistan

SUMMARY

The extent of illicit trade and the associated revenue loss are important indicators for the Federal Board of Revenue (FBR) in determining the appropriate level of enforcement. The Social Policy and Development Centre (SPDC) conducted a nationwide survey of over 5,000 smokers in 2023, which estimated that illicit cigarettes accounted for 33 percent of total consumption—25 percent in urban areas and 37 percent in rural areas.

Similarly, a WHO study estimated that illicit cigarette trade in Islamabad accounted for 23.1 percent in 2024. In addition, SPDC conducted another national study on illicit trade in 2025, which reported results broadly consistent with its earlier findings.

This note presents a simple methodology to estimate the revenue loss due to illicit cigarette trade in Pakistan as of 2025. The estimates suggest that these losses amount to approximately **Rs 115.6 billion (USD 411 million)**. This figure is substantially lower than claims made by the tobacco industry, which are based on estimates suggesting that illicit trade accounts for around 56–58 percent of the market, resulting in losses of over Rs 400 billion to the government.¹

EXTENT OF ILLICIT TRADE

The tobacco industry tends to overestimate total tobacco consumption to argue that tax policies do not reduce consumption. This strategy relies on inflating estimates of illicit trade, which also exaggerates revenue losses. Addressing these misconceptions requires, as a first step, a credible and transparent estimate of total tobacco consumption.

In 2025, SPDC surveyed more than 6,600 smokers. The results indicate that illicit trade accounts for nearly 34 percent of total cigarette consumption. Using the methodology described in

The estimated revenue loss from illicit trade amounts to Rs 115.6 billion, which is well below the Rs 400 billion claimed by the industry.

the technical annex, total cigarette consumption is estimated and disaggregated into legal and illicit components. These estimates suggest that total cigarette consumption in Pakistan is approximately 53.55 billion sticks—closer to 50 billion rather than the 82 billion claimed by the tobacco industry. Of this total, an estimated 18.3 billion sticks are illicit.

Table 1: Consumption of cigarettes

Type	% share	Number of sticks (billion)
Legal	65.8	35.23
Illicit	34.2	18.32
Total	100.0	53.55

Source: SPDC

TYPES OF ILLICIT TRADE

Based on the 2025 survey data, illicit cigarette consumption is further disaggregated into locally produced and products smuggled from other jurisdictions. Of the total illicit trade, 39 percent is locally produced, and 61 percent is smuggled. This implies that locally produced illicit cigarettes amount to approximately 7.2 billion sticks, bringing total domestic production (legal and illicit) to 42.4 billion sticks. The remaining 11.2 billion sticks are smuggled. While both types of

illicit trade result in revenue losses, disaggregated information is important for effective enforcement, as the FBR operates multiple wings and coordination mechanisms, such as the Inland Revenue Enforcement Network and Customs Enforcement.

Table 2: Composition of illicit cigarettes

Type	% share	Number of sticks (billion)
Locally produced	39.0	7.15
Smuggled	61.0	11.17
Total	100.0	18.32

Source: SPDC

The 2025 study also found that approximately 99.8 percent of illicit cigarette packs (both locally produced and smuggled) are economy brands, while only 0.2 percent are premium brands.²

REVENUE LOSS

The Federal Excise Duty (FED) rates on economy and premium cigarette brands are Rs 5.05 and Rs 16.50 per stick, respectively. FED revenue losses were calculated by multiplying the quantities of economy and premium cigarette packs by their respective FED rates.

The minimum price of licit cigarettes was used as a basis to estimate the loss of General Sales Tax (GST) revenues for economy brands. Currently, the minimum price of a 20-cigarette pack, as notified by the Finance Act 2024, is Rs 137.5, which includes FED (Rs 101 per pack) but excludes sales tax. The sales tax is applied at the rate of 18 percent – Rs 24.75 per pack. Thus, the per-pack loss of GST revenue was obtained by multiplying the quantity of illicit economy packs by Rs 24.75.

For premium brands, the price of Gold Leaf is used as a reference to estimate the sales tax loss. The total price is Rs 483 per pack, which includes producer’s price (Rs 79.32), FED (Rs 300) and sales tax (Rs 73.68). Accordingly, the per-pack loss of sales tax revenue was obtained by multiplying the quantity of premium packs by Rs 73.68.

Table 3 presents the total revenue loss due to illicit trade, estimated at **Rs 115.6 billion (USD 411 million)**. This estimate is substantially lower than claims made by the tobacco industry, which suggest that illicit trade accounts for around 56–58 percent of the market, as reported in their financial statements and news reports. Though this empirically defensible number is much lower, the extent of illicit trade remains a significant concern that demands further attention from tax authorities.

Table 3: Revenue loss due to illicit trade, Rs in billion

Segment	FED	GST	Total
Economy	92.4	22.6	115.0
Premium	0.5	0.1	0.6
Total	92.9	22.7	115.6

Source: Computed based on SPDC data.

To address this issue, a Track and Trace System for the electronic monitoring of cigarette production has recently been implemented in the domestic industry. In addition, the Federal Board of Revenue (FBR) has intensified enforcement actions against illicit cigarettes. It is therefore expected that the scale of illicit trade will be substantially reduced in the near future.

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Technical Annex

- Due to the unavailability of consumption data, the total consumption of cigarettes in the country has been estimated as follows:

Consumption of cigarettes = Domestic licit production + consumption of illicit cigarettes

- The quantity of licit domestic production was obtained from the published data of the Pakistan Bureau of Statistics (Quantum Index of Manufacturing).³
- Since the quantity of illicit cigarettes is not known, the share of illicit trade in total consumption was estimated using the SPDC Survey 2025 nationally-representative data. Based on the share of illicit trade, illicit consumption was estimated by using the following identities:

Total consumption = (Licit domestic production)/(1-illicit),

where *illicit* is the percentage of illicit trade, and

Consumption of illicit cigarettes = Total consumption - Licit domestic production

- The quantity of illicit consumption was disaggregated into high-priced (premium) and economy brands based on the corresponding prices of licit cigarettes. For this, the retail price of the most sold premium brand, Golf Leaf, was used as the reference point. As such, illicit cigarette packs sold above Rs 483 per pack (price of Gold Leaf) were treated as premium brands.
- As noted earlier, the SPDC 2025 Survey data were used to estimate the extent of illicit cigarette trade. A pack was considered illicit or nontax-paid if:
 - The pack is without packaging compliance and tax stamps. These are generally known in the country as smuggled brands.⁴
 - The pack is with packaging compliance, but has no stamp and is sold below the minimum price.
 - The brand is not registered with the Federal Board of Revenue (FBR).

¹ <https://profit.pakistantoday.com.pk/2025/06/04/ptcpakistan-tobacco-company-calls-for-strict-enforcement-as-illicit-cigarette-trade-surges/>

<https://tobaccoreporter.com/2025/09/30/illicit-cigarettes-grip-majority-share-in-pakistan>

² It could be assumed that the downward switching to illicit brands is mainly from smokers of legal economy brands and not premium brands. It is needed further research to understand the behavior of premium-brand smokers. So far, we know that premium-brand smokers switch down mainly to cheaper legal economy brands.

³ <https://www.pbs.gov.pk/industry-2/>

⁴ Note that due to a lack of information on the packs, the possibility of some 'smuggled' brands being produced locally cannot be ruled out.