

'Excess regulation stifling legal tobacco trade'

Ex-CBIC chief says Indian tobacco policies need to be tailored to Indian conditions

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Tobacco products in India have for long been facing the brunt of high taxes and unreasonable regulatory measures despite being one of the largest revenue generators at ₹53,750 crore annually. India is the second largest producer of tobacco in the world and provides livelihood for 45.7 million people.

PC Jha, former Chairman, Central Board of Indirect taxes and Customs and Advisor, FICCI Committee Against Smuggling and Counterfeiting Activities Destroying the Economy (Cascade), told *BusinessLine* that only 8 per cent of the total tobacco is being consumed as legal cigarettes

and the balance is being consumed through 29 tax evasion-prone products. In contrast, globally, legal cigarettes account for 90 per cent of total tobacco consumption. Hence, he said the country's tobacco control policies and regulations need to be tailored to Indian conditions and not based on a "one size fits all" approach as advocated by WHO's tobacco control programme.

Illegal cigarettes alone account for revenue loss of about ₹15,000 crore per annum to government, according to market estimates.

Revenue loss

As per a World Health Organisation Report last year, affordability as a percentage of GDP per capita required



Govt's aim of increasing taxes on cigarettes stems mainly from a public health perspective along with augmenting its revenue

to purchase 2,000 cigarettes in India is 13.78 per cent compared to 1.16 per cent in the US; 1.22 per cent in Japan; 1.10 per cent in China and 4 per cent in Pakistan. Thus, making legal cigarettes in India least affordable increases the circulation of tax-evaded illicit cigarettes, he said.

As per Euromonitor International report, India is now the fourth largest illegal cigarette market in the world

with an eight-fold increase in illicit seizures of cigarettes in 2020 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, seizure of illegal cigarettes rose by nearly 20 per cent in FY21, making it one of the most lucrative commodities for smugglers of late.

According to Jha, health warnings on cigarette packs in India cover over 85 per cent of the surface area of packages.

The US, China and Japan which collectively account for 50 per cent of the global cigarette consumption have opted for text-based warnings. Extreme regulations and taxation on any legal product, even of the sin ones, promote illicit trade. 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 short-sighted approach, both the noble objectives are defeated. There is an immediate need to delve deeper into all related aspects while taking taxation decision about this item, said Jha.