

# SECTOR BRIEF

## Tobacco Industry



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### Historical Background

In 1947, soon after partition, British American Tobacco (BAT) established its subsidiary in Pakistan with the name of Pakistan Tobacco Company (PTC) Limited. PTC inherited the business previously conducted by Imperial Tobacco Co., Tobacco Manufacturers India and Indian Leaf Tobacco Development [ILTD].

During the 1950s, Pakistan used to import tobacco for meeting the demand of its cigarette industry.

In 1967, Philip Morris International (PMI) entered the Pakistani market by obtaining interests in Premier Tobacco Industries Ltd (PTI) through the purchase of the British holding company Godfrey Phillips Ltd.

In 1968, the Government of Pakistan established the Pakistan Tobacco Board (PTB) for the promotion of the cultivation, manufacture and export of tobacco.

In 1971, Lakson Tobacco Company (LTC) was founded which is Pakistan's second-largest tobacco company,

Upto 1998, Rothmans International remained the dominant force in the manufacture, marketing, and sale of tobacco products in Pakistan when it was acquired by British American Tobacco (BAT) in 1999.

In 2007, PMI acquired an additional 50.21% stake in LTC worth USD 338.9 million, thereby bringing PMI's stake in Lakson Tobacco to approximately 90 percent.

### Major Market Players

The Cigarette market in Pakistan is highly concentrated as only two multinational companies are controlling 98% of the market viz. (1) Pakistan Tobacco Company (a subsidiary of British American Tobacco) and Lakson Tobacco Company (LTC) owned by Philip Morris International and Khyber Tobacco Company.

### Major Highlights

- Pakistan is placed among the top ten raw tobacco producers in the world.
- Tobacco represents only 0.42 % of the total value of the crop sector
- Tobacco industry share in agricultural employment is only 0.03% (8,200 persons).
- Cigarette production's share in industrial output is only 1.1 % and industrial employment is 0.3 %.

- The agriculture sector as a whole contributes only 5% of the total value of final production of cigarettes.
- Major contributor to national exchequer and shared over Rs. 88 billion in Sales Tax/FED in FY 2017-18.

### Types of Tobacco

In Pakistan, the following major tobacco varieties are grown:

- (1) Flue-Cured Virginia (FCV) – major tobacco type, mainly grown in KPK province.
- (2) Dark Air-Cured (DAC) – mostly planted in Punjab and also grown in Sindh and Balochistan
- (3) Rustica (Hooqqah) – mostly planted in Punjab
- (4) Kala Patta (KP) – mostly planted in Punjab
- (5) Sun Cured Rustica Tobacco (White Patta) – grown in Charsadda, Mardan, Nowshera, Swabi districts
- (6) Light Air-Cured Tobacco (Burley) – grown in Dir and Swat districts in KPK.

### Size of the Industry

There are 75,000 tobacco growers producing tobacco all over Pakistan. Out of these more than 45,000 growers are located in Khyber Pakhtunkhwa (KPK) producing 98% of Flue-Cured Virginia over an area of 25,500 hectares in the districts of Swabi, Mardan, Charsadda, Buner and Mansehra. On average 70-75 million kgs of FCV - the main ingredient of cigarettes - is produced by growers of these districts every year.

### Cultivation and Production of Tobacco

In 1947, Pakistan imported tobacco to meet its requirements; however, in 1948, cultivation of Flue-Cured Virginia was started on a tentative basis on 20 hectares of land by a leading multinational. By 2000, the cultivation area expanded to over 34,600 hectares producing over 78.3 million Kgs. of tobacco. By 2019-20, the total cultivation of all types of tobacco has reached 50,789 hectares.

Local oriental types of tobaccos are cultivated in the plains of NWFP and, to some extent, in Punjab, Sindh and Balochistan. Punjab is, however, famous for the production of Dark Air Cured (DAC) and hookah-type tobaccos. At present, all the tobacco consumed by the tobacco companies for cigarettes is produced in the country except for a nominal quantity which is imported for use in the superior brand of cigarettes.

**Cultivation of different Types of Tobacco in Pakistan (Hectares)**

Year	Flue-Cured Virginia	Dark Air-cured	Rustica	White Patta	LAC (Burley)	Total
2013-14	27,413	1,225	16,004	4,341	57	49,040
2014-15	30,765	925	16,822	5,250	42	53,804
2015-16	29,061	872	17,434	5,278	40	52,685
2016-17	26,121	599	16,609	3,880	38	47,247
2017-18	24,527	1,367	19,025	1,366	47	46,332
2018-19	24,790	740	17,702	630	56	44,877
2019-20	27,639	896	21,201	1,003	50	50,789


**Production of different types of Tobacco in Pakistan (Million Kgs.)**

Year	FCV	DAC	Rustica	WP	LAC (Burley)	Total
2013-14	90.18	4.35	18.36	16.79	0.20	129.88
2014-15	79.25	2.93	24.88	12.86	0.10	120.02
2015-16	72.29	2.14	29.32	11.71	0.08	115.54
2016-17	64.79	1.66	25.52	7.95	0.09	100.02
2017-18	68.17	3.92	30.68	3.92	0.09	106.78
2018-19	67.08	1.82	41.06	1.89	0.09	11.632
2019-20	69.31	2.20	39.04	3.02	0.08	13.657

\*Estimated

**Exports of Tobacco**

The exports of tobacco witnessed a decline of 13.86% during the first nine months of FY 2020-21 against the exports of the corresponding period of last year. Tobacco exports were recorded at US\$ 24.738 million during July-March (2020-21) against the exports of US\$28.720 million during July-March (2019-20), according to the Pakistan Bureau of Statistics (PBS).

In terms of quantity, the exports of tobacco decreased by 11.95 percent by going down from 10,640 metric tons to 9,368 metric tons, according to the data. Meanwhile, on a year-to-year basis,

the exports of tobacco dipped by 11.67 percent during March 2021 when compared to the same month of last year. The exports of tobacco from the country during March 2021 were recorded at US\$2.467 million against the exports of US \$2.793 million in March 2020. However, on a month-on-month basis, the exports of tobacco increased by 125.09 percent during March 2021 as against exports of US\$1.096 million in February 2021.

The major importing countries of Pakistan-made tobacco are Germany, U.A.E., Russian, Yemen, Myanmar, Malaysia, Indonesia, the Netherlands, Korea, U.K, Poland, USA, Singapore, Belgium, Italy and Ukraine.

**SWOT Analysis of Tobacco Industry**

**STRENGTHS**

- Largest tobacco consuming countries in the world
- Local cultivation has expanded over the years
- High-value cash crop for farmers especially in KPK
- Better Per Hectare Yield than the world average
- Contributes nearly 3.5% of total FBR revenues
- Pakistan tobacco has a quality edge in the international market
- Availability of different brands of cigarettes
- Consumers long-time stickiness to different cigarette brands
- Well-organized production and marketing (grades based) system

**WEAKNESSES**


- Exporting tobacco rather than value-added product cigarettes.
- Low reach out to a vast international cigarette market
- Inability to process all the tobacco supplies
- Old fashioned curing technology
- Monopoly of few tobacco companies
- Rejected tobacco leaves do not fetch good price outside
- Large gaps in prices of cigarettes brands of same company
- Rising production cost (inflation, oil prices, and energy costs)
- No proper dedicated tobacco research organization


**OPPORTUNITIES**

- Introduction of mechanization in farm operations
- Good potential of Contract farming in the value chain
- Switching from Conventional to Turbo Barn Curing Method
- introducing light cigarettes, e-cigarettes & chewable gums
- Trainings on grading of harvested and cured leaves.
- Availability of modern curing technology
- Producing medium to low-Tar cigarettes at affordable prices
- Enhancing cigarettes & tobacco export due to fall in USD Value
- Improving Leaf Harvesting Method to increase farmers income


**THREATS**

- Declining international market due to low competitiveness
- Growing anti-smoking laws/movements/policy measures
- Biodiversity loss due to intensive use of harmful chemicals
- Environmental pollution due to pesticide use
- Improper disposal of tobacco wastes
- Heavily taxed and regulated tobacco value chain
- Declining trend in tobacco exports
- Entry of global brands
- Illicit trade of cigarettes
- Counterfeit products of big brands