

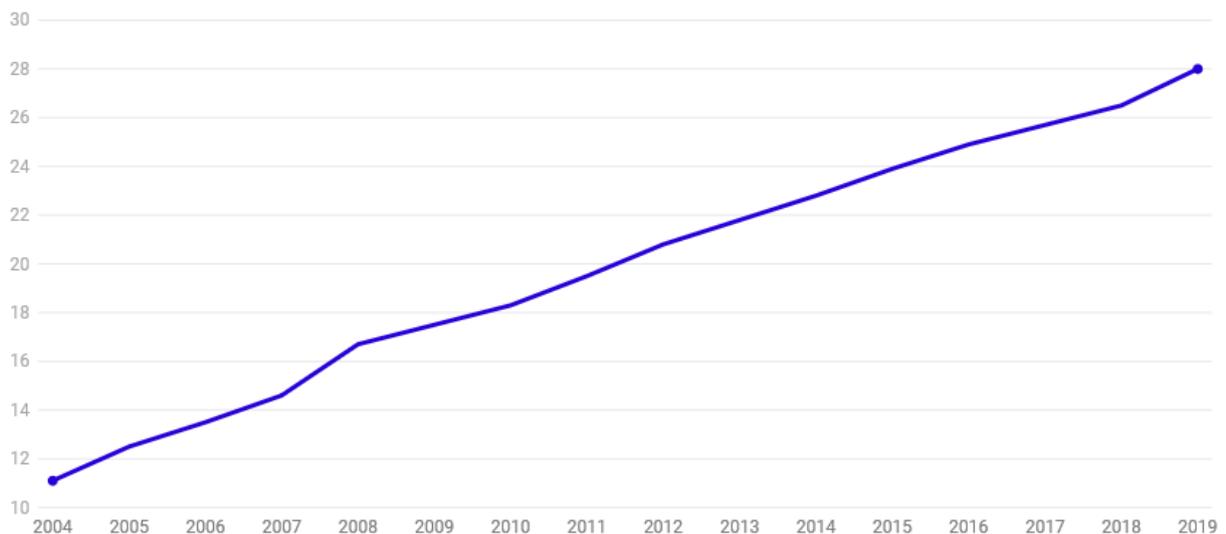
Booming Trade in Illegal Cigarettes Explodes During Pandemic

Sharleen Dsouza | March 25, 2021

Cross-border smuggling of cigarettes spiked during the pandemic as peddlers of the contraband took advantage of supply-chain disruption.

Indian authorities seized illegally imported cigarettes worth Rs 1,772 crore between April 2020 and February 2021, according to a response to a query in the Lok Sabha. That compares with seizures worth Rs 187.6 crore in the previous financial year.

The nation manufactured about 6,800 crore cigarettes in 2019-20, according to excise data. WHO estimated that 6% of the market was illegal in 2016-17. But it's a conservative number. A report by Euromonitor International and Tobacco Institute of India said 2,800 crore illegal sticks were brought into India in 2019 alone. That suggests over a third of the volumes come from the contraband. The reason: taxes on cigarettes have more than trebled since FY13.



Source: Euromonitor International

Illicit operators exploited the pandemic-led disruption, said The Tobacco Institute in an emailed response. According to a distributor for a cigarette company, there has been a huge shift in volumes towards illegal sticks during the pandemic because of the tax arbitrage. The illicit market commands a 30% share, he said on the condition of anonymity out of business concerns.

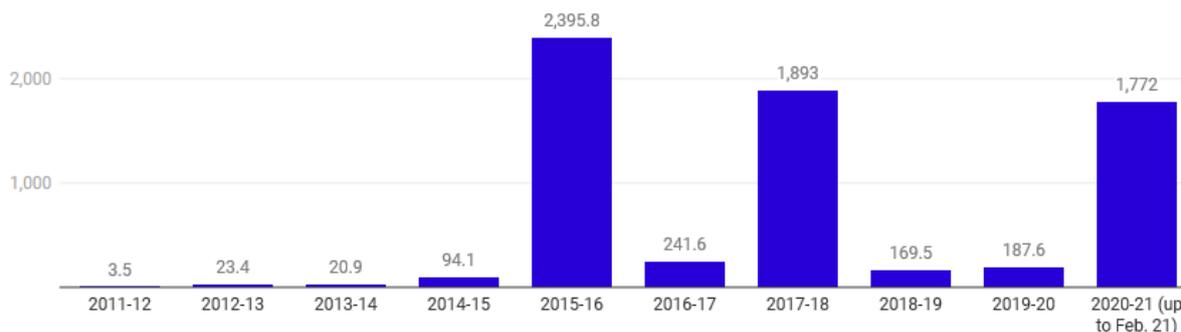
The value of the contraband seized has been erratic as it spikes in certain years and then falls. The volume of cigarettes illegally imported from Bangladesh, Nepal, Myanmar, China and other countries, however, has grown steadily as India increased taxes on tobacco products. That not only hurts companies like ITC Ltd., India's largest maker of cigarettes but also robs the government of tax revenue.

In response to emailed queries, ITC directed to its annual report to reiterate concerns about illegal cigarettes.

Reported seizures are only the tip of the iceberg, according to a report by the Tobacco Institute. For every such seizure, multiple consignments escape through the surveillance net due to the overwhelming volumes involved, it said.

Illegal Cigarette Seizures

Rs crore



Source: Reply to a Lok Sabha query

Bloomberg | Quint

Retailers push sales of illegal cigarettes as their margins are higher, said the distributor quoted earlier. While no taxes are paid on contraband cigarettes, the retail either at the same price or a rupee or two less than the legal ones, he said.

India's Tobacco Taxes

The king-sized cigarettes, the effective increase is much higher, making the tax arbitrage even more attractive. That caused the latest spurt in international cigarettes being smuggled into the country illegally.

- Budget for 2020-21 increased national calamity contingent duty on cigarettes and other tobacco products' from Rs 90-235 per thousand sticks of varying length to Rs 200-735.
- Budget for 2019-20 imposed basic excise duty at Rs 5 to 10 per thousand sticks of varying lengths. Earlier, it was nil.

But levies have been rising for several years. According to the data shared by Tobacco Institute, the effective tax on cigarettes, including cess, have jumped threefold since 2012-13. And since the goods and services tax rollout in 2017, the tax burden on cigarettes, increased by 37% because of GST cess and the National Calamity Contingent Duty.

The cigarettes now attract the highest GST rate of 28%, compensation cess, basic excise duty and the national calamity contingent duty.

No Grotesque Warnings

Another reason for the increase in demand is packing. Since April 2016, according to Indian law, 85% of the pack should be covered with a picture warning about cigarettes causing cancer. But illegal cigarette packs don't have labels with grotesque cancer warnings.

The consumers demonstrated a noticeable preference for smuggled cigarettes without the warnings, a study by Kantar IMRB said. That's has only increased smuggling.

ITC and several other stakeholders challenged the validity of the pictorial warnings. The Karnataka High Court in Dec. 2017 held that the 85% pictorial warnings with extremely gruesome imagery to be factually incorrect and called them unconstitutional. But the Supreme Court, in a special leave petition filed by the government, stayed the order. While the matter is pending, the requirement of pictorial warnings continues.

Source: <https://www.bloomberqquint.com/bq-blue-exclusive/booming-trade-in-illegal-cigarettes-explodes-during-pandemic>