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# BUSINESS RECORDER

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## Cigarette makers cut prices of some brands

**ABDUL RASHEED AZAD**

**ISLAMABAD:** The cigarette manufacturers have drastically reduced prices of some brands despite upward revision in federal excise duty on all brands in the budget (2010-2011) expected to generate an additional amount of over Rs 16 billion from companies operating within the documented sector.

In the past, the incidence of excise duty on the most expensive brands consumed by the rich and upper middle income groups was comparatively lower as compared to brands consumed by middle class. However, the Federal Board of Revenue (FBR) has raised excise duty on all brands of cigarettes in the last budget. Despite increase in excise duty, its incidence on the more expensive brands is still comparatively lower.

The FBR has not raised customs duty on the import of un-manufactured tobacco and 5 percent minimum duty is

still applicable on the import of raw tobacco.

A survey carried out by Business Recorder revealed that the current increase in taxes on cigarette manufacturing have had no significant impact on the price of different cigarette brands as most of the brands are being sold at old prices.

However a market survey revealed that Pakistan Tobacco Company, one of the leading cigarette manufacturing companies in Pakistan, has reduced the price of "Capstan" per pack from Rs 43 to Rs 27. Similarly the price of "Red & White" a product of Lakson Tobacco Company is reduced from Rs 40 to Rs 28. The reason is two fold. First, these companies are manufacturing their own filter rods instead of importing them, on which a duty was imposed in budget 2010-11. And second many companies re-launch a brand with slight modification in the quality of tobacco thereby reducing the cost of manufacture.

Rahim Shah an official of Pakistan Tobacco Company, when contacted confirmed that the company has re-launched the old brand of Capstan without changing its quality or taste. Responding to a query, he also confirmed that the company is manufacturing its own filter rods and the current tax imposed on cigarette rods would have no impact on his company's products.

Raja Waseem Khan, a cigarette trader in Rawalpindi talking to BR said that the reduction in some brands of cigarette manufactured like Capstan is a move to capture the market of leading cigarette brands such as Gold Flake, Morven Gold and Red & White.

He said that the price of high quality cigarette brands such as Dunhill, Marlboro, Benson & Hedges, and Gold Leaf have not increased by much compared to the low quality brands like Embassy, Gold Street etc.

The customs officials are responsible

for clearance at the ports of entry and borders, including Pak-Afghan and Pak-Iran borders. The inability to control the influx of smuggled stocks results in huge annual losses, Shafqat Mehbob a cigarette trader stated.

According to tax incidence, presently the tax rate on most popular brands in Pakistan, i.e Morven Gold and Gold Flake is around 56 percent, which is well below the regional and international standards. To rationalise the tax incidence on various brands and to make the tax incidence on cigarette industry in Pakistan compatible to world standards, the FBR has upward revised excise duty structure on cigarettes.

As per new structure, excise duty would be sixty five percent of the retail price on locally produced cigarettes, if their retail price exceeds nineteen rupees and fifty paise per ten cigarettes. The FBR has also restricted the cigarette manufacturers from revising the prices of cigarettes downwards after the

announcement of Budget 2010-11. The FBR has estimated to collect an amount of Rs 13 billion from upward revision in the excise duty on cigarettes.

Two leading companies have their indigenous manufacturing facility of filter rods whereas the needs of other registered and unregistered cigarette manufacturers are being catered by two companies. These two registered filter rod manufacturers produced 2614 million filter rods in 2008-09 out of which 1200 million filter rods were supplied to unregistered persons, which are presumed to be utilised in manufacturing of non-duty paid cigarettes in the country.

In order to tap revenue from manufacture of cigarettes by unregistered manufacturers, therefore, a levy of federal excise duty @ Rs 1 per filter rod (52mm to 132mm in length) has been imposed, which will be adjustable by registered users. The FBR has estimated to collect Rs 3 billion from this measure, sources added.