



The Tobacco Institute of India

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Press Release

High Tax Arbitrage on Cigarettes Fuels Increased Inflow of Illegal Products

- India is the 4th largest Illegal Cigarette market in the world
- Recent Seizures of Smuggled Cigarettes by Enforcement Agencies are only the Tip of the Iceberg of a much larger and threatening operation
- GST presents a Unique Opportunity to Government to address the growing Illegal Cigarette Trade in the country

New Delhi, 30 March 2017: The Tobacco Institute of India appeals to the Government to seize the unique opportunity that GST presents to address the high tax arbitrage available with cigarette smuggling syndicates and in doing so provide relief to distressed tobacco farmers, the legal cigarette industry and also inject buoyancy in revenue collection from this sector.

According to a recently released FICCI Report, 'Invisible Enemy – A Threat to National Interests', Cigarettes are among the top 5 smuggled goods in the country with far reaching impact on various stakeholders including Government, domestic industry and society at large.

Mr. Syed Mahmood Ahmad, Director, Tobacco Institute of India, said, "GST presents a Unique Opportunity to Government to Address the Growing Illegal Cigarette Trade in the Country."

Indeed in recent months and as credit to the enforcement agencies, the incidence of seizures of smuggled cigarettes, as reported in the Media, has seen a sharp spurt in different parts of the country.

As recently as March 17 this year, Customs officials seized imported cigarettes worth Rs.10.38 lakhs in Coimbatore soon after seizing cigarettes worth 38.65 lakhs on March 15 in the same city. On 3rd March, the Directorate of Revenue (DRI) Officials arrested three individuals for illegal possession of a large consignment of foreign brands of cigarettes worth Rs.15 crores in Noida.

On January 31, the Media also reported seizure of smuggled cigarettes valued at Rs.2.2 crores by the DRI in separate raids at Nhava Sheva port and godowns in Mumbai. On January 3, a joint team of State Tobacco Control and the Police Department officials intercepted cigarette packs being sold openly in a Chandigarh Mall without the required Pictorial Warning.

A consignment of smuggled cigarettes worth Rs.1.63 crores was also seized by the DRI from a container at Tuticorin port on 20th December, 2016. Another container with smuggled cigarettes worth Rs.10 crores was confiscated on December 17 by a DRI team at the Inland Container Depot, Tughlakabad in Delhi.

While increased vigilance by enforcement agencies of the Government has led to interception of illegal consignments of smuggled cigarettes, it must be noted that the seizures are only the tip of the iceberg of a much larger and threatening operation in illegal cigarette trade in the country. After all, for every seized consignment there are a large number of consignments that escape surveillance and find their way into the market. In fact, the FICCI Study estimates that the ratio of seizures to smuggled cigarettes ranges from a mere 0.3% in 2013 to 1.8% in 2015.

It is evident that enforcement alone cannot fully address the menace of the large and growing illegal cigarette trade in the country and that systemic policy changes in high taxation and excessive regulation are required to adequately deal with the size of the problem.

Illegal trade in cigarettes in the last five years has seen a huge surge. According to Euromonitor International, India is the fastest growing and the 4th largest illegal cigarette market in the world totaling to 23.9 billion sticks in 2015. In fact, a FICCI Report estimates the overall market for illegal cigarettes in India at a significant 20.2% of the Cigarette Industry, resulting in a huge revenue loss of Rs.9,139 crores to the national exchequer.

Ironically, while illegal cigarette trade shows no sign of abating, the Legal Cigarette Industry, which constitutes only 11% of total tobacco consumption in the country, continues to decline as a consequence of punitive taxation and the successive years of high excise duty increases since 2012/13. During the last 5 years the legal cigarette Industry has seen a significant 22% shrinkage dropping from 110 billion sticks in 2011/12 to around 85 billion sticks in 2015/16.

In its Study 'Invisible Enemy – A Threat to National Interests' FICCI notes that high taxation on cigarettes is the primary driver of illicit trade in the country making legal cigarettes unaffordable to a large section of consumers and pushing business to the underground, clandestine trade in illegal cigarettes. Clearly the large tax arbitrage opportunity has made India a preferred destination for international cigarette smugglers.

Moreover, since contraband products do not use locally grown tobaccos, illegal trade affects demand for domestic tobaccos thereby, impacting the earnings and livelihood of tobacco farmers in the country. In fact, since 2013-14, the annual earnings of FCV tobacco farmers have shrunk by more than Rs.1,500 crores due to fall in demand for tobaccos grown by them used in the manufacture of domestic legal cigarettes.

The illegal trade in cigarettes in India, like the rest of the world, is controlled by criminal and terrorist organizations. Internationally, it has been determined, for example recently by the US Department of Homeland Security, that profits from cigarette smuggling have been used to fund criminal and terrorist activities posing a huge threat to National Security.

It is therefore, critical to contain the threat that the growing illegal cigarette trade poses to the entire legal cigarette value chain in the country. As an Industry Body, representing tobacco farmers, cigarette manufacturers and ancillaries, The Tobacco Institute of India appeals to the Government to seize the unique opportunity that GST offers to address the high tax arbitrage available with cigarette smuggling syndicates and thereby, provide relief to distressed tobacco farmers, the legal cigarette industry and also inject buoyancy in revenue collection from this sector.

For further information please contact:

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Affiliations

- International Tobacco Growers Association (ITGA) • Tobacco Merchants' Association, USA (TMA)
- CII • FICCI • ASSOCHAM • PHDCCI • ICCI • FAPCCI • ASCI
- Chambers of Commerce: Andhra, Karnataka, Maharashtra