

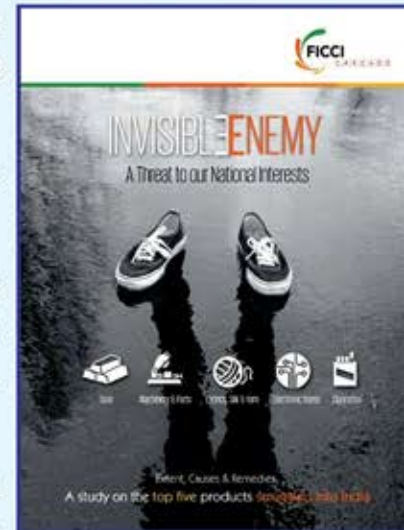
FICCI Report “Invisible Enemy – A Threat to our National Interests”

Industry body FICCI has recently released a Report *Invisible Enemy – A Threat to our National Interests: Extent, Causes and Remedies* estimating the extent of smuggling of the top five key goods into India.

These key products are Gold, Machinery and Parts, Cigarettes, Fabrics, Silk and Yarn and Electronic Items.

According to the Report, the effects of smuggling are numerous and economically significant. *“Smuggling is a serious problem and its impacts are far reaching, affecting various stakeholders including Government, domestic industries and citizens of the country,”* the Report notes.

Highlighting the severe impact of smuggling on the economy, the Report states that smuggling severely harms the economy of a country in multidimensional ways. *“It undermines the local industry, suppresses innovation and investment, discourages legal imports, reduces the volume of revenues collected from duties and levies by the government, fuels transnational crimes and hampers the health of citizens,”* the FICCI Report observes.



Impact of Smuggling on the Country

- **Direct Loss to Government Revenues**
- **Negative Impact on Economy**
- **Impact on Local Industries**
- **Threat to Society**
- **Health and Safety Risks**
- **Impact on Innovation and Investment**

According to the Report, there are various determining factors for smuggling and illegal trade that lead smugglers to adopt different ways and means of smuggling into a country.

Key Factors of Smuggling

- **High Tariff Rates**
- **Restrictions and Prohibitions**
- **Rule of Law**
- **Price and Type of Product**
- **Demand-Supply Gap**

Cigarette Smuggling in India

Commenting specifically on Cigarette Smuggling into the country, the Report notes that worldwide cigarettes are amongst the most sought after product for smuggling because high taxes on cigarettes induce great financial incentive for smugglers to earn huge profits. Following are some of the other important observations contained in this Report regarding the growing threat of cigarette smuggling in India:

Persistently increasing taxes on cigarettes provide a lucrative opportunity for tax evasion due to tax arbitrage between the country of export and the importing country.

Illicit cigarettes in India is a national threat as the country is now the 4th largest cigarette market in the world, as estimated by Euromonitor International. The illicit cigarette trade can pose serious security threat as there is evidence, globally, that organized transnational criminal groups are involved in it and money earned through it is used to fund serious criminal activities, including terrorism.

Globally, cigarette smuggling is considered a low-risk, high-reward criminal activity. The traffickers can make millions with little risk of detention or harsh punishments. It allows traffickers and their networks to circumvent borders; proceeds can be used to finance insecurity and instability.

Way Forward to Combat the Smuggling Problem

- **Rationalisation of Tariffs**
 - High taxes exacerbate the threat of smuggling especially in cigarettes and high value commodities like gold
- **Strengthening domestic manufacturing and reducing demand-supply gap**
 - Effective measures to increase country's domestic production to reduce the gap in demand and supply
- **Stronger punishments and respect for Rule of Law**
 - Increasing the rule of law to control smuggling
 - Expediting judgements to deter criminals
- **Leveraging technology and boosting Innovation**
 - Since physical monitoring is impossible, using advanced surveillance technologies
- **Better Co-ordination among various Enforcement Agencies**
 - Strong co-ordination among enforcement agencies across various Government wings to tackle smuggling

FICCI's Committee Against Smuggling and Counterfeiting Activities Destroying Economy (CASCADE) which works towards elimination of illicit trading activities in the country, commissioned this study through the New Delhi-based independent think-tank Thought Arbitrage Research Institute (TARI).