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Growth in illegal cigarette trade was significant in India due to high taxation: TII

Hyderabad, Nov 24 (UNI) Tobacco Institute of India (TII) in its latest news journal said the growth in illegal cigarette trade was significant compared to legal cigarettes trade in the country due to high cigarette taxation and extreme tobacco control regulations including Pictorial warning on Tobacco products.

High taxation on Cigarettes and extreme regulations have been counterproductive and do not reduce demand but merely shift the demand from the legal tax paid and regulation-complaint products to illegal tax-evaded and non-compliant products in the country.

The illicit cigarette volumes have grown by 44 per cent from 19.5 billion sticks in 2011 to 28.1 billion sticks in 2020, TII said in the news journal.

Growing illicit cigarette trade has a debilitating impact on the Legal Cigarette industry causing a huge loss in Government revenues and also Tobacco Farmers' income.

According to an ASSOCHAM study, Tobacco provides livelihood to 4.6 crore Indians that include farmers, farm labour, bidi workers, tendu leaf pluckers, traders and retailers. This extremely important commercial crop also makes a substantial revenue contribution to the tune of Rs 53,000 crore to the country's exchequer and earns foreign exchange of around Rs 6,500 crore annually.

Tobacco Industry in India is a large contributor to the economy, contributing around Rs 12 lakh crore, it added.

Since the implementation of the Goods and Services Tax (GST) in 2017, the tax burden on cigarettes increased by as much as 37 per cent and due to this, impacted the legal cigarette industry and provided a huge fillip to the illegal cigarette trade in the country. According to a study by Indian market Research Bureau (IMRB), since the implementation of the 85 per cent Pictorial Warning in India in April 2016, consumers have demonstrated a noticeable preference for smuggled cigarettes without the prescribed warnings, it said. Illegal cigarettes are sold at very low prices due to tax evasion which provides huge arbitrage opportunities.

According to Euro monitor International, illegal cigarettes have reached an annual volume of more than 28 billion sticks in the last year- accounting for 1/4th of the Indian cigarette market, making India the fourth largest illicit cigarette market in the world. As per the Central Board of Indirect Taxes and Customs (CBIC), seizures of illegal cigarettes amounted to Rs 1,772 crore during the first 11-months of FY21, which is almost ten times higher than the seizures in the previous year.

Even during the pandemic, the illegal cigarette trade grew rapidly against the legal cigarette industry which faced several challenges posed by the pandemic. The smuggled

trade in cigarettes in India, like the rest of the world, is controlled by organized criminal syndicates and terror groups, both enemies of our country.

Acknowledging the serious threat posed by illicit cigarette trade , the Head of the WHO FCTS Secretariat, Dr Adriana Blanco Marquizo, stated that illicit cigarette trade “ causes substantial losses in Government revenues and at the same time contributes to the funding of International criminal activities”.

In order to maximize the benefits from the cash crop in terms of employment generation, revenue and foreign exchange earnings, the policymakers in India should adopt a moderate taxation regime and provide a balanced regulatory environment to the tobacco sector. Such a balanced policy approach will help curb the menace of the illegal cigarette trade, reducing the high tax arbitrage and the unintended consequences of over regulation, the TII added.

Source: <http://www.uniindia.com/growth-in-illegal-cigarette-trade-was-significant-in-india-due-to-high-taxation-tii/business-economy/news/2572834.html>