

Regulatory Procedure

REGISTRATION / LICENSING AND OTHER REQUIREMENTS FOR TOBACCO MANUFACTURING



Small and Medium Enterprises Development Authority

Ministry of Industries & Production

Government of Pakistan

www.smeda.org.pk

HEAD OFFICE

4th Floor, Building No. 3, Aiwan-e-Iqbal Complex, Egerton Road,
Lahore
Tel: (92 42) 111 111 456, Fax: (92 42) 36304926-7
helpdesk@smeda.org.pk

REGIONAL OFFICE PUNJAB	REGIONAL OFFICE SINDH	REGIONAL OFFICE KPK	REGIONAL OFFICE BALOCHISTAN
3 rd Floor, Building No. 3, Aiwan-e-Iqbal Complex, Egerton Road Lahore, Tel: (042) 111-111-456 Fax: (042) 36304926-7 helpdesk.punjab@smeda.org.pk	5 TH Floor, Bahria Complex II, M.T. Khan Road, Karachi. Tel: (021) 111-111-456 Fax: (021) 5610572 helpdesk-khi@smeda.org.pk	Ground Floor State Life Building The Mall, Peshawar. Tel: (091) 9213046-47 Fax: (091) 286908 helpdesk-pew@smeda.org.pk	Bungalow No. 15-A Chaman Housing Scheme Airport Road, Quetta. Tel: (081) 831623, 831702 Fax: (081) 831922 helpdesk-qta@smeda.org.pk

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INTRODUCTION OF SMEDA

The Small and Medium Enterprise Development Authority (SMEDA) was established with the objective to provide fresh impetus to the economy through the launch of an aggressive SME development strategy. Since its inception in October 1998, SMEDA had adopted a sectoral SME development approach. A few priority sectors were selected on the criterion of SME presence. In depth research was conducted and comprehensive development plans were formulated after identification of impediments and retardants. The all-encompassing sectoral development strategy involved overhauling of the regulatory environment by taking into consideration other important aspects including finance, marketing, technology and human resource development.

After successfully qualifying in the first phase of sector development SMEDA reorganized its operations in January 2001 with the task of SME development at a broader scale and enhanced outreach in terms of SMEDA's areas of operation. Currently, SMEDA along with sectoral focus offers a range of services to SMEs including over the counter support systems, exclusive business development facilities, training and development and information dissemination through a wide range of publications. SMEDA's activities can now be classified into the three following broad areas:

1. Creating a Conducive Environment; includes collaboration with policy makers to devise facilitating mechanisms for SMEs by removing regulatory impediments across numerous policy areas
2. Cluster/Sector Development; comprises formulation and implementation of projects for SME clusters/sectors in collaboration with industry/trade associations and chambers
3. Enhancing Access to Business Development Services; development and provision of services to meet the business management, strategic and operational requirements of SMEs.

SMEDA has so far successfully formulated strategies for sectors, including fruits and vegetables, marble and granite, gems and jewellery, marine fisheries, leather and footwear, textiles, surgical instruments, transport and dairy. Whereas the task of SME development at a broader scale still requires more coverage and enhanced reach in terms of SMEDA's areas of operation.

Along with the sectoral focus a broad spectrum of services are now being offered to the SMEs by SMEDA, which are driven by factors like enhanced interaction amongst the stakeholders, need based sectoral research, over the counter support

systems, exclusive business development facilities, training and development for SMEs and information dissemination through wide range of publications.

ROLE OF SMEDA LEGAL SERVICES CELL

The Legal Services Cell (LSC) is a part of Business Development Division of SMEDA and plays a key role in providing an overall facilitation and support to SMEs. The LSC provides guidance based on field realities pertaining to SMEs in Pakistan and other parts of the world.

LSC believes that information dissemination among the SMEs on the existing regulatory environment is of paramount importance and it can play a pivotal role in their sustainable development.

In order to facilitate SMEs at the Micro Level LSC has developed user-friendly systems, which provide them detail description of the Laws, and Regulations including the process and steps required for compliance.

The purpose of this document is to provide SMEs either individuals or companies with information pertaining to licensing and other legal requirements for tobacco manufacturing. Entrepreneurs interested in enhancing their understanding about the procedures and rights can also use the document. For convenience of the reader's sample of various forms, instructions how fill up the forms and important addresses are also included.

DISCLAIMER

Information in this document is provided only for general information purpose and on an "as is" basis without any warranties of any kind. Use of this information is at the user's sole risk. SMEDA assume no responsibility for the accuracy or completeness of this information and shall not be liable for any damages arising from its uses."

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Applicable Laws & Rules:

- 1) Pakistan Tobacco Board (hereinafter referred to as the “ tobacco board”), established under Pakistan Tobacco Board Ordinance, 1968, is the apex body for the promotion of the cultivation, manufacture and export of tobacco and tobacco products and matters ancillary thereto.
- 2) There also exist some rules relating to the tobacco which have to be followed by tobacco manufactures like Tobacco Marketing Control Rules, 1993.
- 3) Also tobacco is subjected to the Federal Excise Duty so all the rules & regulations listed in the Federal Excise Act and Rules thereunder also be followed by the tobacco manufacturers.

Requirements for marketing & procurement of tobacco:

Intimation regarding purchase targets

- 4) For proper regulation of tobacco marketing, the Tobacco Board ascertains the requirements of various tobacco companies for different types of tobacco for the ensuing crop and publicizes the same at the time when nurseries are being laid out. The underlying idea is to create an awareness of the manufacturer's requirements amongst the growers so as to aim at a crop size bearing a relationship with the demand. The tobacco companies are bound to execute agreements with the tobacco growers in a prescribed format for their total demand of both types of Virginia as well as Burley tobacco.
- 5) As per Tobacco Marketing Control Rule No.3 of 1993, every tobacco company intending to purchase tobacco during a crop year shall indicate to the Tobacco Board its total requirements of the tobacco from the ensuing crop, by the 21st day of October in each year. The Tobacco Board will publicize the indicated requirements for various types of tobaccos, in appropriate manner, before the commencement of planting season. It shall be binding upon the Tobacco Companies to purchase tobacco in accordance with their indicated purchase targets.
- 6) The purchase targets intimated to the Tobacco Board by the Tobacco Companies shall not be altered in any form without prior approval of the

Tobacco Board. The Tobacco Companies also discourages purchases from azad growers that are non-agreement holders.

Execution of agreements

7) As per Tobacco Marketing Control Rule No.4 of 1993, every tobacco company for the purchase of their targeted requirements of Virginia tobacco shall execute agreements with the growers on the form prescribed by the Tobacco Board by the 31st day of December in respect of the ensuing crop of tobacco. A copy of each such agreement will be supplied to the grower concerned and a list of all such agreement will be furnished to the Tobacco Board as soon as may be possible after the execution of the agreements. The Tobacco Board shall constitute Committees of growers for scrutiny of agreements executed by each tobacco company in order to verify its genuineness.

Purchasing

8) It shall be binding upon the Tobacco Companies to purchase tobacco in accordance with their indicated purchase targets. All Tobacco Companies shall commence purchases of tobacco from the date as fixed by the Tobacco Board. For fixing that date the Tobacco Board shall constitute Committee comprising of its own official and representatives of Provincial Agriculture Department, tobacco companies and tobacco growers to fix a date or dates for the commencement of tobacco purchases after surveying the condition of standing crop in different areas.

9) No tobacco company or tobacco dealer shall close its purchase depots or business premises till such time it has purchased its full targeted demand of various types of tobacco, or in case of a surplus production, the additional quantity of particular type of tobacco which may be allocated by the Tobacco Board to the individual tobacco companies/dealers proportionate to their purchase targets.

10) Every tobacco company and dealer shall maintain complete and up-to-date record of purchases made, prices paid at the depot, and quantities of tobacco transferred from the purchase depot to the warehouses or re-drying plants.

11) The Tobacco Companies shall submit to the Tobacco Board purchase summaries on daily basis during the marketing season.

Payment of dues to the growers for tobacco

12) As per Tobacco Marketing Control Rule No.6 of 1993, payment of dues to the growers by the tobacco companies as a result of sale transaction of Virginia tobacco during a purchase season shall be made through designated Banks and in accordance with the following schedule :

- (a) Payment in respect of tobacco purchased during the 1st fortnight Within 7 days.
- (b) Payment in respect of tobacco purchased during the 2nd fortnight Within 15 days.
- (c) Payment in respect of tobacco purchased during the 3rd fortnight Within 21 days.
- (d) Payment in respect of tobacco purchased after the 3rd fortnight Within 30 days.

All the Tobacco Companies and other purchasers shall issue vouchers to the growers having printed Book No; Voucher No. and Name/Place of purchase Centre and a copy of each voucher issued to the growers shall be supplied by the Tobacco Companies/Purchasers to the Tobacco Board and the concerned Bank Branch.”

Requirements for Flue-cured Virginia Tobacco

13) Every Tobacco Company, for the purpose of purchase of its targeted requirements of flue-cured Virginia tobacco, will execute agreements with the growers of tobacco by the 31st December in respect of the ensuring crop of tobacco. A copy of each such agreement will be supplied to the growers concerned and a list of all such agreements will be furnished to the Tobacco Board as soon as may be possible after the execution of the agreements.

14) Every Tobacco Company and other purchaser of flue-cured Virginia tobacco shall strictly follow the grade classification of tobacco as laid down by the Tobacco Board vide its Notification No.SRO 522(1)/81 dated the 3rd June, 1981.

15) Every Tobacco Company and other purchaser of flue-cured Virginia tobacco shall prominently display at the purchase Depots the leaf sample of each grade and its minimum price notified by the Federal Government.

16) The weighted average price of tobacco for the crop of any year to be paid by a Tobacco Company to the tobacco growers shall not be lower than the weighted average price paid to them for the crop of the immediately preceding year.

17) There shall be constituted a Vigilance Committee at the purchase depot consisting of:

- (a) A representative of the Tobacco Board or the Provincial Agriculture Department;
- (b) A representative of the tobacco growers, nominated by the Provincial Agriculture Department; and
- (c) A representative of the Tobacco Companies nominated by the Tobacco Companies.

The Vigilance Committees shall check the grades assigned to various types of tobacco used for the manufacture of cigarettes and shall also ensure that no purchaser unnecessarily rejects, or pays price for, tobacco at rates lower than the minimum notified rates. It shall also resolve the differences or disputes between the tobacco growers and tobacco companies, if any, arising out of sale and purchase transactions of tobacco between the parties. The decision of the Vigilance Committee shall be taken by majority and shall be binding on the parties

18) The Tobacco Board will fix dates for the purchase of middle and top portion leaves keeping in view the purchase periods of such leaves during the past three years.

Requirements for White Patta (Mulki Tobacco)

19) All Tobacco Companies shall purchase at least 35 percent of their purchase targets of white patta tobacco indicated for any year direct from the tobacco growers; provided that where a Tobacco Company, during the crop of the immediately preceding year, had obtained 50 percent or more of its targeted requirements of white patta tobacco direct from the tobacco growers, it shall in no case reduce its direct purchase from growers below 50 percent of its indicated purchase target for the crop of any subsequent year.

20) For the direct purchase of white patta tobacco every Tobacco Company will chalk out a proper purchase programme, exhibit the same at the Buying Courtyards a fortnight earlier and also inform the concerned growers about it.

21) Every Tobacco Company shall make available to the Tobacco Board, not later than the 15th May of each year, a list, in duplicate, of the tobacco growers from whom white patta tobacco is to be directly purchased by it. A copy of said list shall be supplied by the Tobacco Board to the Special Committee of Growers constituted by the Tobacco Board for the purpose of verification of the genuineness of tobacco growers from whom direct purchase is made by the Tobacco Company.

Requirements under Federal Excise Act:

22) As stated in Para 3 of this document, tobacco is subjected to the Federal Excise Duty so all the rules & regulations listed in the Federal Excise Act (hereinafter referred as the “FED Act”) and Rules thereunder shall also be followed by the tobacco manufacturers.

23) As per section 13 of the FED Act, all tobacco manufactures are liable to be registered before commencing manufacturing by applying for registration to the relevant Collector. Where the application for registration is complete in all respects, the Collector or an officer authorized by him in this behalf, after conducting such verification or inquiry as is deemed necessary, shall forward the application to the Central Registration Office in the Federal Board of Revenue (hereinafter referred as the “FBR”) who shall issue a certificate of registration containing the registration number to the applicant.

24) Every manufacturer or service provider in respect of dutiable goods or services shall, at the time of applying for registration, declare in writing all details of his business premises including godowns along with the name, address, copy of National Identity Card, details of plant, machinery, raw materials, dutiable or other goods to be produced or dutiable or other services to be provided and any change in these particulars shall be intimated to the Collector within fifteen days of the change.

25) After getting registration under FED Act, every registered person has to furnish a return to the FBR for every month not later than 15 of each month for previous month.

26) As per FED Act & Rules, the following requirements should also be fulfilled by tobacco manufacturers :

19.1 If a manufacturer of cigarettes, smoking mixtures for pipes and cigarettes and dutiable cigars and cheroots receives from outside the registered premises any un-manufactured tobacco, then, the weight of

each package, bale or bag shall be legibly marked and numbered serially and record the same accordingly so as to render them easily identifiable from their entries in the relevant accounts and records.

- 19.2 No excisable tobacco products other than cigarettes shall be sold from any registered premises except under the following conditions, namely:-
- (a) such products shall be packed into separate packages of distinct specifications, sizes or weights;
 - (b) each such packet shall be enclosed in a wrapper or other outer covering the expenses of which shall be borne by the manufacturer; and
 - (c) duty on the products shall be paid at the rates applicable on such products under the Act, unless such products are intended for export out of Pakistan.
- 19.3 No packet of cigarettes for consumption in domestic market shall be cleared from the manufacturing premises without printing thereon the retail price, health warning and the name of the manufacturer.
- 19.4 The cigarette packets cleared from manufacturing premises for export shall bear the following marks:
- (i) "NOT FOR SALE IN PAKISTAN" or such other code as the Central Board of Revenue may, for reasons to be recorded in writing, approve;
 - (ii) "FOR EXPORT ONLY"; or
MANUFACTURED FOR _____ (the name of their customer).
- 19.5 Federal excise duty chargeable on the clearances made during a month shall be deposited on the last working day of the month, in the designated branch of National Bank of Pakistan. Provided that the duty chargeable on the clearances, if any, made after the business or office hours on the last working day of a month, shall be deposited on the first working day of the following month.
- 19.6 No packet of cigarettes shall be removed and sold by the manufacturer or any other person without affixing excise stamp in such style and manner as may be prescribed by the Board in this behalf.

- 19.7 No packet of cigarettes shall be removed and sold by the manufacturer or any other person without affixing banderole in such form, style and manner as may be prescribed by the Board in this behalf.
- 19.8 No cigarettes shall be cleared from any factory unless these conform to the health standards prescribed by the Federal Government and nicotine and tar contents are duly printed on each packet of cigarettes and in case of failure to observe any such condition, embargo shall be imposed on clearance of cigarettes in such manner as may be directed by the Collector.
- 19.9 Apart from above, cigarette manufacturers should also keep all the books of accounts, records and issue invoices as are required under FED Act & Rules made thereunder.

Important Addresses:

- 1: Pakistan Tobacco Board
46-B Office Enclave, Phase-V
Hayatabad, Peshawar

Postal Address:

P.O.Box 188, GPO Peshawar,
NWFP, Pakistan

Ph: +92-91-9217156

Fax: +92-91-9217149

email: mail@ptb.gov.pk

- 2: Federal Board of Revenue House,
Constitution Avenue, G-5, Islamabad.

Telephone Index Exchange No:9207540

Toll Free Number : 0800-00227

UAN: 111-227-227