

# Burgeoning menace

*In addition to maintaining a stable tax regime, governments must impose stricter measures, deploy technologies and raise public awareness to control smuggling of cigarettes*



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The Government of India's GST revenue collection is significantly high today and is setting new milestones. For the first time, gross GST collection stands at Rs 1.87 lakh crore with revenues for April 2023 being 12 per cent higher than the GST revenues in the same month last year. This goes on to show that various measures are taken, be it in policy, tax or enforcement to strengthen the tax administration and initiate appropriate action against nefarious elements and tax evaders. This has most certainly ensured greater compliance and led to a record collection of revenues.

The entire team of officers must be complimented who have been working round the clock not only maintaining the thrust on revenue augmentation but equally addressing the issue of anti-evasion and illicit trade with an iron hand.

Ensuring that every offender of India's economic frontier is taken to task, operations involving various enforcement authorities during the first three months of this year have led to the seizure of over 22.52 crore smuggled cigarettes across different states in India. Media reports indicate that the Directorate of Revenue Intelligence (DRI), Customs, GST Commissionerate, Police Railway Protection Force and Assam Rifles conducted multiple operations across India and carried out around 35 seizures in various states to counter the mounting challenge of smuggled cigarettes in the country which exceeds one-third of the legal cigarette volumes.

While the detection of such a large number of cases and thwarting of the attempts of illicit traders may have given us a moment to cheer, they have also provided us food for thought on the scale and size of the proliferation of smuggled cigarettes in our country.

If we glance through the



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recent seizures, we will see high-end, mid and low-end brands of foreign cigarettes were smuggled into India in large numbers. The consignments either originated or passed through Myanmar and/or Sharjah & Dubai in UAE. In fact, sources indicate that when it comes to smuggled cigarettes, 47 per cent of them originate from Myanmar, 22 per cent from the UAE and the remaining 31 per cent from a couple of other countries.

Interestingly, the Trade Journal, World Tobacco admitted in a 1996 report that "Although sales of contraband cigarettes have affected the level of income that governments worldwide derive from tobacco sales, smuggling has also helped to promote some of the world's leading brands in markets which had remained closed to foreign imports and where demand for western cigarettes has continued to grow." Writing in Tobacco Journal International in 1993, Michael Barford stated: "Whose brands sell best in contraband trade? Traditional smuggling has focused on well-known international brands, since instant recognition and confidence in the merchandise are essen-

tial to these quick, furtive transactions."

Presently, more than 100 international smuggled cigarette brands are flooding the Indian market from all over the globe with smugglers utilising all possible models of shipment, including courier consignments, land borders, by sea cargo as well as by air.

It is quite evident that criminal entrepreneurs involved in such illegal activities are opportunistic by nature and seek to exploit market and regulatory arbitrage opportunities for economic gain. These smuggled cigarettes are approximately five times cheaper than the duty paid by legal cigarettes and also do not carry any pictorial or textual warning on 85 per cent of the packaging area, as mandated by COTPA 2003, thus making their trafficking a lucrative business in our country.

This is a serious concern and has been rightly highlighted in the 'DRI - Smuggling in India' report of 2021-22 as well, which states that "in order to evade the high rate of tax and cess levied on cigarettes as also to avoid printing of pictorial or textual warning, illegal means of importation of cigarettes is resorted to meet

demand and rake in exorbitant profits."

While globally, governments across the world lose about USD 40.5 billion in revenue from the illicit trade of tobacco products every year, in India, according to a report, Illicit Markets: A Threat to Our National Interests by FICCI CASCADE (Committee Against Smuggling and Counterfeiting Activities Destroying the Economy), the illicit cigarette market was worth Rs 22,930 crore in 2019-20, causing tax loss of Rs 13,331 crore to the government and a job loss of 9.89 lakh for the same period.

Undoubtedly, our enforcement agencies are playing a pivotal role in combating this mounting threat. The indefatigable efforts of our enforcement officers have relentlessly apprehended the illicit traders, despite their constant and innovative attempts to smuggle this product into our country. Data from DRI on the value of seizures of Illegal cigarettes in the last five years has seen an astounding growth of 172 per cent from 34.29 crore in 2017-18 to 93.32 crore in 2021-22.

Having said that, one must also keep in mind that these seizures are only the tip of the

iceberg. Looking at the new modus operandi of the illicit traders, multiple consignments may escape the surveillance net, despite the best efforts of our officers. Therefore, the constant thrust of this issue which not only has a financial and economic impact but also fuels transnational crime, corruption, and terrorism and exposes consumers to greater health risks, must be maintained.

And how do we ensure that? Apart from a stable tax regime which has been demonstrated by the Government, we need the Centre as well as State Governments to also put in place stricter measures such as higher fines, penalties and imprisonment that will communicate that we are seriously committed to addressing this issue. Cutting-edge technologies such as AI, Blockchain, and ML can also be potent tools in clamping down on such illicit businesses, and most importantly extensive public awareness and multistakeholder partnerships. All of this would provide the much-needed impetus to our fight against this formidable enemy.

We are living in uncertain times when the world confronts several challenges and grave risks. For some time now, India has been the leading voice for coordinated action in intelligence, investigation and indictment of economic offenders and organised crime syndicates. As we advance on the path to building a strong and developed nation, enhanced and sustained actions to eradicate this threat of mammoth proportions will be at the forefront of this much-anticipated progress.

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*Views expressed are personal*

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