

On A High: Cigarette Smuggling in India

Dr Monish Bhalla **May 22, 2024**

Illicit cigarettes is a burgeoning trade in the country that thrive on higher margins to retailer outlets

The shadow market of contraband cigarettes, which includes both smuggled imports and locally produced goods avoiding taxes, constitutes nearly 25 per cent of India's tobacco market. This illicit trade significantly harms government revenue, with annual losses estimated at around Rs 18,500 crore. If we project these figures over the six years since the introduction of GST, the cumulative revenue lost by the country is astonishing, exceeding ₹1,00,000 crore.



The Allure of Tax Evasion in Cigarette Trafficking

Exorbitant cigarette taxes are the primary drivers of this underground economy. The temptation to evade these high taxes has fostered a thriving black market. From 2012 to 2024, the tax burden on legal cigarettes increased dramatically, more than tripling due to consistent tax hikes.

High taxes are a significant factor in the proliferation of smuggling and the domestic black market for cigarettes. It is noted that cigarette taxes in India rank among the highest globally, prompting widespread smuggling.

With the implementation of GST, there has been a continuous increase in cigarette taxes, mainly attributed to the Compensation Cess.

In the past one decade, it is estimated that approximately 2500 Billion cigarettes have been distributed through illegal channels, either smuggled or produced domestically without compliance. This has significantly impacted government revenues as the illicit cigarette market flourishes, supported by robust mafia networks that ensure these products are readily available in every corner of cities, both large and small. A significant aspect of India's illicit cigarette market is the rise of low-cost, domestically produced cigarettes that evade taxes. Illicit cigarettes are ubiquitous across India, found everywhere from busy markets to the smallest paan stalls and roaming vendors. They are preferred by sellers due to their low cost and high-profit margins.

Similar to global observations, the clandestine cigarette trade in India is heavily linked with criminal syndicates. This illicit market significantly boosts the financial strength of these groups, enabling them to expand their illegal operations. Notably, like the US, the Indian government has identified connections between smugglers of illicit cigarettes and a range of other criminal activities, including actions that threaten national security. Agencies such as the US Department of Homeland Security have pointed out that proceeds from cigarette contraband have funded criminal and terrorist

operations globally, posing a significant risk. This underscores the severe national security threats posed by the illicit cigarette trade, which extends beyond economic damages to include broader criminal implications.

The Surge in Seizures of Contraband Cigarettes :Just a Tip of The Iceberg

According to Euromonitor International's 2023 report, illicit cigarette volumes in India reached 30.2 billion sticks in 2022, surpassing Pakistan and trailing only behind China and Brazil. This burgeoning illicit market thrives as smuggled cigarettes offer higher margins to retailers and sell at much lower prices than those produced legally in India.

There has been a noticeable increase in the seizure of contraband cigarettes recently, particularly in regions close to the porous Indo-Myanmar border. In response to the escalating problem, the Indian government has instructed enforcement agencies to ramp up efforts against the illicit cigarette trade. This heightened focus has led to numerous incidents of tax evasion by contraband cigarette dealers being exposed through raids conducted by the Directorate General of GST Intelligence (DGGI) , Customs , DRI and similar law enforcement agencies. Media reports have brought these cases to light, yet the seizures reported are likely just the tip of the iceberg. The actual quantities involved in the illicit trade are unfathomable, with many shipments continuing to evade detection, slipping through due to the vast scale of the operations involved, despite rigorous enforcement.

In cigarette packaging, "sticks," "cartons," and "cases" denote different quantities. A single cigarette is called a "stick," and packs usually contain 20 sticks. A "carton" holds 10 packs, totaling 200 sticks. For larger quantities, a "case" typically contains 50 cartons, which equals 10,000 sticks. This understanding of cigarette packaging is vital for comprehending the distribution and trade of cigarettes.

Mumbai's Crackdown on Cigarette Smuggling (2023-2024)

The DRI has been relentless in its pursuit of illicit cigarette traffickers in Mumbai, with a series of high-profile seizures:

- January 15, 2024: A staggering 67.20 lakh sticks were confiscated.
- December 10, 2023: Enforcement officers seized 86.30 lakh sticks.
- May 15, 2023: A record haul of 102 lakh sticks was intercepted.
- October 16, 2023: Another significant seizure of 63.6 lakh sticks.
- December 29, 2023: Authorities seized 33.92 lakh sticks.
- January 1, 2024: The new year began with the seizure of 15.66 lakh sticks.

The pattern of seizures indicates a robust network of smugglers operating in the region, with Mumbai serving as a critical node in this clandestine trade.

Mizoram's Vigilance Against Cigarette Smuggling (2023-2024)

Mizoram has been a significant focus in the fight against cigarette smuggling, with the Assam Rifles and Customs making numerous seizures:

- July 6, 2023: A substantial seizure of 300 cases and 36 cartons.
- January 13, 2024: Enforcement actions led to the confiscation of 95 cases.
- December 25, 2023: The festive season saw 109 cases being seized.
- March 14, 2023: Authorities intercepted 60 cases.
- March 10, 2023: Another operation resulted in 70 cases being seized.
- February 14, 2023: A haul of 65 cases was captured.

January 16, 2023: A joint operation by Customs and the Assam Rifles led to 110 cases being seized.

December 31, 2022: The year ended with a seizure by the Assam Rifles.

November 20, 2023: A smaller seizure of 6 cases.

September 28, 2023: A collaborative seizure by the Assam Rifles and Customs.

February 19, 2024: 14 cases were confiscated.

March 26, 2024: A significant seizure of 100 cases.

These efforts reflect the ongoing vigilance and proactive measures taken by the security forces in Mizoram. The consistent pattern of seizures throughout the year indicates a strong presence of smuggling activities in the region, with the Assam Rifles playing a crucial role in the crackdown.

Throughout 2023 and continuing into 2024, numerous Indian cities have experienced substantial confiscations of illegal goods by law enforcement agencies, including the Assam Rifles. In Guwahati, customs officials and railway authorities confiscated over 11 lakh sticks on multiple occasions, with the Assam Rifles also making seizures. Visakhapatnam saw the police and customs seize over 21 lakh sticks, while in Vijayawada, the tally reached over 103 lakh sticks, including 75 boxes. Hyderabad's police force seized 267 cartons and 4.5 lakh sticks.

Lucknow's customs officials were active at the airport, seizing over 2.12 lakh sticks and a substantial number of packs and boxes. Delhi and New Delhi reported similar activities, with customs officials confiscating over 24 lakh sticks and thousands more at IGI Airport. In Mizoram's Champhai, the Assam Rifles seized hundreds of cases and cartons. Nagaland and Anantapur also saw significant seizures by the Assam Rifles and customs officials, respectively.

Calicut Airport, Faridabad, Amritsar, and Indore experienced various seizures by customs, the police, and the DRI. Pune and Silchar. Raipur, Surat, and Ahmedabad saw the DRI seize over 85 lakh sticks.

Earlier studies by KPMG and ASSOCHAM have revealed that nearly 68% of India's tobacco consumption evades taxation, highlighting the severe challenges of tax evasion and illegal trading within the sector. The tobacco industry has long been susceptible to tax evasion and avoidance, primarily due to two reasons: the highly addictive nature of the product and the fact that its retail market operates almost entirely on cash transactions.

Globally, illicit cigarette consumption stands at approximately 600 billion sticks annually, making up about 10% of total tobacco use. This high-value, low-risk sector leads to substantial revenue losses globally, estimated at \$40-50 billion annually. In India, the share of illicit cigarettes is 30.4%, making it one of the largest illegal markets globally. The rise in India's illicit cigarette market is driven by the affordability of illegal products, high taxes on legal cigarettes, strict regulations, and weak enforcement, often linked to organized crime, impacting both the economy and consumer safety.

More the Taxes Higher -The Incentive for Evasion

The rollout of the Goods and Services Tax (GST) in July 2017 fundamentally changed India's indirect tax system by merging national excise duties, state-level VAT, and other taxes into one unified framework. Under this new structure, all tobacco products are

taxed at a statutory GST rate of 28%, with an additional compensation cess on cigarettes and smokeless tobacco products. This cess, which is applied at each stage of the supply chain, aims to make up for potential state revenue losses in the first Six years of GST implementation. Despite GST's inclusivity, the National Calamity Contingent Duty (NCCD) still applies to tobacco products. Customs duties were always on the higher side .

Dual Intent Creates A Paradox

Higher taxes on tobacco products were primarily instituted as a deterrent to reduce smoking rates. Ironically, while this policy aims to curb tobacco use, it also positions the government to benefit from increased tax revenues. This dual intent creates a paradox where the government's health objectives to discourage smoking might conflict with its financial incentive to maximize tax collections. The elevated tax rates, therefore, not only aim to dissuade tobacco consumption but also inadvertently encourage tax evasion as individuals and entities seek to avoid hefty payments.

Smokers Paradise

Duty-not-paid cigarettes are smuggled into Indian markets via maritime routes and through personal baggage or courier services at airports from countries like the UAE, Bangladesh, Indonesia, and China. The high profit margins from these overseas cigarettes fuel their smuggling. A distributor in South Delhi observed that a pack of 20 cigarettes, costing Rs 100-150 in Dubai and Bangladesh, can be sold for nearly Rs 250 in India. Wholesalers purchase these packs at a lower price and sell them to retailers at a marked-up rate. Retailers, in turn, sell them to consumers at an even higher price, resulting in a substantial profit margin compared to domestic cigarettes.

In the illegal cigarette market, popular brands like Esse Lights, Win, Gudang Garam, Marlboro, Camel, and Dunhill are highly sought after. The prices vary depending on the brand's popularity; for example, Esse Lights, Win, and Paris are sold for Rs 100 per pack, while Gudang Garam and Dunhill can fetch around Rs 220. In comparison, the price for legal cigarettes ranges above Rs 270 per pack.

Novel Modus Operandi -The Counterfeit Menace

Tobacco trafficking remains a critical concern, particularly due to the high duties imposed on tobacco products. A common method involves exporting counterfeit cigarettes to remote locations while diverting genuine products into the domestic market via a network of intermediaries. Despite initial IGST refunds being issued, further investigations revealed that many of these exports were fictitious transactions involving non-existent dealers. This highlights the complexity and deceit involved in the smuggling of cigarettes.

Counterfeit cigarettes mimic well-known legal brands and, like their duty-evaded counterparts, promise high profits for distributors and retailers. Recently customs authorities have intercepted over 30 million sticks of Indian cigarette brands of foreign origin that lacked proper documentation. The brands involved include Gold Flame, Gold Clock, Flame, Fun Gold, Impression, Pelicans, and Gold Fighter.

Navigating Smuggling in India's Varied Landscape

India's vast and varied terrain presents formidable obstacles in the battle against smuggling. The nation's expansive borders and coastlines, which have long captivated

topography, also provide ample opportunities for illicit activities due to lapses in enforcement. The North East Region (NER), encompassing eight states, borders Bangladesh, Nepal, Myanmar, China, and Bhutan on nearly all sides. Linked to mainland India by the narrow Siliguri corridor, colloquially known as the “Chicken’s neck,” the NER is particularly vulnerable to smuggling, given its strategic significance and the complex natural barriers it presents, including rivers, dense foliage, and mountainous areas.

Strategic Initiatives and Enforcement and International Cooperation

To address these challenges, India has implemented strategic initiatives and bolstered enforcement measures. The government has deployed additional border security forces and enhanced surveillance technology to monitor high-risk areas including High end Full body scanners and drones. Furthermore, there is an increased focus on intelligence-sharing between different law enforcement agencies to preempt smuggling attempts

Economic Ramifications and Legal Framework

The economic impact of cigarette smuggling is profound, resulting in significant losses in tax revenue and damage to the legitimate tobacco industry. To combat this, India has established a robust legal framework, including the Cigarettes and Other Tobacco Products Act (COTPA), which imposes strict penalties for violations related to the sale and distribution of tobacco products. However, these penalties are rarely enforced. In a paradox, customs-seized smuggled cigarettes often re-enter the market through government auctions, undermining efforts to control illegal trade.

Given the transnational nature of cigarette smuggling, international cooperation is essential. India actively participates in global forums and bilateral discussions to enhance coordination and joint actions against tobacco trafficking. Agreements with neighboring countries aim to tighten border controls and crack down on smuggling networks.

The illicit trade and smuggling of cigarettes pose a multifaceted challenge that requires a concerted effort from law enforcement, the government, and the community. Through a combination of strategic enforcement, legal measures, public engagement, and international collaboration, India is taking decisive steps to combat this issue and protect its economic and public health interests.



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