Government mulls sale of non-virginia tobacco to raise revenue

Timsy Jaipuria | May 08, 2020

- The move is aimed at taxing sin goods and curbing both direct and indirect tax evasion by manufacturers.
- Non-virginia tobacco is sold directly by farmers to chewing tobacco manufacturers
- The government estimates 30 percent levy can get Rs 30,000-40,000 crore per year.

At a time when the government is struggling to generate revenues, one of the suggestions which the Finance Ministry is actively considering is regulating the sale of non-virginia tobacco.According to government sources, " India produces close to 500 million kilograms of various varieties of tobacco which are under the non-virginia tobacco category and it is used in the manufacturing of bidi, pan masala, gutka, etc. These varieties of non-virginia tobacco are directly sold by farmers to manufacturers. The government is exploring to bring this category under regulated sales format either to be sold through auction route by Tobacco Board of India or via APMCs."

Currently, no effective institutional arrangements for the regulation or marketing of bidi tobacco exist, due to strong opposition of bidi tobacco traders.

The proposal came to the fore post discussion with an understanding that virginia tobacco, used in cigarettes, is already sold by government regulatory mechanism and yields about Rs 20,000 crore of revenue per year., whereas, non-virginia tobacco, produced much more in the country is sold directly by farmers with no capping or regulation.

People in the know have told CNBC-TV18 that "once under regulation, the government can introduce a reverse charge levy of 30-40 percent on the selling price of non-virginia tobacco sold by farmers, which will be paid by the manufacturer/dealer. It is estimated that a 30 percent levy can yield up to Rs 30,000-40,000 crore per year."

The government feels that the move, considered as taxing sin goods, would help in curbing both direct and indirect tax evasion by manufacturers and help in getting additional revenue through the levy to the Centre.

The government currently earns Rs 20,000 crore of excise duty from tobacco and tobacco products and earns Rs 5,000 crore by way of foreign exchange per year.
The tobacco distinction

There are two major categories of tobacco- Virginia, and Non-virginia. Virginia tobacco also known as Flue Cured Virginia (FCV) tobacco is used by cigarette manufacturers.

A wide variety of non-virginia tobacco is of non-cigarette types. These include bidi, chewing, hooka (hookah), cigar, and cheroot tobaccos. Even though tobacco comes under state

jurisdiction, the government of India plays an important role in the growth and development of the tobacco industry.

The Centre through various rules and regulations governs a basic policy that is to promote the production of tobacco, improve quality, and ensure remunerative prices for growers.

The Tobacco Board, established in 1976, provides marketing services for FCV tobacco, through its compulsory auction system. Virginia tobacco at the primary level is sold through auctions conducted by the Board. Exporters of tobacco, manufacturers of cigarettes and dealers in tobacco wishing to participate in the auctions have to register as a buyer for each auction floor, wherever they intend to operate.

But, on the other hand, the marketing of non-FCV tobacco has been a major problem and there have been allegations of agents exploiting farmers.

The marketing and distribution of bidi tobacco continue to be the domain of the private sector and the industry is totally free. Thus, with the current proposal, being considered by the finance ministry, the government will be able to address these issues of non-FCV or non-virginia tobacco farmers as well.

It was way back in 1984, a compulsory auction system was introduced for the Virginia varieties normally used in cigarette manufacture and sold in overseas markets. But, the space of non-virginia tobacco remains without any regulations.

Experts say that as the market for bidi tobacco, in contrast, is largely unregulated, bidi farmers do not get prices as remunerative as in the case of FCV tobacco or the tobacco used for Cigarettes. Despite growing a cash crop, in most cases, the non-virginia tobacco trading community finances the farmers, and the price-setting power lies with the trader. In some cases, the farmer is not paid until almost a year after the sale occurs.

Thus, the government feels, once regulated, the decision will benefit farmers, increase their farm income, an additional cost of finished product might discourage sales of sin goods, and help in getting more revenue.

Source: *https://www.cnbctv18.com/economy/government-mulls-sale-of-non-virginia-tobacco-to-raise-revenue-5873871.htm*