

# PAKISTAN TOBACCO COMPANY

GROWING A BRIGHT FUTURE



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*Asim Imdad Ali, head of Corporate and Regulatory Affairs at Pakistan Tobacco Company, talks to Gay Sutton about corporate social initiatives to improve welfare in rural tobacco-growing communities, and the threats posed by illicit trade*





Tobacco is a major contributor to Pakistan's economy

**P**akistan Tobacco Company (PTC) has been consistently recognized as one of the best governed industrial companies in Pakistan and has played an important role in the country's economy. Formed in October 1947 out of the old Imperial Tobacco Company of India, PTC was incorporated immediately after partition, and is the oldest multinational company operating in the country. Since that date, it has grown alongside Pakistan, making significant contributions not only to the economy in the form of billions of rupees in taxation but also to developing talent in the corporate sector; and to national development through its extensive work in improving sustainable agriculture in Pakistan.

The company is part of the global tobacco company BAT (British American Tobacco) and produces around 40 billion cigarettes a year. Enjoying around a 50 per cent share of the legitimate cigarette market, its products are the traditional BAT brands and fall into three value streams. Dunhill and Benson & Hedges are the premium brands; Gold Leaf, which is one of the most well-known brands in South Asia, is aimed at the middle income market; while Pall Mall, Gold Flake and Embassy fall in the value-for-money category.

Directly employing around 1,000 people in management and manufacturing, the company is also responsible for creating full

time employment for over 25,000 farmers and thousands of people across the 200 sales and distribution companies associated with it. It also helps to provide livelihood support for over 800,000 retailers around the country. The company is thus a major contributor to the national economy.

Last year, PTC contributed nearly 40 billion rupees in excise revenue, which was nearly one third of the total excise revenue generated by the government of Pakistan. "Last year, our sales volume grew by two to three per cent, which was basically driven by the growing purchasing power of consumers. It was also a result of existing smokers switching from traditional non-tobacco products to cigarettes," explains Asim Imdad Ali, head of Corporate and Regulatory Affairs at PTC.

Cigarette production takes place at two factories. One plant is located in Punjab province, where around 20 per cent of the tobacco crop in Pakistan is grown. However, the primary plant, along with a leaf threshing plant, is located in the Khyber Pakhtunkhwa province (KPK), where nearly three quarters of the tobacco is grown. "In these areas of the country, tobacco farming is of fundamental importance to the regional economy. In the last few years this economic importance of tobacco crop has grown even further as these regions in KPK were adversely affected due to the fallout of the defence operations undertaken to fight

**1,000**

Number of people employed by PTC in management and manufacturing



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the war on terror,” says Ali.

One would expect that the security issues arising from the war on terror would present the greatest operational challenges to PTC; but interestingly, the greatest threat that the business faces comes from the widespread prevalence of illicit trade. “The fundamental challenge that we face day in and day out in

the marketplace is the easy availability of cheap tax-avoided cigarettes,” Ali continues. “Nearly one out of every five cigarettes sold in Pakistan is duty-evaded (local or smuggled), which is one of the highest figures in the world. Globally, the majority of illicit trade is in smuggled goods. Here, it’s in local non-duty-paid goods that form more than 90 per cent of the illicit sector. And this makes it hard for us to increase prices. As soon as we try to increase prices, volumes fall off as consumers switch to cheaper alternatives in the form of easily affordable illicit products.”

The government has introduced a robust regulatory framework to govern everything. The law regulates availability of raw materials (including tobacco and filter rods), and also cigarette paper purchases. “But it’s the lack of enforcement of this legal framework that is the real issue,” says Ali. “We’re looking forward to the day when these regulations are actually enforced on the ground, to create a level playing field for us to operate in.”

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Dried tobacco

When that happens, the government will have a double victory. First, it will increase its revenue base as net tax is spread across the board and no evasion takes place. Secondly, legitimate manufacturers, who also benefit from price increases, will have the ability to make cigarettes more expensive and the government will have more power to control the growth in cigarette sales and thus meet its regulatory objectives. “Without controlling illicit trade, the government can meet neither its fiscal nor its regulatory objectives,” says Ali.

The lack of law enforcement is also undermining the government’s programme to address public health concerns over smoking. PTC was the first company in Pakistan to comply with legislation to incorporate a pictorial health warning on all its cigarette packaging, but this law was not implemented across the board, as a result of which consumers started to migrate to products that did not comply. There has been a sharp increase in sales of smuggled cigarette packs without a pictorial health warning after its introduction in 2010, so instead of quitting



Factory interior

“GLOBALLY, THE MAJORITY OF ILLICIT TRADE IS IN SMUGGLED GOODS. HERE, IT’S IN LOCAL NON-DUTY-PAID GOODS”

smoking, consumers are simply switching to the smuggled cigarettes that do not display the pictorial health warning.

Legislation is, however, successful in protecting Pakistan’s tobacco-growing farmers. The laws framed by the Pakistan Tobacco Board (PTB) require all cigarette manufacturers to declare and announce their tobacco crop requirements for the following year. The purpose is to inform and guide the tobacco farmers about the required quantities of crop. PTB also sets the minimum price of tobacco each year. A unique protection mechanism incorporated in the law for the benefit of farmers is that the crop prices are not to be lower than that of the previous year. Finally, if there is to be any excess crop, the tobacco companies are obliged to purchase it in proportion to their announced requirements. All these laws protect the farmers.

“As farmers are our valued business partners, we always work to ensure that their welfare and interests are properly looked after so that we remain their preferred choice,” says Ali. PTC has a very successful track record of working with its farmers. This is not restricted only to tobacco farming but also involves ensuring sustainable agriculture practices and increasing the efficiency of their farming methods. “Our Leaf function works with the farmers in what we call the Extension Programme,” Ali explains. Through a network of 26 farming schools the company provides training and support in subjects as diverse as soil testing and the safe use of pesticides and fertilisers through to farm management. “Tobacco is one crop in Pakistan that has yield per hectare which is 14 per cent higher than international standards. This method of vertical growth means that crop volume is increased without



Pakistan Tobacco Company nursery for afforestation



Factory site

much increase in cropped area.”

As tobacco growing is seasonal, these improvements in efficiency, sustainability and management are useful throughout the farmers’ businesses and are applied to other crops. So successful has this initiative been that the relevant government agencies replicate sustainable agriculture practices introduced by PTC across other agricultural crops.

Beyond such operational issues, PTC has consistently worked to improve the welfare of the farming communities. “We decide all our CSR activities in direct response to local needs,” Ali explains. “So we sit down with the local communities and discuss their problems.”

The overriding concern is that because of the geography of the country, many of the farming communities don’t have access to basic healthcare facilities. PTC is addressing this issue by running a mobile doctor service which is free to everyone in the community. “We have nine doctors including two female doctors, who take free medicine and healthcare out into the communities in the Punjab and KPK provinces.”

The second issue that PTC has been working to alleviate is the lack of clean drinking water. And this has been something

of a learning experience. “Originally we set up water filtration plants in some of the communities, but the sustainability of these became an issue because they required maintenance and investment to keep them running,” Ali explains. “We’ve now come up with a better solution. Instead of installing one filtration plant per community, we’ve begun setting up, say, 10 hand pumps to extract clean drinking water from the ground. There’s no machinery involved

and no maintenance issues for these communities.” The first pilot scheme is in operation in Thatta near Karachi, and the plan is to identify a partner to execute the project and roll it out to other areas.

In common with all BAT companies, PTC is continuously improving its environmental performance, and has won group-wide awards for its environmental and health & safety projects, including recycling water, reducing power consumption in the manufacturing plants and recycling materials across the entire supply chain. At the moment the focus is on better sustainability throughout the supply chain.

Perhaps the most visible environmental achievement is the long-running PTC Afforestation Programme. “We started this in 1981, and have planted more than 57

million saplings around the country,” says Ali. As part of this programme the company began a big project nearly three years ago to plant 600,000 trees along the entire 157 kilometre length of the motorway from Islamabad to Peshawar in KPK province. “The motorway is an ideal location for this project because the land is completely enclosed. So once planted, the saplings won’t be damaged by animals, people or traffic.” If all goes according to plan, the work will be completed in September this year and the project handed over to the National Highways Authority. **BE**

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For more information about Pakistan Tobacco Company visit: [www.ptc.com.pk](http://www.ptc.com.pk)



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COMPANY

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