

# Illicit Cigarette Trade In & Through Pakistan



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## Abbreviations

<b>ATT</b>	Afghan Transit Trade
<b>BAT</b>	British American Tobacco
<b>FBR</b>	Federal Board of Revenue
<b>FATA</b>	Federally Administered Tribal Areas
<b>GATT</b>	General Agreement on Tariffs & Trade
<b>GDP</b>	Gross Domestic Product
<b>GOP</b>	Government of Pakistan
<b>LTC</b>	Lakson Tobacco Company
<b>NWFP</b>	North West Frontier Province
<b>PMI</b>	Phillip Morris International
<b>PTB</b>	Pakistan Tobacco Board
<b>PKR</b>	Pakistan Rupee
<b>PTC</b>	Pakistan Tobacco Company

## Summary

The illicit tobacco trade in Pakistan is reportedly 20% of the total cigarette market. Officials at the Federal Board of Revenue (FBR) estimate that in terms of revenue, Pakistan suffers an annual loss of around Rs 7.4 billion (around US\$85 million) as a consequence of the illicit tobacco trade. FBR records show that in the year 2007-08, the total cigarette market was 78 billion sticks, of which 63 billion cigarettes were local legitimate brands while the remaining 15 billion cigarettes were smuggled.<sup>1</sup>

Tobacco companies claim that the tax-paying players comprised about 82% of the market and contributed nearly PKR 46 billion (US\$550 million) to the national exchequer during last fiscal year 2008-09<sup>2</sup>. The Pakistani tobacco giants Pakistan Tobacco Company (PTC) and Lakson Tobacco Company (LTC) say that there are three forms of illicit tobacco trade in the country - smuggled, counterfeited and duty evaded. However, regarding which activity is causing greatest damage to their business, the tobacco industry tends to underestimate the impact of smuggling. The FBR also seems to share this view of the illicit tobacco scene. A senior official from the Ministry of Health says that according to information gathered from Federal Bureau of Revenue (FBR) sources, 18% of the illicit sector in Pakistan is comprised of local duty-not-paid cigarettes and the market share of smuggled duty-not-paid cigarettes is just 2%.<sup>3</sup>

The source for and the veracity of these claims are doubtful, as government officials in parliamentary committee meetings have said that the government does not have any statistics on smuggling.<sup>4</sup> This absence of statistics concerning smuggling indirectly helps the PTC and LTC to keep government attention focused on counterfeiting rather than smuggling. Incidentally, the latter involves brands of their respective international collaborators - British American Tobacco (BAT) and Phillip Morris (PMI). Although these companies publicly lament the loss of revenue to the government, neither have released any studies that indicate the loss incurred to their business on account of counterfeiting or smuggling. Nor have they launched any mass awareness campaign to warn consumers against illicitly traded products.

Statistics or no statistics, the fact remains that Pakistan is a haven for the illicit tobacco trade. The markets are flooded with contraband cigarettes ranging from substandard counterfeit cigarettes to smuggled world famous exotic brands costing between less than one dollar to 2 US dollars. (Presently, 85 Pakistani rupees are equivalent to 1 US dollar).

The main source of cigarette smuggling into Pakistan is the Afghan Transit Trade facility, which **Pakistan** has extended to neighbouring land-locked Afghanistan since 1965. Afghanistan has been importing goods for its use through the port of Karachi, in Pakistan.

Although the Government of Pakistan has banned the import of cigarettes under Afghan transit trade since 1992,<sup>5</sup> evidence points to the lack of effective implementation of the order. The customs department reports that, as per international practice, customs officials do not scrutinise containers destined for Afghanistan in order to determine the authenticity of declared goods.<sup>6</sup> Officials do not rule out pilfering of goods on their

way to Afghanistan from designated ports in Pakistan. Goods reaching Afghanistan often return to Pakistan through the mountainous and porous border between the countries.

Afghanistan has similar transit agreements with other neighbouring countries. Cigarettes also enter Afghanistan from the Iranian seaport of Bandar Abbas, and via its airports. The ultimate destination of most of these cigarettes is Pakistan. According to the World Bank's Watching Brief Strategy, during 1997 cigarettes worth PKR 2,970 million (around US\$50 million) were re-exported to Pakistan.<sup>7</sup> These cigarettes were imported by Afghanistan through routes other than Pakistan.

The smugglers and bootleggers also pay a "passage fee" to militant organisations in both Pakistan and Afghanistan. These include member organisations of Tehrik-e-Taliban Pakistan and their counterparts in Afghanistan. There are no direct estimates available regarding the revenues generated by the Taliban from cigarette smuggling. Nevertheless, the United Nations Office on Drugs and Crime (UNODC) estimates that in southern Afghanistan, bordering Pakistan, Taliban-armed opposition groups generate an annual revenue of US\$200-300 million from a "surcharge" levied on the illicit drugs trade.<sup>8</sup> Drug pedaling and cigarette smuggling have been reported to go hand-in-hand internationally.

Cigarette smuggling is not generally considered to be a crime in Pakistan. Although FBR officials maintain that in the past the FBR was not pro-actively making seizures of smuggled cigarettes, Customs, which is a wing of the FBR, has initiated seizures.<sup>9</sup> However, these officials did not provide any data concerning seizures.

Pakistan has introduced a tobacco control law, (*Prohibition of smoking in Enclosed places and Protection of Non smokers Ordinance 2002*), which among other measures bans smoking in public places. The taxes on tobacco products have been on the increase. But it seems that these measures are yet to be implemented effectively.

Estimates by the tobacco industry indicate that cigarette demand exceeds current levels of production. The tobacco industry continues to view Pakistan as a profitable market. In 2007, Phillip Morris, which previously had a 50% share in the local Lakson Tobacco Company (LTC) nearly doubled its involvement to 98%.<sup>10</sup> Phillip Morris's press release says, "PMI will acquire an additional 50.21% stake in Lakson Tobacco from major shareholders in a transaction valued at PKR 20.62 billion". (US\$338.9 million).

BAT's local face, Pakistan Tobacco Company (PTC), has as its non-working directors a powerful retired army general and a retired top bureaucrat who was earlier managing the country's financial system.<sup>11</sup> Similarly, there are reports that another influential bureaucrat who once oversaw the nation's internal security has been lobbying for the group. This has created an environment where laws are being flouted in favour of tobacco interests.

Pakistan's undocumented black economy is estimated to be equivalent to 50% of GDP, with smuggling accounting for a significant proportion of this. *Hawala* or *hundi*, an informal channel for transferring money

to and from abroad, is conducted unabated on every corner of *bara* (markets selling smuggled goods) across the country.

Counterfeit cigarettes are another illegal activity prevalent in Pakistan. This also occurs due to the apparent collusion of the tobacco industry and the Pakistan Tobacco Board, which regulates affairs between growers and producers. The board is accused of playing into the hands of the industry, which leads to surplus growth of tobacco beyond quantities required by the legal industry.<sup>12</sup> Surplus tobacco ends up in the hands of counterfeiters, who are mainly running a household industry. Over the years the GOP's effort to increase the tobacco crop yield is bearing fruit. According to an official economic survey, coverage of the tobacco crop increased from 44,000 hectares in 1991 to 52,000 hectares in 2008.<sup>13</sup>

The federal government itself is addicted to tobacco revenue. The FBR considers excise duty on cigarettes as one of the top five revenue-generating sources. The North West Frontier Province (NWFP), where most of the tobacco crop is grown also sees this activity as a substantial means of revenue generation. It is currently estimated that the federal government is incurring a total of loss of PKR 7.46 billion due to tax evasion worth PKR 5.92 billion, PKR 0.24 from counterfeiting and PKR 1.30 billion due to smuggling.

The question is whether the Pakistan government will be able to rein in the illicit trade in cigarettes. The prospects for this appear bleak as, in addition to the absence of political will, the government regards smuggling as the major source of livelihood for the war-torn economy of at least two provinces of the NWFP and Balochistan that border Afghanistan.

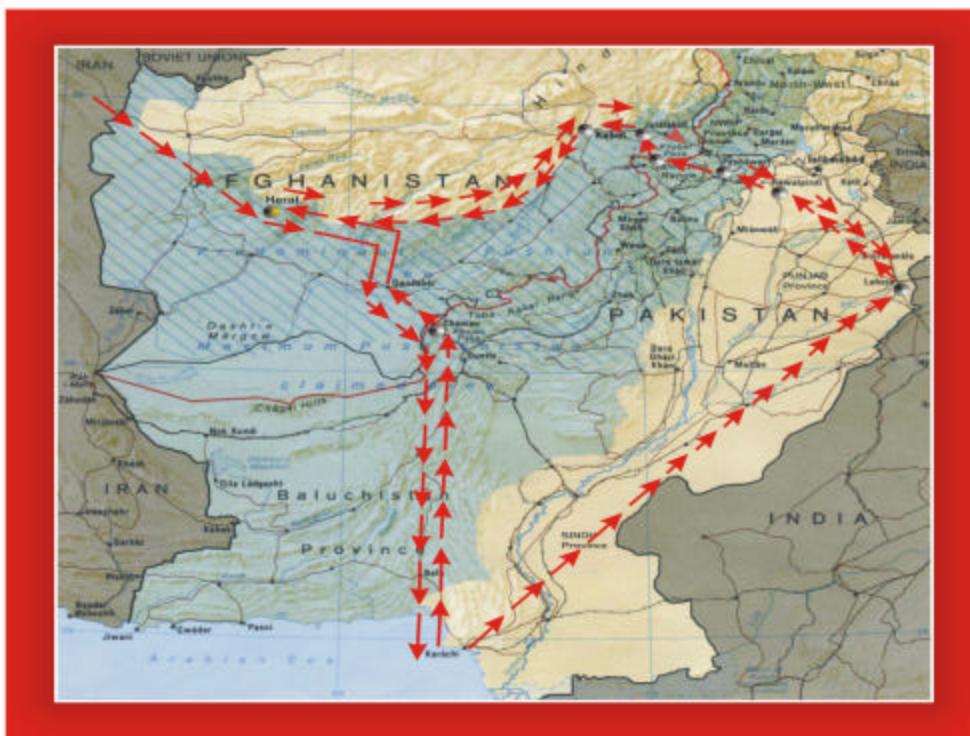


Figure 11. Cigarette Smuggling Routes



## Project Rationale

Illicit trade has diluted the impact of tobacco taxes in reducing smoking because the smuggled and counterfeit brands are cheaply available to low-income groups in society, and smokers who might otherwise have quit tobacco in response to price increases. Lax border controls and corruption in the system feed the illicit trade rackets. There is no political will on the part of the government to curb the menace of smuggling as this is justified as providing a source of livelihood for people in the war-torn North West Frontier Province and Balochistan province bordering Afghanistan.

## Purpose

The aim of the study is to investigate the routes by which cigarettes are smuggled into and through Pakistan and the potential links of smuggling to criminal activity and its implications for the economy. The study also intends to identify effective preventive and control measures to contain the illicit tobacco trade.



Figure 12 Whole Seller of Smuggled cigarettes in Russian Market of Quetta city

## A Cigarette Smugglers' Den

According to Customs laws, cigarette smuggling is a crime but weak enforcement has resulted in the unabated smuggling of contraband. Over the years, there has been no media reporting of tobacco seizures.

Officials from the Federal Board of Revenue estimate that Pakistan suffers an annual loss of around Rs7.4 billion in terms of revenues from continued smuggling and illicit trade. FBR records show that in the year 2007-08, the total cigarette market was 78 billion sticks, of which 63 billion were local legitimate brands while the remaining 15 billion cigarettes were smuggled.

At present more than 30 foreign brands including Afghani, American, British, European, German, Greek, Korean and Middle Eastern cigarettes are available in most retail cigarette shops across the country.

Table 1: List of popular smuggled cigarette brands available in Pakistan

Brand	Manufacturer	Price in PKR (1 US Dollar = 85 Pakistani rupees)	Noteworthy text on the pack
Camel	JT International Made in the EU	62	Il fumo ostruisce le arterie e provoca infarti e ictus
More International	JT International	90	US Surgeon General's Warning
Benson & Hedges		130	For Duty Free Sale Only Health warning in English

Dunhill	Manufactured under authority of Dunhill Tobacco of London LTD  British American Tobacco Group	130	For Duty Free Sale Only  Tobacco serious damages health - EC Council Directive 89/622/EEC
Marlboro	Made under control of Phillip Morris Products S.A Quai Jeanrenaud 3  2000 Neuchatel  Switzerland	80	Health warning in Persian/Darri
Marlboro Lights	Made under control of Phillip Morris Products S.A Quai Jeanrenaud 3  2000 Neuchatel  Switzerland	80	Health warning in Persian/Darri
555 State Express London	555 Mandarin  For Duty Free Sale Only	120	Tobacco serious damages health - EC Council Directive 89/622/EEC
555 Gold	For Duty Free Sale Only	112	Tobacco serious damages health - EC Council Directive 89/622/EEC
Von Eicken TRADITION	Made in Germany	27	Tobacco serious damages health - EC Council Directive 89/622/EEC
Davidoff	Made in Germany  by Reemtsma under license of Davidoff & Cie SA, Geneva	95	Smokers die Younger EU Directive (2001/37/EC)
Gurleen Lights		24	Warning in English
Business Club	Made under authority of European Tobacco PLC London England	20	Tobacco serious damages health - EC Council Directive 89/622/EEC
Paran Lights	Made under authority of Woon Tobacco Corp-Korea  Made in Korea	16	Health warning in English
Say Lights	Made under Authority of Korea Tobacco Manufacturing Company Korea	12	Health warning in English

Texas 5	Texas USA	12	Warning in English
Texas 5	Texas USA	12	Warning in Arabic and English
Pine Lights	Manufactured under authority of KT&G established 1909	30	
hi-lite Special Mild	A trade mark of Japan Tobacco Inc Tokyo, Japan	30	US Surgeon General's Warning

**Table 2. List of cigarette packs costing under a Dollar in Pakistan**

(Some of these brands are suspected to be counterfeit products)

<b>Brand</b>	<b>Manufacturer Information</b>	<b>Any other important writing on the pack</b>
Red & White King Size Filter	Made in Pakistan Manufactured under license	Health warnings are written in Urdu and English
Morven Gold	Lakson Tobacco Company Limited Made in Pakistan	Health warnings are written in Urdu and English
Capstan Pall Mall	Made in Pakistan under the authority of British American Tobacco	Health warnings are written in Urdu and English
Gold Leaf	Made in Pakistan	Health warnings are written in Urdu and English
Preston	Afghan Government Monopoly	No health warning
Maiwand	Prod-2007 Maiwand (UK) LTD England	Warning in English
Rally American Blend	Made under authority of Papastratos International B.V.	No health warning
MM	Made under authority of Parkford Tobacco Inc USA	Health warning in English
555	Made in England under authority of Ardath Tobacco Co. LTD	Tobacco serious damages health - EC Council Directive 89/622/EEC
Benson & Hedges	Made in England by arrangements with successors to Benson & Hedges Old Bond Street Landon	Tobacco serious damages health - EC Council Directive 89/622/EEC
Mehr Gold American Blend	Made under authority of A.W.G.T.C	
Winston Filter-Cigarettes	R.J. Reynolds Tobacco Co. Winston Salem, N C. USA	
Leader	Karelia Tobacco Company INC. MADE IN GREECE	
Carnival Full Flavour	Made in Korea	
Gala Society Lights	Johann Wilhelm Von Elcken Made in Germany	Health warning in Arabic and English
89 Eighty Nine Lights	Manufactured under Authority of AT & C	No health warning

Steel Filter King Size	Pyxis International Limited Blend of U.S.	Health warning for children which also says that this is not for sale to minors
Modern Cigarettes American Blend Corolla Deluxe American Taste	Modern USA American Greek International Tobacco Switzerland Made in Korea	Health warning in English  No Health Warning
Fisher Full Flavour American Blend	Export Only Made under Authority of Fisher Tobacco Ltd Winston Salem, USA	US Surgeon General's Warning

## Unintended Consequences of a well-intended Transit Trade Agreement

The tobacco smuggling network operates around the Afghan Transit Trade (ATT) agreement, which was signed between the landlocked country of Afghanistan and Pakistan in 1965 with a view to provide Afghanistan with port access. According to Pakistan's Federal Commerce Minister Amin Fahim, "Afghanistan is a landlocked



country. Under Article - V of GATT 1947 which is about

**Figure 13. Customs Borders of Pakistan**

the freedom of transit available to landlocked countries, Pakistan is obliged to grant the transit facility to Afghanistan".<sup>14</sup>

As per the agreement, goods intended for Afghanistan are allowed to be transported from the ports of Karachi and Bin Qasim, in south Pakistan, to Afghanistan via the northern border towns of Torkham in the North West Frontier Province (NWFP) and Chaman in Balochistan. These goods may also be airlifted to Kabul via Karachi airport. The distance by road along the



**Figure 14. Cheap Cigarettes are sold on carts**

Karachi-Peshawar-Torkham route is 1,819 km while that of Karachi-Quetta-Chaman is 813 km.

The agreement was supposed to be reviewed every year by both governments. However, civil war ensued in Afghanistan following the Soviet Union's invasion of that country in 1979. Despite the absence of there

being a government in Kabul that was recognised by Pakistan, the transit facility was retained. During 1980s, the same routes were used in transporting American and Saudi supplies to the Afghan Mujahideen to fight Russian troops in Afghanistan. Even now, NATO forces fighting the Taliban in Afghanistan rely on the same supply lines.

After the departure of Soviet troops from Afghanistan in 1989, the government of Pakistan began to realise that the Afghan facility was being misused and that goods destined for Afghanistan were either being pilfered inside Pakistan while on their way to the border or were being smuggled back into the country after reaching Torkham or Spin Baldak in Afghanistan. In 1996, realising that the ATT facility was beginning to damage Pakistan's industry, the GOP banned seventeen items from being imported via the transit facility.<sup>15</sup> Tobacco was one of them.

However, as per agreed customs procedures under the 1965 agreement, goods declared by an Afghan importer as being for transit to Afghanistan, are not checked or verified at the port of Karachi, in Pakistan. The sealed goods are transported by train or trucks to Afghanistan. Once goods are received by Afghan customs, it confirms receipt to its Pakistan counterparts. A customs chief, Javed Ghani, says that under international obligations the custom authorities are not obliged to check the containers.<sup>16</sup> A further reason is that the port in Karachi does not have a scanning facility that can thoroughly check large containers carrying billions of rupees worth of transit goods.

There are reports of goods being transported under the ATT agreement being pilfered before they cross into Afghanistan. Customs officials in Pakistan are of the view that measures taken by them such as comprehensive field paper work, sealing of consigned goods, shipment of transit goods in special railway wagons and checking shipment invoices at several points eliminate chances for en route diversions. But it is a fact that despite elaborate procedures, en route smuggling from the ATT is not inconsequential. Traders involved in the cigarette business bear witness to the fact that cigarettes are also being transported under the guise of the transit facility.

The GOP does not have records of smuggling or its seizures. Federal commerce secretary Zafar Mehmood, and additional secretary, told a parliamentary committee investigating the misuse of the ATT that there was only circumstantial evidence of smuggling but there is nothing that could be presented to the Afghan authorities to halt the misuse. Most of the information the commerce ministry has, they said, is based on inputs from private sector and media reports.<sup>17</sup>



**Figure 15. Inside of a shop dealing in smuggled cigarettes**

## Porous Borders with Afghanistan

The misuse of the ATT is not the only source of smuggling into Pakistan. Consignments of smuggled cigarettes often originate from the port of Bandar Abbas, in Iran, from Kabul and Jalalabad and Qandhar airports, in Afghanistan, and turn up in Pakistani markets. Pakistan and Afghanistan share a porous border which extends for 2,400 kilometres having 141 natural mountain passes and more than twice that number of crossings into each other's territory.

The Federal Board of Revenue (FBR) has estimated the total volume of ATT trade at US\$500 million. FBR's Tanvir Qureshi concedes that unbridled smuggling has been going on under the guise of ATT. But he says that the solution lies not in strict enforcement but rather at the policy level. "We should be allowing only the exact quantity as required by Afghanistan to be imported under ATT".<sup>18</sup>

With regard to cigarettes, he said that despite putting tobacco on the negative list, smuggling continues unabated. He claims that in the past, customs authorities were soft on cigarette smuggling but now have started making seizures.

The contraband supply line which starts from Bandar Abbas, in Iran, divides at Herat in Afghanistan. One route goes to Kabul, Jalalabad to Tokham in Pakistan and other goes to Kandhar, Spin Baldak to Chaman in Pakistan. The smugglers have built huge warehouses (or godowns) at key locations along the border.

## Kharkhano Market in Peshawar

Karkhano, the main *bara* market and the nerve centre of contraband trade, is situated in the western outskirts of Peshawar. Most foreign brand cigarettes are sold in Karkhano market. No exact estimates are available for the total volume of trade. Local businessmen involved in the trade said that two to three 20-foot containers of cigarettes arrive at this market every month.

### Box 1 Cartons, master cases and sticks

Each 20-foot container can carry around 700 master cases of 10,000 cigarette sticks (in total around 7 million sticks) while a 40-foot container can carry 1,000 master cases each of 1,000 cigarettes sticks, amounting to a total of 10 million sticks.

A carton normally contains 50 boxes of 10 packs of cigarettes while the small carton carries 25 boxes of 10 packs.

More than 80% of the consignments arrive from Bandar Abbas, in Iran, via Herat-Afghanistan, while a limited quantity reaches Kabul, in Afghanistan, by air from Dubai – the airfare from Dubai to Kabul being more costly. From Herat, the cigarettes are transported to Kabul and Jalalabad for onward distribution inside Afghanistan and across the border into Pakistan. There is no restriction on the transportation of cigarettes inside Afghanistan as importers claim they pay regular duties to the Afghan government. The actual amount

paid in duty to the Afghan government could not be ascertained: Afghan traders in Karkhano market were reluctant to disclose any details.

While Afghan traders retain a certain quantity of imported cigarettes in Afghanistan for local consumption, the remainder is smuggled into Pakistan through unfrequented routes along the Durand Line. However, the exact proportions of smuggled and legally retained cigarettes is unknown, again due to the reluctance of Afghan importers to impart this information.

### Smuggling Routes

From Herat, consignments are transported to Jalalabad, in Afghanistan, about 70 kilometers from the Torkham border with Pakistan. The consignments are brought to Dakka, a small town some 10 kilometers



Figure 16. The container that is used in the smuggling

west of Torkham on the border with Pakistan, where the cigarettes are stored in warehouses. From Dakka, specific quantities are transported along the route of the Kabul river via a rough track up to Loe Shalman - a Pakistani border town. From Loe Shalman, the goods are either moved to warehouses in Landi Kotal or sent directly to Peshawar, depending upon the demand for cigarettes, or await “clearance” for the Peshawar-Landi Kotal road. “Clearance” here implies deals with *Khasadar* (tribal policemen) and Frontier Constabulary personnel manning the various checkpoints along the 35 kilometer road up to Peshawar. Deliveries may be delayed due to the vigilance of security forces of *khasadar* personnel posted along the border. Pickup vans, trucks, passenger vans and buses are employed in the transport operation.

**Table 3 Major smuggling routes from Afghanistan to Pakistan**

Number	Route
1	Jalalabad-Narang-Asad Abad- Ngray-Border-Dir
2	Konar -Narang-Broder-Peshawar
3	Jalalabad-Torkham-Border-Landi KotalPeshawar
4	Kohistan (north of Kabul)-Mehmood-e-Raqi-Sarobay-Nesarak border-Parachinar-Peshawar

5	Sad (South of Kabul)- Baraki-Khoshi-border -Parachinar-Peshawar
6	Logar province-Kotgai border with Paktia-Wana-Peshawar
7	Baghlan-Bamyan-Mardan-Wardak-Ghazni-Skaran-Urgun-Bama-border with Paktia-Wana-Peshawar
8	Mogur (consider less important)-Khosmora-Gamal-border - Asan Warsak-Jandola-Dera Ismail Khan
9	Kandhar -Chaman-Quetta
10	Mogur-Khosmara-Wazakhwa-border-Quamaradin-Karez-Badyini-Quetta
11	Sharebafa-Arghastan border -Quetta

The cost of transportation from Jalalabad to Peshawar ranges between PKR 150 to 350 per carton. Carriers are no longer required to pay “passage fees” to any militant organisations as the entire route is now jointly manned by Frontier Constabulary, levies and *khasadar* personnel. However, until a year ago the carriers used another route from Jalalabad to Bara. The route was lengthy, costly and risky as carriers had to rely on different modes of transport involving mules, horses and camels, carriers with backpacks, pick ups and trucks. Carriers had to pay substantial sums to local militants and tribesmen residing along the route from Bazaar-Zakhakhel to Bara. The banned militant organisation Lashkar-i-Islam was the main beneficiary as they levied illegal taxes on both importers and carriers and also required cigarettes traders to use their vehicles for transportation.

From Peshawar, illegally imported cigarettes are transported to various parts of Pakistan such as Rawalpindi, Lahore and Karachi. Cigarette dealers at Karkhano market strike deals with buyers from the Punjab either at Peshawar or Rawalpindi prior to goods being transported by human carriers to various cities. However, they did not rule out the possibility of mixing counterfeit brands with smuggled cigarettes when shifted to the Punjab.

Dealers in Karkhano market said that their profit margin is very small compared to the big importers. They claim that Afghan importers pocket most of the profit. Dealers in Karkhano market said that Fine and Dunhill are the brands most in demand. They refuted allegations of counterfeiting of these brands, adding that fake products could easily be detected. They did admit that some traders attempt to mix counterfeit with original cigarettes, yet fail to deceive buyers.



**Box-2**

**Name: Zaman Khan (name changed) Age: 45**

“I have been involved in the cigarette business since 2001. Although it is not as profitable as smuggling tires, electronic goods or edible oil, I can still earn a profit of PKR 100,000 (US\$ 1,176) from a single consignment. The business is flourishing as the transportation system is improving. Cigarettes come from Dubai to Afghanistan and from there to the Torkham border, and to Peshawar in an open truck or in a container.

There are no more threats of militants on the route. The only money we pay is to middlemen/agents to carry the contraband. There is big market for Benson & Hedges, Dunhill, Mild 88 and 555 in Pakistan. Cigarettes carrying health warnings in Persian/Darri are supposedly meant for Afghanistan. This would imply that various brands that have health warnings in these languages were made only for markets in Afghanistan but are turning up in Pakistan. We do not get any brands from Russia, though we get Chinese cigarettes from Dubai via the sea.”

**Box-3**

**Name: Umar Gul (name changed) Age: 25**

He is running a business by the name of Haji Umar Cigarette Store, in Kabul Shopping Plaza “My family has been involved in this business since 1990. It is very profitable since we can save between PKR 1,20,000 to 2,00,000 from a single consignment. Cigarettes come from the UAE via Iran. ELM carries a health warning in Persian. Other brands like Benson & Hedges and Dunhill also sometimes carry health warnings in Persian. From Peshawar, bootleggers carry small quantities of cigarettes to Rawalpindi. A carrier charges PKR 300 per carton excluding travelling expenses.”

## Chaman Route

“What is euphemistically called the Afghan Transit Trade (ATT) has become the biggest smuggling racket in the world and has enmeshed the Taliban with Pakistani smugglers, transporters, drug barons, bureaucrats, politicians and police and army officers. This trade became the main source of official income for the Taliban, even as it undermined the economies of neighbouring states”.<sup>19</sup>

“The border post between Chaman in Balochistan province (of Pakistan) and Spin Baldak in Afghanistan is a prime location for watching the racket at work. On a good day, some 300 trucks pass through this check post. Truck drivers, Pakistani customs officials and Taliban mix in a casual, friendly way guzzling down endless cups of tea, as long lines of trucks wait to cross the border. Everybody seems to know everybody else as drivers tell stories which would make the World Trade Organisations’s hair stand on end. Many of the huge Mercedes and Bedford trucks are stolen and



**Figure 17. Containers parked at Chaman Border with Afghanistan**

have false number plates. The goods they carry have no invoices. The drivers may cross up to six international borders on false driving licenses and without route permits or passports. The consignments range from Japanese camcorders to English underwear and Earl Grey tea, Chinese silk to American computer parts, Afghan heroine to Pakistani wheat and sugar, east European Kalashnikovs to Iranian Petroleum – and nobody pays customs duties or sales tax”.<sup>20</sup>

The situation has not remotely changed, even today. According to a local journalist, it is a free-for-all at the Chaman border. The only decision a local smuggler has to make before ordering a consignment is whether it should reach Afghanistan via the port of Karachi or go via the Iranian port, as getting a container opened in Karachi is more cost-effective.

A local journalist who has talked to many locals involved in the informal trade says that two to three 40-foot containers cross the border into Pakistan every day. A 40-foot container has the capacity to carry around 10 million cigarette sticks.

Raza Khan, whose family has stakes in the cloth business says that it is mainly the agents or carriers who are paid the money and they can deliver the goods anywhere in Pakistan. They have a highly elaborate set up which includes commissions for law enforcement agencies.<sup>21</sup>

#### **Box-4**

##### **American brand via Dubai to Pakistan**

The family of Abdul Shakoor, aged 19, has been in the cigarette trade for over a decade. They have an agency for Texas 5, an American brand, and their dealers also operate in the major cities of Rawalpindi and Karachi. He says that his brother is still in Dubai, from where he sends him the container. He says that the container is generally sent via Bandar Abbas port to the Chaman border. The containers are of two sizes: 20 feet and 40 feet. There are no border checks, as is also the case when sending goods down country.

#### **Counterfeit Cigarettes**

There are no precise estimates of the extent of counterfeiting but media reports say that counterfeit cigarettes are being manufactured at more than 20 locations in the cities of Swabi, Mardan and Nowshera in NWFP, in Chakwal, Bahawalnagar, Sargodha, Okara and other areas of Punjab province, as well as in Pakistan-controlled Kashmir. Approximately 12 factories have been functioning in Pakistan controlled Kashmir alone.<sup>22</sup> Sources in the market say that similar kinds of household industries also exist in Karkhano Bazar and Shah Alam market in Lahore city and in Quetta.

A survey of Shah Alam market revealed that more than 30 illegitimate brands are on sale. Located in northern Pakistan, it is the largest wholesale market feeding most of the smaller bazars in the region. Gold Leaf (BAT brand), Marven Gold (emulating PMI's Morven Gold), Red and White (PMI brand) are some of the common counterfeit brands.

Counterfeit cigarette factories are concentrated in those areas of the NWFP, where most of Pakistan's fine quality tobacco is cultivated. Two international cigarette giants - British American Tobacco and Phillip Morris - also have a presence through their local factories of Pakistan Tobacco Corporation, in Akora Khattak area, and Lakson Tobacco, in Ismailia, respectively.<sup>23</sup>

Reportedly, the tobacco companies also influence the regulation of supply and demand in their favour. "The overproduction of tobacco, systematically promoted by tobacco companies, leads to competition among growers. The growers with small land holdings get sidelined and are forced to sell their crop at lower prices either to those involved in producing counterfeit cigarettes or to manufacturers of other products like chewing tobacco (naswar) and hand-rolled cigarettes".<sup>24</sup>

Prices of tobacco leaf are determined each year by the Pakistan Tobacco Board (PTB), a body controlled by the federal ministry of commerce. Farmers have raised serious objections to the ways PTB handles issues

related to the tobacco crop. In a formal letter to the federal minister, Anjuman-e- Kashtkaran Tobacco (the growers body) in NWFP, accused the PTB of favouring the tobacco companies while fixing prices and dealing with other matters.

### Transportation of Cigarettes from up country to down country

Once cigarette enter Pakistan by means of container traffic at ports or trucks across land borders, bootleggers carry them in smaller quantities to a variety of different cities. Large godowns are situated close to bus stations in major cities such as Rawalpindi and Lahore where counterfeit and smuggled cigarettes are stored. Special compartments are made in the back seats of buses to conceal the contraband. Both men and women are recruited as carriers.



Figure 18. Bus rooftops are also used to transport smuggled goods. In picture one can see smuggled tires but not the cigarettes

Bakhat Bibi, 50, a resident of the Afghan Colony in Peshawar city, has been transporting cigarettes along with other items like cosmetics and edible oil from Peshawar to Rawalpindi since 2003. She says she earns around PKR 600 per trip.

### Illicit Tobacco Trade Funding Militancy

There is a big question mark alongside whether the proceeds from cigarette smuggling are funding terrorism in Pakistan. Tobacco retailers appear to know little about this. They are content that their activities are facilitated by middlemen who ensure safe and timely delivery of goods at an agreed location. Middlemen bear the responsibility for bribing customs officials or any mafia that may come in the way of transportation. Tanvir Qureshi, a member of the customs, anticipates that fees for protection and passage reach militants who control the smuggling routes.



Figure 19. Religious community generally consider smoking an unwanted activity but not its smuggling

Federally Administered Tribal Areas are crucial to this entire network. The semi-independent Federally Administered Tribal Area (FATA), which currently occupies centre stage in the war on terror, is strategically located between the Pakistan-Afghanistan border and the settled areas of the NWFP. The GOP controls the area through a combination of political agents and tribal elders.

FATA has seven administrative units, referred to as agencies, Khyber, Bajor, Mohmand, Orakzai, Khuram, North Waziristan and South Waziristan, which share their borders with Afghanistan. There are numerous passes that cross these areas into Afghanistan. The Al-Qaeda backed Tehrik -e-Taliban Pakistan has its bases in FATA. At present a full-fledged army operation is going on in the area to uproot terrorists organisations.

The Torkham-Peshawar route in Khyber agency was reportedly controlled by the banned militant organisation Lashkar-e-Islami's Mangal Bagh, which charged a passage fee for goods passing through its territory. Now the route is controlled by law enforcement agencies. But protection money also needs to be paid to a local warlord along the Spin Baldak-Chaman route.

UNODC estimates that the Taliban armed opposition group has generated annual revenue of between US\$200 million and 300 million via a "surcharge" levied on the illicit drug trade. "In April 1995, the witnesses I spoke to in Quetta said that the Taliban collected PKR 6 million (US\$130,000) from transporters in Chaman in a single day and twice that amount in Quetta the next day as they prepared for an attack on Herat."<sup>25</sup>

"Alongside the drugs trade, the traditional Afghan smuggling trade through Pakistan and now the gulf state, expanded under the Taliban, created havoc for neighbouring states. This trade was estimated to be the largest source of official revenue for the Taliban and generated an estimated US\$3 billion annually for the Afghan economy. UNDP disclosed that customs officials in Kandhar, Kabul and Herat refused to disclose their daily earnings, but with some 300 trucks a day passing through Kandahar on their way to Iran and Central Asia via Herat and another 200 trucks from Jalalabad and Kabul to the North, daily earnings were considerable".<sup>26</sup>

Besides terrorism, cigarette smuggling also nurtures the black market economy in Pakistan. It is estimated that the underground economy ranged between Rs 2.91 trillion and Rs 3.34 trillion (equivalent to between 54.6% and 62.8% of GDP respectively) in 2005.<sup>27</sup>

"Illegal activities such as smuggling, corruption, black marketing, narcotics, informal legal jobs etc., constitute the underground economy. These activities are not in the tax net and have significant negative impact on the social welfare of the country. Almost all the transactions made in the underground economy are through cash..."<sup>28</sup>



**Figure 20. A moneychanger who also deals in money laundering**

The ATT is based on the Hundi (Hawala) system. This system bypasses that banking channels; international transactions are made by paying money in local currency and the equivalent in foreign currency is paid over in the recipient's country.

## Role of Tobacco Industry

There are over 50 licensed cigarette manufacturers in Pakistan but the two largest companies –Pakistan Tobacco Company (BAT) and Lakson Tobacco Company (PMI) - have the major share of the country's cigarette market. Of a total of 78 billion sticks produced in Pakistan in 2008, these two companies produced almost 80%, i.e. 63 billion.

These companies are cleverly exploiting unbridled smuggling and the counterfeit market only by crying foul. So far they have not launched any campaign to discourage tobacco smuggling or create awareness about counterfeit cigarettes that can be anticipated to affect their market share. In some ways, these illegal activities must be proving beneficial to the companies in terms of them promoting their own brands and inducing demand for cigarettes among various income groups which they could eventually capitalise upon.

Levels of production, and profits, of these companies are both on the increase. And Pakistani law allows foreign companies to retrieve their investments along with their profits. In 2007, Phillip Morris increased its share in its local affiliate Lakson Tobacco from 48% to 98%.

These companies have not only hired the services of professional lobbyists to influence policy reforms but also have retained retired, influential army officers and civilian bureaucrats as members of their Boards of Directors. PTC has engaged as a non-working director Lt General (RE) Ali Kuli Khan, who was once tipped as army chief but was superseded by General Musharraf in 1998. Also, Mueen Afzal, a distinguished bureaucrat who served General Musharraf as Secretary General Finance.<sup>29</sup>

Both Phillip Morris and BAT have a history of involvement in smuggling internationally. Their role in cigarette smuggling in Pakistan therefore needs to be examined.

## **Implications of this Study on a Protocol to curb the Illicit Tobacco Trade**

The information compiled in this study has implications for specific articles in the draft “Protocol on Illicit Trade in Tobacco Products”. This includes:

1. Article 4, which concerns controlling and regulating the supply chain of tobacco and taking appropriate measures to increase the effectiveness of customs, police and other relevant regulatory agencies.
2. Article 5 and 6, regarding ‘License or Equivalent approval system’ & ‘Customer identification and verification’, that requires commercial import/export or wholesaling, brokering, warehousing or distribution of tobacco products or manufacturing equipment to be licensed, with due diligence conducted by businesses.
3. Article 7, ‘Tracking and tracing’, that calls for securing the supply chain and establishment of a global tracking and tracing system to assist in the investigation of illicit trade in tobacco products.
4. Article 9, regarding adoption and implementation of effective legislative, executive, administrative or other measures that persons involved in commercial trade and sale should take care to prevent the diversion of tobacco products into illicit trade channels.

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