

Illegal cigarette trade due to high taxes

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Hyderabad, Nov 11 (UNI) High taxation and extreme tobacco control regulations such the 85 per cent pictorial warning on tobacco product packs in India have led to the decline in legal cigarettes in the country while illegal cigarette trade has grown significantly, according to the Tobacco Institute of India (TII).

A recently released report by FICCI CASCADE highlighted the tremendous threat of illicit trade on the five key industries in India including tobacco industry.

India is now the fourth largest illicit cigarette market in the world, which severely impacts the legal industry, government revenues (revenue loss more than Rs 15,500 crore per annum) and earnings of cigarette tobacco farmers in the country, the report said.

Profits from illicit trade are being used to fund anti-India activities by the criminal syndicates and terror groups, who are actively encouraged by our hostile neighbours, the report added.

High taxation on cigarettes over the years has impacted the legal cigarette industry and provided a huge fillip to the illegal cigarette trade in the country. Cigarettes in India (as a percentage of per capita GDP) are almost 17 times higher than in the US; 10 times higher than Japan; 7 times more than China and Germany; 6 times higher than Canada and Russia, 4 times more than Thailand and Malaysia; and 3 times higher than Pakistan and the UK.

Excessive taxation has made legal cigarettes in India amongst the least affordable in the world (as per WHO report 2021) and this has fuelled the growth of illicit cigarette trade in the country.

According to a study by the Indian Market Research Bureau, since the implementation of the pictorial warning in India in April 2016, consumers have demonstrated a noticeable preference for smuggled cigarettes without the specified warnings.

International cigarette brands are globally recognized and these cigarettes smuggled into India do not carry the mandated pictorial warnings. Absence of the mandated warnings creates an impression amongst the consumers that they are safer than the legal cigarettes which bear the mandated warnings. Illegal cigarettes are sold at very low prices due to tax evasion which provides huge arbitrage opportunities.

According to Euromonitor International, illegal cigarette volumes in India are estimated at 26.8 billion sticks in 2021, making it the 4th largest illicit cigarette market in the world and with shrinking legal cigarette volume, illicit cigarettes are now 1/3rd of the legal cigarette volume.

According to reports, the study finds that illicit trade leads to an estimated legitimate employment loss of 15.96 lakh and the tax loss to the government due to illicit goods and in these industries is Rs 58,521 crore with two highly regulated and taxed industries, tobacco products and alcoholic beverages, accounting for nearly 49 per cent of the overall tax loss.

Acknowledging the serious threat posed by illicit cigarette trade, the head of the WHO FCTC 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

Source: <http://www.uniindia.com/illegal-cigarette-trade-due-to-high-taxes/business-economy/news/2858639.html>