

A flawed approach

Excessive regulation of tobacco products promotes illicit trade which adversely impacts the State's revenue, employment and even public health



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The law of 'unintended consequences' explains such actions of people, as also of governments, that result in such effects which were not expected or desired. While social scientists have heeded its power for centuries, popular opinion has largely ignored it. An understanding of this is important, especially while crafting policies and regulations and any detachments from the same may have consequences that are not only unplanned but also counterproductive.

A case in point is the excessive regulatory approach of the Government of India towards the sin products, in particular, cigarettes.

India is the 2nd largest producer of tobacco in the world, providing livelihood to 45.7 million people in the country with a significant share of the country's tax revenues amounting to around Rs 53,750 crore annually. Despite being an important commercial crop and generating socio-economic benefits in terms of agricultural employment, farm incomes, revenue generation and foreign exchange earnings, this industry has borne the brunt of unreasonable regulatory measures over the years.

If we see the tobacco consumption pattern in India, it is very unique where only 8 per cent of the total tobacco is consumed in the form of legal cigarettes. The remaining 92 per cent consumption is in the form of 29 other evasion prone tobacco products such as bidis, chewing tobacco, khaini etc. and illegal cigarettes. This is



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quite unlike the pattern in the rest of the world where tobacco consumption is synonymous with cigarettes which account for as much as 90 per cent of total consumption.

Despite a small share of tobacco consumption, legal cigarettes contribute a very high proportion of the tobacco tax revenue in India. Hence, India's tobacco control policies and regulations need to be specifically tailored to Indian conditions and not based on a "one size fits all" approach as advocated by WHO's tobacco control programme.

In India, some lobbyists pursue untenable views that if taxes on cigarettes are high, the consumption would come down, and the cause of public health would be served better. But the ill effects of excessive taxation coupled with impractical restrictions stare us in the face. As per a WHO Report of 2021, affordability as a percentage of GDP per capita required to purchase 2,000 cigarettes in India is 13.78 per cent as compared to USA 1.16 per cent, Japan 1.22 per cent, China 1.10 per cent, Pakistan 4 per cent

etc. Thus, making legal cigarettes in India the least affordable. This naturally increases the circulation of either tax-evaded illicit cigarettes which come at a lower cost or other forms of cheap and substandard tobacco products which cause much greater harm to public health than genuine tax-compliant products.

According to a report by Euromonitor International, India is now the 4th largest illegal cigarette market in the world. The year 2020 saw an eightfold increase in illicit seizures of cigarettes over the previous year, indicating that India continues to be a target for tobacco smugglers. Also, according to DRI's 'Smuggling in India report' released in 2021, the seizure of illegal cigarettes increased by nearly 20 per cent in FY20-21, making it one of the most lucrative commodities for smugglers of late.

Moreover, it is estimated that on account of illegal cigarettes alone, revenue loss to the Government is almost Rs 15,000 crore per annum. As per a study by FICCI, large scale smuggling of cigarettes

has resulted in a loss of employment to the tune of 3.34 lac in the year 2017-18 in India. With widespread smuggling of cigarettes and large quantities of the same being seized regularly, the likelihood of illicit trade in cigarettes increasing further in the years to come is very high.

Besides the loss of revenue and employment, this lucrative criminal enterprise also generates a large amount of unaccounted money, a substantial portion of which is also utilized to finance terrorism, making it a grave matter of national threat. It is an established fact that the world's largest and most notorious terror organisations get their financing mainly from illicit trade, including the smuggling of cigarettes. Conclusive evidence has been found that cigarette smuggling due to its being a low risk, high-profit business operation, has been the preferred choice for Al-Qaeda, Lashkar-e-Taiba, Taliban, Irish Republican Army, Boko Haram and many more to finance their criminal acts.

Further, health warnings on cigarette packs in India are among the most stringent. They cover more than 85 per cent of the surface area of packages. By virtue of this, India ranks eighth in the world, whereas the global average warning size is less than 45 per cent. The United States, China and Japan which collectively account for 50 per cent of the global cigarette consumption have not opted for pictorial warnings. They have text-based warnings which are not found to be less effective in cautioning the consumers.

The unintended consequence of this apparently beneficial measure is that while the graphic warnings are intended to deter consumption, in practice, they actually aggravate the situation further as large quantities of illicit cigarettes are being sold in packages having no pictorial or text warnings. And in all this, consumers are shifting to tax-evaded, sub-standard, and cheaper products that appear safer due to lack of graphic health warnings, but pose a much greater health risk as they are manufactured illegally, in unhygienic conditions and are not quality compliant. Thereby, completely defeating the government's well-intentioned objective of controlling the sale and consumption of health injurious products.

Extreme regulations and taxation on any legal product even of the sin ones promote illicit trade. It is difficult to understand why the government remains oblivious to this obvious reality while taking important fiscal decisions. The government's objective of increasing taxes on cigarettes primarily stems from a public health perspective along with augmenting its exchequer. However, as a result of the present shortsighted approach, both of these noble objectives are getting defeated. There is an immediate need to delve deeper into all related aspects while taking taxation decisions about this item.

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