FWU Journal of Social Sciences, Spring 2021, Vol.15, No.1, 11-25

DOI: http://doi.org/10.51709/19951272/spring2021/15-2

Tobacco Revenue and Political Economy of Khyber Pakhtunkhwa

Jamshaid Iqbal and Abdul Rauf
University of Peshawar

The tendencies of centralization of power in Pakistan since independence led to many constitutional and political controversies. It culminated in the shape of seceding of one part (East Pakistan) in 1971. It was hoped to get a lesson from this great tragedy but in vain. In the post-1971 period, the case of KP in respect of its grievances against the center on the subject of tobacco and revenue generated from the associated industry is a glaring example. In 2010, an attempt was made in the 18th amendment to re-regulate the center-province relations. However, keeping in view the control of the federal government over Pakistan Tobacco Board and tobacco revenue not only a bone of contention between the province and center rather it also questions the claim of ensuring provincial autonomy in the 18th amendments. Tobacco has the potential to transform the rural economy by creating huge opportunities for employment, revenue for the national exchequer, and earnings for the local concerned people. Tobacco contributes more than half of federal excise duty (FED) to the national exchequer. This paper examines the taxation system of tobacco, its division, and utilization issues and an attempt to discuss comparatively the steps taken about resources distribution among the federating units and its outcomes. In-depth interviews and focused group discussions with the concerned policymakers, farmers, politicians and political workers and stakeholders of the targeted area remained the main sources of data collection.

Keywords: Center-Province Relations, Provincial autonomy, Resources distribution, KP grievances, Tobacco revenue, Tobacco Cess.

Khyber Pakhtunkhwa (KP) is the 3rd province contributing to the economy of Pakistan in respect of its share to GDP. It is also the third most populated province with 17.9 percent as compared to Punjab, Sindh, and Baluchistan. According to a World Bank report, it is the poorest province of Pakistan with Rs. 7709 per month household income in 2011-12 while Sindh as Rs. 8746, Punjab Rs 8541, and Baluchistan as Rs. 9439 (World Bank, 2013). The province has vast potential for economic development in the areas of agriculture, livestock, tourism, fisheries, hydel power, oil and gas, mines, and minerals. The main crops of the KP are wheat, rice, maize, tobacco, barley, gram,

---

Correspondence concerning this article should be addressed to Mr. Jamshaid Iqbal, Ph. D Scholar, Department of Political Science, University of Peshawar

Contribution of Authors:

1. Jamshaid Iqbal: has contributed to research conceptualization, acquisition and data analysis, draft and realized the idea of paper.
2. Dr. Abdul Rauf: has worked on methodology and guided to improve the paper.

sugarcane, sugar beet millet, every type of vegetables and fruits. KP is producing 95 % of cigarette type and 75% of snuff tobacco of the country. Districts Swabi, Mardan. Charsadda, Buner and Mansehra are the key producers of high-quality tobacco products (Nayab et al., 2018). KP economy depends upon federal receipts in conventional and nonconventional means, like National Finance Award and specific grants for different projects. In the financial year 2016-17, KP received Rs. 380 billion. Total Provincial receipts include general revenue, capital receipts, and development projects including foreign-sponsored projects. The General Revenue of the Province consists of the transfer of receipts from the federal government and of their own income. In the Fiscal year, 2016-17 receipts from General Revenue were fixed Rs. 431 billion (Ikram et al., 2014). Transfer of resources from the Federal government also consists of share taxes from divisible pool. According to the NFC formula, straight transfers, different types of grants like the war on terror and net hydel profit including arrears, Crude oil and Gas royalties which constitute the base of KP economy remained about 381 billion in the financial year 2016-17 as anticipated to come from the federal government (Budget White Paper, 2016-17). Detail can be seen in Table No. 1.

Table 1

Different Revenue Allocated for KP

Particulars	**BE 2016-17** (Rs. in million)
Tax Assignment (Federal)	293,694.328
Taxes on Income	125,500.729
Custom Duties	33,548.830
Sales Tax	118,195.761
Capital Value Tax (CVT)	189.255
Federal Excise	16,259.753
1% for War on Terror from divisible Pool	35,289.471
Straight Transfers	17,199.980
Crude Oil royalty	6,270.138
Natural Gas royalty	5,811.155
Gas Development Surcharge	3202.787
Excise Duty on Natural Gas	1,915.900
Other Federal Transfers / Grants	34,004.000
Total Federal Transfers	380,187.779

Source: KP Budget White Paper, 2016-17

The constitution of 1973, Article 160 has anticipated setting up a commission with the name of National Finance Commission (NFC)[1] and convened regularly to divide the resources between the center and provinces (Ashraf, 2016).

The Seventh NFC award held on March 18th, 2010 provided that the central government reduces its collection charges from five to one percent. Shares of the provinces increased from 49 percent to 56 percent. Multiple criterion formula was introduced for the first time. Accordingly, the population was given 82 percent weightage, 10.3 percent poverty and backwardness, 5 percent revenue production and collection, and 2.7 percent diverse population. The federal government gives an additional grant to KP in the head of the War on Terror which increased about 35 billion in the province's revenue (LSE, 2015). The Khyber Pakhtunkhwa tax income was Rs. 12.6 billion in the year 2013-14, which was 0.47 percent of provincial GDP (PGDP). In contrast, the tax income ratio to provincial GDP of Punjab was 0.8 percent, Sindh 1.31 percent, and Baluchistan as 0.16 percent. The main sources of tariff revenue for Khyber Pakhtunkhwa in 2014 were: Income of land, (Rs 1.3 million), General Sales Tax on services, (8,000 million), Stamp duty (670 million rupees), Motor and Vehicle Tax (Rs 1075 million), and electricity duty (Rs. 5.0 million). Khyber Pakhtunkhwa government has started to collect sales tax over provincial level services (Nabi et al., 2015).

The endowment/special grant and Zila Tax (one-sixth of sales tax) were abolished in Sindh. One percent of the divisible pool on the account of the war on terror was allocated for KP in the 7th NFC Award. For KP Share in the divisible pool according to the 7th NFC Award as;

Table2

Expected Revenue of Provinces in percentage

Province	% Share based on the 6th NFC Award	Share in % based on 7th NFC Award			
		Horizontal share	1% for War on Terror	Grant for Compensation on	Total % Share
Punjab	53.20	51.74	-	-	51.74
Sindh	24.96	24.55	-	0.66%	25.21*
Khyber Pakhtunkhwa	14.78	14.62	1.80%	-	16.42**
Baluchistan	7.05	09.09	-	-	9.09
Total	100	100			100

Source: Report on NFC Awards, 2011

*Grant-in-Aid Sindh, equivalent to 0.66% of the net Provincial Divisible Pool as compensation for losses on account of abolition of Zilla Tax.

**The grant for the war on terror is 1% of the total divisible pool, which is equivalent to 1.8% of the provincial share in the net proceeds of the provincial divisible pool.

[1] Responsibilities of the commission include; a. President has the power to divide the resources between the provinces and the federal government according to the procedure provided in clause; b. to provide timely assistance to the provinces; c.to formulate agreements between the federation and federating units; to solve other problems, referred by the president of Pakistan to NFC.

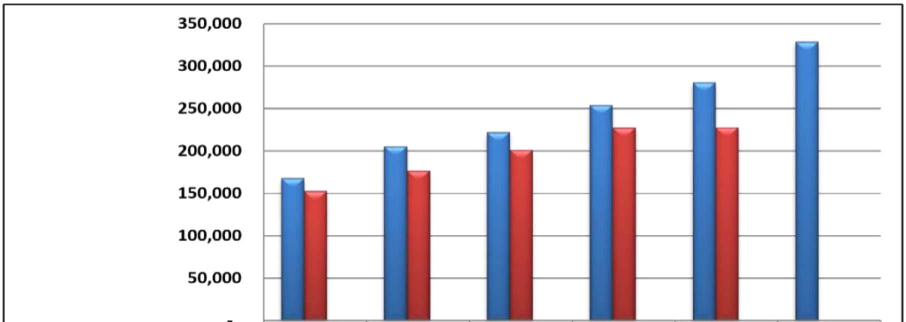
The 7th NFC Award will stay till the settlement and execution of the next Award. The offers of federating units in the divisible pool have been driven out. The matter though settled down but will always be a point of discussion among the federating units and between the center and federating units (Mustafa, 2011).

Historically, the real assets transferred to Khyber Pakhtunkhwa every year have been not as much as indicated in Budget estimates. The pattern in the course of the recent five years is given in table no. 3.

Table 3

Actual Funds transferred to the Provinces during FY, 2015-16

(Rs. in Million)



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Share of KP in Budget Estimates	168,010	205,756	222,093	254,411	281,039	328,984
Funds Transferred to KP	152,991	176,967	201,643	227,684	228,202	
% Shorfall	8.9	14.0	9.2	10.5	18.8	

Source: White Paper on KP Budget, 2015-16

Net Hydel Profit (NHP)[2]

There have been differences and issues over the measure of net hydel benefit (NHP), between the provincial and Federal governments. These issues were settled during the financial year 2009. The government agreed to respect the judgment of the Arbitration Tribunal and discharged Rs.10 billion on 16th of November 2009. The balance sum of Rs.100 billion was paid in four equivalent installments of Rs.25 billion per year up to June 2014. For the rest of the issues, a technical committee was formed to make proposals for the amount unpaid and other associated matters".[3] After detailed negotiations, the technical committee made several approvals that were well thought-out at the Finance Minister level on March 14, 2013.[4]

---

[2] Article 161(ii) of the Constitution gives the provision for net earnings by the Federal Government, or any office set up or regulated by the national government, from power generation at a hydro-electric station to the Province in which the station is located.

[3] The KP Government took the following stance about NHP before the technical committee: i) KP government will not go to accept reopening of matters before decided till now. ii) Any reimbursement essentially follows the parameters of the NFC Award. iii)The estimate of NHP will be in accord with indexation or KCM plan of 10 percent per year.

[4] The approvals were as below:

i. "Net Hydel Profit from 2005-06 and forward (original plus Markup): -The committee approved that a sum of Rs.45 billion is paid to the KP, assuming changed NHP rates at Ps.60 per KWh for 2005-06, Ps.70 for 2006-07 and 2007-08, Ps.80 for 2008-09 and 2009-10 and Ps. 90 for 2010-11 and 2011-12.

ii. Opening of current NHP: -Federal Government fixed that the rate of NHP shall be Rs.1.10 per kWh to be approved that from the fiscal year 2015-16 with an increase of 5 percent per year.

The Government of PTI (2013-18) in KP has been seriously involved in deciding the issue of Net Hydel Profit according to the above approvals and therefore, on February 25, 2016, a memorandum of understanding (MOU) was signed between Provincial Government and Federal Government. The MOU was also endorsed by the Council of Common Interest (CCI) on 29th February 2016.[5] Subsequently, the Federal Government issued a notification regarding the uncapping of NHP on March 7, 2016. Now NHP is allocated to the KP Government at the reviewed rates of Rs.1.10 /kWh.[6] (Budget White Paper 2016-19)

Gas and Oil Revenue;

Huge oil and gas reservoirs were discovered in the southern districts of Karak, Kohat, and Hangu. In May 2016, about 360,716 square km area was under observation for gas and oil throughout the country. About 32,018 km^2 area is in KP which produces 7% gas, while total gas consumption of KP is 10% of total national gas production (Nabi, 2017)

In the 7th NFC Award, KP Government gets 12.50% revenue of the wellhead value on the capacity of Royalty on Oil, Gas, Development Surcharge on Gas and Excise Duty from discovering and production companies of Oil and Gas to the concerned provincial government. It is to be paid on monthly basis within the first 10 days as per "Rule 36(2) of the Pakistan Petroleum Exploration and Production Rules, 1986". After every 6 months, the Government of Pakistan determines the wellhead value. KP is the first Province which has established a Provincial Oil and Gas Company (KPOGCL) for the very first time in 2013 under the administrative control of the Energy & Power division to carry out fast "exploration and production of oil and gas."[7] Each province should be paid in each fiscal year as Article 161 (i) provided the distribution of development surcharge and Gas Royalty accordingly. Actual revenues receipt of last five years from the Federal Government since production on a commercial basis of gas and oil has started from the wells situated in KP is given to the province. For detail see Table 4.

Table 4

Actual Receipts from Federal Government on Account of Oil & Gas (Rs. in Million)

S. No	Year	Crude Oil Royalty	Gas Royalty	Gas Excise Duty	Dev. Surcharge of Gas	Total
1	2012-13	12,871.058	3,740.504	1,371.329	1,647.816	19,630.707

iii. The profit margin on the unpaid amount in NFC Award of Rs.110 billion till 2004-05: The Committee agreed that payment of Rs.56.59 billion be paid to Government of KP as profit margin in the capacity of NFC Award amount".

5 The important provisions of MOU are as below: -

a. Ministry of Water and Power will at once notify the uncapped NHP extracted and transmitted from the NEPRA.

b. After the settlement of mutual entitlements in the power sector, a total sum of Rs.70 billion has been settled upon on justification of arrears of unsealed NHP between the Federal and Provincial Governments as final settlement.

c. After looking for the agreement of CCI through the Ministry of Water and Power, Water and Power Development Authority (WAPDA) would file a writ appeal for recovery of the amount unpaid in four installments as follows (i). Rs.25 billion in the financial year 2015-16 and (ii) Rs.15 billion in the subsequent three each year.

6 Water and Power Development Authority (WAPDA) has guaranteed the issuance of the uncapped sum of NHP after approval from Central Power Purchasing Agency (CPPA). The KP Government is actively involved with WAPDA to execute this decision completely.

7 The Company is controlled by a complete autonomous KPOGCL Board with most of its members belonging to the private sector.

2	2013-14	19,755.081	4,451.267	1,383.967	5,754.628	31,344.943
3	2014-15	14,243.774	3,580.253	1,317.968	3,915.369	23,057.364
4	2015-16	8,133.576	4,641.877	1,807.120	4,790.920	19,373.493
5	2016-17	6270.138	5,811.155	1,915.900	3,202.787	17,199.980

Source: Petroleum Exploration and Production Policy 2012.

According to the rules specified in the "Petroleum Exploration and Production Policy 2012", the bonus on production is to be spent on the welfare of the society in the closest areas. The funds are consumed by the "Petroleum Social Development Committee (PSDC)" comprising the stakeholders of the concerned districts.

Allocation of Royalty to the districts

The KP Government has decided to allocate a 10 percent share to the district from where it is produced. Its utilization has also been approved by the then Provincial Cabinet headed by the chief minister of KP. Later, the KP Government revised the said procedure of a 10% share of the royalty of gas and oil.[8]

Provincial own Receipts

In the fiscal year, 2016-17 Provincial Revenue Receipts of KP are estimated as Rs. 49507.000 million, which include:

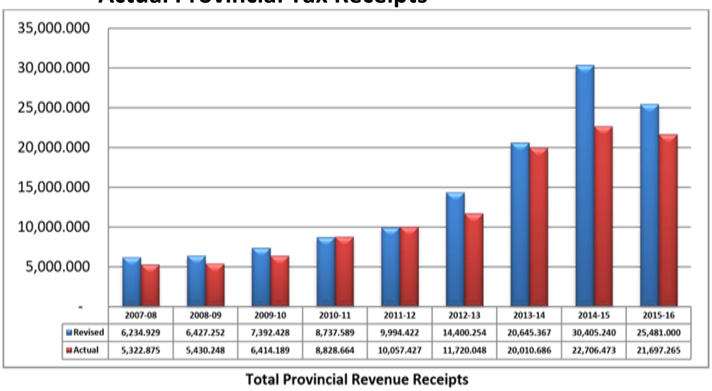
i. Tax revenues of Rs.18171.145 million which is (36.7 %) including Sales Tax on the Service, which is Rs. 10000.000 million, and

ii. Non-Tax revenues of Rs. 31335.855 million, which is (63.3%).

For more details see Figure 5.

Figure 5

Actual Provincial Tax Receipts



Source: KP budget White Paper, 2016-17

[8] Amended proposals ar; a. About one million worth developmental schemes will be financed from the Royalty Scheme; b. Ten percent out of total Royalty Scheme will be spent on Roads, construction of small Dams, water supply schemes, education, electricity, gas supply, technical education, health facilities and land purchase for educational institutes. (Petroleum and Gas Exploration Policy, 2012)

KP Tax Incomes

Taxes on property, land revenue, agriculture income, professional, calling, and trade are included indirect taxes. Indirect Taxes is a significant segment of taxation receipts including GST on Services, Vehicle Taxes, Provincial Excise, Stamp Duties, Electricity Duty and so on.

The greater part of the Provincial Tax Receipts gathered in FY 2015-16 demonstrate an upward pattern when compared with the previous years, even though the economy was seriously hit by the war on terror and weak tax base.

Foreign Remittances

Foreign remittances play a significant role in KP's economy and support thousands of families. These remittances help provide better education, health, and other day-to-day needs. According to the World Bank Report, 30% household in KP receives foreign remittances, while it is 8% all over Pakistan (World Bank, 2016). In 2017, Pakistan received Rs. 19349.000 million as foreign remittances (London School of Economics, 2015) Every fourth immigrant belongs to KP. In the past, they sent remittances through *Hundi*- an illicit means of sending money but in recent years they are using banks.

Issues in the Development of KP Economy

Since independence, the north-west of Pakistan being in the neighborhood of Afghanistan dominated the security consideration over the social, economic, and political dimensions of government policies. The situation aggravated after the arrival of Soviet Union forces in Afghanistan and Pakistan's decision to resist it inside Afghanistan. The continuous disturbance in KP and Afghanistan greatly affected the entire social, economic, and political fabric of the society. The economy of the province lagged due to the following issues and problems.1) Law and Order Situation, 2) Governance, 3) Corruption, 4) political Instability, 5) Low Foreign Direct investment (FDI), 6) Nationalization policies, 7) Taxation system of Pakistan, 8) Power crises, 9) Skilled workers, 10) Geography. Though the above-mentioned heads are the sources of revenue of KP agriculture and allied industries remained the main source of income of the province. It contributes 14 percent to KP's economy and provides job opportunities to most of the rural population directly or indirectly (Imranullah, 2017).

Revenue from Tobacco and the Economy of KP:

In agriculture, Tobacco is not only a cash crop but also remained the most important crop that contributes to the economy of Pakistan and KP. The crop is significant in terms of cultivation area, production and yield, cigarette production and revenue generation.

Share in Area, Production, and Yield

Area, production, and average production of Khyber Pakhtunkhwa is leading by every aspect in tobacco production in Pakistan. It produces ¾ of tobacco leaves of the country, especially FCV i.e. cigarette type tobacco. Per hectare yield of flue-cured Virginia (FCV) is highest as compared to the world per hectare yield. By quality, KP tobacco is considered the finest in the world. For details see Table 6.

Table 6

Area, Production and Yield (Area in Hectare, Production in Million Kg)

Province	Area (hectors)	Production (million kg)	Yield/Hectare
Khyber Pakhtunkhwa	30048	100.788	**3354**
Punjab	18873	34.599	1833
Sindh	147	0.217	1476
Baluchistan	1305	1.903	1458
Total	53804	120.022	2730% (Pakistan)

Source: Pakistan Bauru of Statistics/ PTB, 2015-16.

Share in Cigarette Production:

There are 17 registered tobacco companies that have 20 cigarette manufacturing plants with an internal capacity of 125268 million pieces per year in 3 shifts. Ten registered factories are in KP with an internal potential of 34538 million pieces per year. One factory among them with an annual production capacity of 22700 million pieces per year is situated in Sindh, while 5 factories in Punjab with a production capacity of 57316 million pieces per year, and 4 factories in Azad Kashmir with an internal potential of 10714 million pieces per year. Details are given in the Table 7.

Table 7

A: Khyber Pakhtunkhwa

S. No.	Particular	Year of Establishment	Operation//installed Capacity on 3 shifts basis per annum (M.	Location
1	Pakistan Tobacco Company	1976	22161	Akora Khattak
2	Khyber Tobacco Company	1954	2566	Mardan
3	Sarhad Cigarette Industries	1975	1150	Kernel Sher Killi
4	Saleem Cigarette Industries	1979	1663	Mardan
5	Bara Cigarette Industries	1992	800	Bara (Peshawar)
6	International Cigarette Industries	1991	157	Shewa (Swabi)
7	Souvenir Tobacco Company	1986	1500	Marium Gari Mardan
8	Universal Tobacco Company	1989	1689	Mardan
9	Imperial Cigarette Industries	1989	1700	Dagai Road Tarakai Swabi.
10	Falcon Cigarette Industries	2010	1152	Mansabdar, Swabi
		Total	34538	

Source: Tobacco Statistical bulletin 2016-17

B: Sindh

S.No.	Particular	Year of Establishment	Operation/installed Capacity on 3 shifts basis per annum (M.No)	Location
1	Philip Morris Pakistan Ltd	1971	22700	Kotri (Karachi)
		Total	22700	

Source: Tobacco Statistical bulletin 2016-17

C. Punjab

S.No.	Particular	Year of Establishment	Operation/installed Capacity on 3 shifts basis per annum (M.No)	Location
1	Philip Morris Pakistan Ltd	1972	8500	Mandra (Rawalpindi)
2	Philip Morris Pakistan Ltd	1981	26200	Qadir Abad, Sahiwal
3	Pakistan Tobacco Company	1956	21800	Jhelum
4	Burley Tobacco Company	1995	600	Fateh Jang
5	Shaheen Tobacco Company	1997	216	Taxila
		Total	57316	

Source: Tobacco Statistical bulletin 2016-17

D. Azad Kashmir

S.No.	Particular	Year of Establishment	Operation//installed Capacity on 3 shifts basis per annum (M.No)	Location
1	New Kashmir Tobacco Industry	1991	1716	Bhimber, Azad Kashmir
2	Walton Tobacco Company	1991	1980	Chattar Pari, Mir Pur
3	Wattan Tobacco Company	1992	302	Bhimber, Azad Kashmir
4	National Tobacco industry	1991	2718	Bhimber, Azad Kashmir
		Total	10714	
		Grand Total	125268	

Source: Tobacco Statistical Bulletin, 2016-17.

From the above figures, KP share in the country’s total cigarette production is 27.50%, Punjab 45.75%, Sindh 18.12%, while Azad Kashmir produces 8.55%.

Pakistan Tobacco Company (PTC) a subsidiary of one of the world's leading tobacco industry, British American Tobacco (BAT) and Philip Morris International are the two most important multinational companies engaged in the cigarette industry in Pakistan. The first shares about half of the whole country’s tobacco market and contributed more than Rs. 86 billion revenue to the national exchequer each year. The second procured a greater share of the Lakson Tobacco Company Limited. Khyber Tobacco Company (KTC) and Souvenir Tobacco Company (STC) are leading local cigarette companies. These companies also export some of their products to Europe, Middle East and Central Asia (Iqbal, 2009)

Share in Revenue

The tobacco and associated industries contribute a lot to the national exchequer. The below statistics shows the quantum of contribution for the fiscal year 2013-2014.

Table 8

Pakistan Tobacco Company (Rs. million)

Taxes on Imports	Taxes on Tobacco and Cigarettes					Grand Total
	F.E.D on Tobacco	F.E.D on Cigarette	Sales Tax	Income Tax	Local Tax	
577.245	20.289	53481.593		1575.639	116.299	69030.740

Source: Tobacco Statistical Bulletin, 2015-16.

Table 9

Philip Maris International (PMI), Pakistan Limited (Rs. million)

Taxes on Imports			Taxes on Tobacco and Cigarettes					Grand Total
Custom Duty	Sales tax	Iqra Sur Charge	F.E.D on Tobacco	F.E.D on Cigarette	Sales Tax	Income Tax	Local Tax	
348.936 577.245	772.920	1082.577	0*	16456.07	3993.00	0*	0*	22653.512

Source: Tobacco Statistical Bulletin, 2015-16.
*FED on tobacco is adjusted against Payment of FED on cigarettes

Apart from the two big market shareholders of about 82 percent, other companies which belong to local industrialists also contribute directly to the national exchequer (PTB, 2019). Details are given in table no.10.

Table 10

Other Tobacco Companies (Rs. million)

Taxes on Imports			Taxes on Tobacco and Cigarettes					Grand Total
Custom Duty	Sales tax	Iqra Sur Charge	F.E.D on Tobacco	F.E.D on Cigarette	Sales Tax	Income Tax	Local Tax	1529.312
0.611	9.685	0.205	22.248	1181.646	297.963	13.516	3.238	

Source: PTB/Tobacco Companies, 2016-17.

The trend in Federal Excise Duty and Sales Tax generated by tobacco and cigarette industry from the fiscal year 2011 to 2015. This period shows a continuous increase in the revenue collected from the tobacco industry. For detail see Table 11.

Table 11

Trend in Revenue Collected from Tobacco Companies from 2011 to 2015

(Rs. in million)

Year	Federal Excise Duty	Sales Tax	Total
2011	53176	12522	65699
2012	61662	14535	76197
2013	71394	16672	89066
2014	8199	20991	102890
2015	90435	23767	114202

Source: Federal Board of Revenue, 2016

The position of export of unmanufactured tobacco and cigarettes during 2011-2015 is illustrated in the following Table 12.

Table 12

Export of Tobacco and Cigarettes during 2011-2015 (Million Kg)

Year	Quantity Exported			Value Realized			Total Value (M.Rs)
	Tobacco (M. Kgs)	Cigarettes (M. Piece)	Cigars (M. piece)	Tobacco (M.Rs)	Cigarettes (M.Rs)	Cigars (M.Rs)	
2011	8.79	62.38	0	2608.37	123.91	0	2732.29
2012	8.05	31.32	0	2453.62	61.98	0	2515.60
2013	6.66	83.96	0	2346.12	164.09	0	2510.21
2014	4.27	30.41	0.62	1448.07	67.95	1.24	1517.26
2015	3.19	34.00	2.09	1145.93	82.63	5.30	1233.86

Source: Federal Bureau of Statistics, 2011-2015

The above statistics show that Punjab makes more cigarettes than KP but the tobacco used in the cigarettes is produced in KP. As in 1997 Punjab provincial government banned wheat transportation and violated the constitution. Since then, only flour is allowed to be transported to KP and not wheat. The KP flour industry was damaged, and thousands of people lost their jobs and billions of investments were lost. In contrast tobacco in the raw form is transported to Punjab where the cigarette manufacturing units are located, and the end product is sold at several times the greater price than the actual price paid to the growers in KP. Apart from cigarettes generated revenue, if tobacco's real value is given to KP, it will have a great impact on the KP economy. Comparatively, KP has not been benefited from tobacco taxes the way they should be. By law, as discussed in previous pages, it is a provincial subject especially after the proclamation of the 18th amendment of the unanimously accepted constitution of 1973. Such practices are being a danger for the federation and cause to keep the province backward

The problem of Khyber Pakhtunkhwa is different from the other provinces. For example, taxes are paid by industries wherever they want. People of KP demand that the cigarette industries should pay their taxes where they are situated. The two big companies, PTC and PMPK in the market have 82% cigarette market shares (Nayab et al., 2018). The Head Office of the former is in Islamabad and the latter in Karachi. Both pay their taxes of all their industrial units in Islamabad and Karachi respectively and thus contribute to the center and the province of Sindh. Rules and regulations are needed to make sure that industries pay their taxes where they are operating. It will reduce the sense of political and economic deprivation of smaller provinces. If it is implemented it will increase toll tax collection because 75 percent of tobacco is produced in KP, and 10 cigarette-making factories out of 21 operate in the province (Bahadur, 2018). According to the FBR sources, there was only one LTU (Large Tax Unit) before 1972. Thus, all big companies were shifted to Karachi. Still, these companies are operating in Karachi even though other LTUs are operational in the part of the country later on. Consequently, only Sindh province takes benefits not only financially but also politically. They are frequently proclaiming that they earn more than the rest of Pakistan (Wawda, 2018). During the settlement of the last NFC Award Sindh resisted for a weightage to revenue production and generation. Five percent weightage was accepted in the last 7th NFC Award 2010. Its benefit to Sindh is about eight to ten billion rupees every year (7th NFC Award, 2010).

The federal government must give the due revenue to KP especially on raw tobacco and tolls (their due rights) because agriculture is a provincial subject. The federal government took control over it as it is the single largest contributor to the national exchequer. It is the only agricultural product regulated by the federal government even after the 18th amendment which is considered to be a milestone in provincial autonomy. Pakistan faced a great tragedy in 1971 due to economic and political deprivation of one federating unit by the center dominated by the people from Sindh and Punjab (Adeney, 2012). According to the Economic Survey of Pakistan 2015-16, Cotton and Rice revenue is regulated by certain bodies in the control of respective provinces, the central government is allowed just to collect revenue on the export of these commodities. Though the textile industry is the largest in Pakistan, but its contribution to the national exchequer is lesser than tobacco as compared to the area in which it is cultivated. It got many incentives in respect of taxes, subsidy, developmental funds, and facilities and attention of the policymakers along with investors in the shape of subsidies in taxes even in gas and electricity billing.

During the tobacco production process farmers ultimately pay the physical and social costs ranging from ill effects on their health and loss of educational opportunities along with social evils, child and women labor, etc. Accidents also occurred during the production process i.e. insecticides and weedicides' reactions because of their easy availability in the market. Children mistakenly and elders intentionally used it for suicides. In a report on suicides in 2014, most of these suicides have occurred in Swabi district (Zia Ahmad, 2018). Since health is a provincial subject, the province must deal with all such accidents, KP also needs a special grant for health costs during the tobacco production process (Mujtaba, 2015). Those involved in the production needed to be compensated with reasonable prices. In the tobacco production process, thousands of children and women are involved, the involvement of children can be termed as child labor which is a curse (Zaidi et al., 2013). Child labor is also considered to be a major sign of poverty (Rehman, 2018).

By the transfer of this crop to the provincial pool according to the constitution, its revenue can be spent on the socio-economic uplift of the people of KP. Statistics show that the revenue is equivalent to pulling out 17 million people from poverty. According to PTB, there are about 25000 registered tobacco cultivators in KP (PTB, 2018). If revenues from tobacco are distributed among producers, then the per capita income of these farmers will be equivalent to that of the developed countries. They are still deprived by different chains of mediators including the policymakers, for example, the total value of crop including revenue of the government is about $ 200 billion, in which farmers received about 10 to 12 percent. More than 80 percent goes to the national exchequer and the remaining to the manufacturer of cigarette, agents, and other mediators (Shazad, 2018)

The central government constituted a committee for cotton named "Central Cotton Committee of Pakistan (CCCP)" (Pakistan Cotton Cess Act, 1951). Cotton is declared the main cash crop cultivated on an area of 2901.9 thousand hectares. Analyzing the revenue generation statistics, its contribution is minor except for export data. Only its export revenue comes to the FBR. Cotton is protected by constitutional steps, making its regulatory body Central Cotton Committee of Pakistan (Bahadur, 2008). Like Cotton, Rice is another cash crop mostly grown in Punjab and Sindh. It is cultivated on an area of 2739.5 thousand hectares. Its export was only $ 2 billion in the year 2014 (Umair, 2015) but it is considered the main cash crop and got much attention from all policymakers. Tobacco is cultivated on an area of just 52.5 thousand hectares but contributed 53 % of all FED equal to 4.4 % of all national revenue collected in 2014-15. By any definition, it is an agricultural product. After 18thAmendment, agriculture is a provincial subject, but this is still regulated by PTB which is controlled by the federal government. Tobacco's real value needs to benefit farmers and should improve their economic condition along with a contribution to the national exchequer which has not been materialized so far. One kilogram of cured tobacco can be used in more than one thousand cigarettes; The government received about 1400 to 4000 rupees revenue from one thousand cigarettes depend upon the quality. Farmers got the price of this one-kilogram cured tobacco less than two hundred rupees till 2018 (Yousafzai, 2018).

It needs a further investigation that what is charmed between the price of cured tobacco and cigarette. It is not a long, laborious, or much-needed investment process. Why there is a big gap? Cured tobacco is in a form that is ready for blending cigarettes. Farmers suffered many difficulties, including intense weather when the temperature is more than fifty-degree centigrade particularly during the process of tobacco leaves picking and curing. During these processes, many people lost their lives or got sick seriously. Farmers, who cultivate tobacco (which is the basic source of the tobacco industry), are becoming not only weak economically but also socially as their school-going children are involved in all production processes (Ali, 2015). Tobacco businessmen or cigarette makers over a few years have become billionaires and emerged as a strong lobby in the regional, provincial, and national politics to influence the public policy-making process for their vested interests. Relatively the field of politics is more favorable in the tobacco production areas of KP. The two big companies i.e. PTC and PMLPK sponsored local politicians. These local tobacco businessmen got sympathies through CSR initiatives among the local people. Furthermore, based on wealth earned from tobacco or allied businesses or cigarette manufacturing, it is not a big deal for them of a few billion to keep their business free from legal and constitutional restrictions i.e. taxation and future of tobacco etc. (Ahmad, 2015).

For details on major crops and their contribution to National Exchequer, see details in Table No. 13

Table 13
(Production "000")

S.No	Crop	Area	Production	Per Hectare	Contribution to Central Revenue
1	Wheat	9223.1	25633.1	2780	2.7%
2	Cotton	2901.9	9917.4	581	10%
3	Rice	2739.5	6801.3	2483	0.7%
4	Sugarcane	1131.6	65482.4	58*	0.6%
5	Tobacco	52.5	115.5	2192	4.4%

Source: Federal Bureau of Statistics, 2015-16/ Researcher calculation.
*Ton

Conclusion

KP economy depended on federal government receipts in conventional and nonconventional means, like National Finance Award and specific grants for different projects. In the last NFC award, Sindh insisted to have weightage on revenue generation and collection. By analyzing the commodity-wise collection of LTU, cigarette revenue remains in the top position.

The contribution of major agriculture crops is almost 5.4% while minor crops contribute 11.6% to GDP (Economic Survey of Pakistan, 2016-17). The biggest crop of Pakistan, wheat is grown on an area of 1132000 hectares but its contribution to agricultural revenue is 5.4% while the contribution to the total GDP of Pakistan is 2.2%. Likely, rice is grown on an area of 2296090 hectares but its contribution to total agricultural revenue is 3.1% and only .7% to GDP. Sugarcane is grown on an area of about 3 lac hectares but its contribution to total revenue is 0.7% and 4.5% to agriculture GDP. Cotton is a cash crop and provides raw material to the textile industry with a contribution to GDP as almost 1.4 % (Usman, 2016).

On the other hand, tobacco considered as a minor crop is grown on the area of about 52000-hectares, i.e. 0.21% area of the total irrigated area of Pakistan, but its share to agriculture GDP is about 38% and 4.4% to the total revenue (Pakistan Bureau of Statistics, 2015). It employed 75,000 families in KP and support more than a million people directly or indirectly.

It is the right consideration to address the difficulties met by the tobacco crop and industry on one hand and farmers on the other. The other major challenge faced by the industry is illicit trade in cigarettes which include smuggled, counterfeit, and local duty non-paid cigarettes, due to which the country and the legitimate industry face losses of billions of rupees every year. The illegal cigarette was causing the loss of an expected Rs. 40 billion per year to the national exchequer (Nayab et al., 2018). FBR sources also confirm it (Zamin, 2018). There was a huge value difference between the legitimate business and illicit cigarette pack that is sold at a much lower price. This creates a situation causing people to move from legitimate brands to nonpaid brands. FBR decided to introduce the third tier of taxing cigarettes along with other strong measures to stop the illicit trade of cigarettes (Ghumman, 2017).

Cess distribution among the districts according to the Tobacco Cess Act 2006 also remains ambiguous because its growing areas have never seen any special packages or projects as mentioned in the Act. It is used for political purposes and not according to their legitimate process. Like a 10% development surcharge on Oil and Gas, it is the cry of the day with many other steps to be taken for tobacco growing areas which also need to be provided development surcharge. For alternate crops, all concerned authorities take steps on an emergency basis while in the case of tobacco they are claiming that it is dangerous to health. The control over tobacco revenues by the provincial government will reduce the sense of deprivation of concerned stakeholders. The constitutional lacuna in the center-province relations should be removed by allowing the province to get its due shares in the national revenue by controlling the tobacco products and the regulating bodies. The act will not help KP-the most poverty-ridden province of Pakistan but will defuse the centrifugal tendencies among the people of the province.

References

Adeney, K. (2012). A Step Towards Inclusive Federalism in Pakistan? The Politics of 18th Amendment Publius: *Journal of Federalism* 42 (4).

Agro-Economic Services Ltd., (1987). “The Employment, Tax Revenue and Wealth that the Tobacco Industry Creates”, Washington: *Journal of Agro-economic services*.

Ahmad, I., Usman M., & Mehmood K. (2007). National Finance Awards in Pakistan: *A historical perspectives, Islamabad*: PIDE working paper no. 33.

Ahmad, N. (2015). The scenario behind the CSR activities of the tobacco companies in Bangladesh: A review on a smoky truth, Dhaka*: D.U journal of Marketing* 32(2).

Ali, N., Abbas J., Muhammad A., & Najaf Ali, The Economic Analysis of Tobacco Industry: A Case Study of Tobacco Production in Pakistan, International Journal of Research. Available at http://internationaljournalofresearch.org/

Ashraf, M. I. (2016), “Federalism and Provincial *Autonomy: Political and Economic Dimension under the Constitution of Pakistan 1973*”, (unpublished Ph.D thesis) Islamabad: International Islamic University.

Bahadur, J. (2018, June 30). (Jamshaid Iqbal, Interviewer)

Dagiwal, M. A. (2018, September 27). (Jamshaid Iqbal, Interviewer)

Ghumman, M. (July 25, 2017). *Daily Business Recorder,* Retrieved from http://www.brecorder.com/

Imranullah, M. (2017). Factors Affecting Economy of Khyber Pakhtunkhwa, Peshawar: *Abasyn Journal of Social Sciences, vol (10). Issue (2).*

Iqbal, J. (2009). *Tobacco Production in Pakistan: A socio-economic study of district Swabi 1995-2005* Germany: *Lambert Academic Publication*.

Khalid, I., Hussain, T., & Siddiqi, B., Usman, K., (2014). *Reclaiming Prosperity in KhyberPakhtunkhwa: A Medium Term Strategy for Inclusive Growth Khalid Ikram,* (Working paper). London: London School of Economics.

Khyber Pakhtunkhwa, Government of. (2012). *Petroleum and Gas Exploration Policy 2012*, Peshawar: Ministry of Finance.

Khyber Pakhtunkhwa, Government of. (2017). *Budget White Paper 2016-17*, Peshawar: Ministry of Finance.

Mujtaba, A. (2015, January 15). Baina subaye talukat (Urdu). *Daily Mashriq*,

Mustafa, U. (2011). *Fiscal Federalism in Pakistan: The 7th National Finance Commission Award* Islamabad: Pakistan Institute of Development Economics.

Nabi, I., Hamid, N., & Naseer. (2015), *Khyber Pakhtunkhwa Revenue Mobilization* Peshawar: *Consortium for Development Policy Research.*

Durre -Nayab, M. N., Junaid, A., Memon, M. K. S., & Anwar, H. (2018). The Economics of Tobacco and Tobacco Taxation in Pakistan, Islamabad: *Pakistan Institute of Development Economics*.

Pakistan (1951). Pakistan Cotton Cess Act of 1951.

Pakistan (2017). *Economic Survey of Pakistan, 2015-16*, Islamabad: Ministry of Finance.

Pasha, H. (2018). *Growth and Inequality in Pakistan,* Islamabad: Friedrich Ebert Stiftung.

Rehman, T. (2016, September 23). (Jamshaid Iqbal, Interviewer)

Shazad, M., (2018, October 18). (Jamshaid Iqbal, Interviewer)

Umair, (2015, June10). Pakistan Economy an analysis. *Express Tribune*

Usman, M. (2016) “Contribution of Agriculture Sector in the GDP Growth Rate of Pakistan”, Lahore: University of Central Punjab, 2016.

Wawda, F. (2018). Federal Minister, speech in National Assembly, November 5, 2018.

World Bank, (2016). *Khyber Pakhtunkhwa Economic Report, 2016*. Washington

Yousafzai, L. (2018, September 27). (Jamshaid Iqbal, Interviewer)

Zaidi, N., Javid, N., & Khan, M.S. (2013), Child labour in Pakistan- a tip of an iceberg. *Journal of Postgrad Med Institute.*

Zamin, S. (2018, november 21). (Jamshaid Iqbal, Interviewer)

Zulfiqar, S. (2012). “Politics of New Provinces in Pakistan: Prospects and Challenges”, *Islamabad: IPRI Journal xii, No. 2*.