The Hans India

North-East, Maharashtra, Goa, Tamil Nadu and West Bengal Emerging as Cigarette Smuggling Epicentres: DRI

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- **Experts urge a two-slab GST of 5% and 18% to spur demand and warn that adding a third, higher slab would fuel grey markets.**
- **India should take cues from Australia's excessive tobacco taxation which has led to a 33% drop in tobacco tax revenue, underscoring the pitfalls of a high-tax strategy.**

According to the Directorate of Revenue Intelligence (DGRI) data, seizures of smuggled cigarettes have witnessed a sharp spike between 2019-20 and 2023-24 - rising by over 107% in volume and more than 110% in value.

The data also highlighted that the North-Eastern region has emerged as the largest epicentre of cigarette smuggling, with a one-third share of total seizures, underscoring the growing inflow of contraband through porous borders. Maharashtra and Goa together made up around 20%, highlighting the increasing use of the western coastal routes; Tamil Nadu and West Bengal accounted for over 13% and 9%, respectively, pointing to the growing role of maritime channels.

These statistics were shared in Parliament in December 2024 by Prataprao Jadhav, Minister of State for Health and Family Welfare.

"According to available data, seizures of smuggled cigarettes by the DRI, Assam Rifles, CRPF and other enforcement agencies are estimated to have exceeded ₹600 crore during FY'25. These however represent only the tip of the iceberg. FICCI CASCADE's latest report states that 1 out of every 4 cigarettes in India comes from unknown sources where no tax has been paid. Given the high incidence of taxation on cigarettes, the resulting revenue loss is massive. High tax rates create a premium on evasion and place an enormous burden on enforcement agencies to check it. With the government now preparing to simplify GST, this is a golden opportunity to moderate taxes on high-margin products, reduce the incentive for smuggling, and curb the growth of illicit trade" said, PC Jha, Adviser, FICCI CASCADE and Former Chairman, CBIC (Central Board of Indirect Taxes and Customs).

High-margin goods like gold, tobacco, and alcohol are heavily taxed, creating strong incentives for smuggling and tax evasion. Their high value and steady demand make them prime targets for illicit trade, often fuelled by arbitrage and money laundering. Such illegal activities not only distort markets but also fuel a parallel economy, causing massive revenue losses to the government. Globally, studies indicate that merely around 3% of illicit trade is seized, suggesting that the actual market size could be well over ₹20,000 crore.

Ranganath Tannir, Secretary General, Think Change Forum, said “Government should go the full way and simplify GST with only two slabs of 5% and 18% - this will spur consumption and signal resilience amid global challenges. A third 40% slab would increase ad valorem rates, distort markets, encourage grey trade in categories like tobacco and gaming which are already witnessing very high illegal trade, and eventually hurt revenue stability. Instead, there should be a sharp focus on two priorities — first, reducing taxes on mass consumption goods to energize demand and expand overall tax collections; second, maintaining revenue neutrality through targeted top-up levies on luxury and sin goods, rather than creating space for grey and illegal markets to flourish”.

“The idea of using specific duties for clearly defined categories is superior economics because each sector faces different risks and leakages. For example, while both sugar-sweetened beverages and tobacco are ‘demerit’ goods, tobacco is highly prone to smuggling, as are certain luxury goods. High ad valorem base rates in cigarettes have historically fuelled evasion, compounded by multiple internal slabs. It is therefore prudent to keep the standard ad valorem rate at 18% and balance revenues with product-specific duties. This approach can augment revenue, curb illicit trade, and preserve a simple two-rate GST structure.”, Ranganath Tannir added.

The issue of illegal cigarettes has again been raised in the Parliament in July 2025. Replying to questions in the Lok Sabha on the alarming rise of the illicit tobacco market, Minister of State in the Ministry of Commerce and Industry Jitendra Prasada said that the Customs Field Formations and the Directorate of Revenue of Intelligence (DRI) have alone seized approximately 3.93 crore of smuggled cigarette sticks in the current financial year up to June 2025 amounting to approximately ₹104.38 crores.

The Indian government is actively working to curb cigarette smuggling, yet the trend continues to grow. Multiple enforcement agencies, apart from DGRI including Border Security Force (BSF), Central Reserve Police Force (CRPF), Assam Rifles, and others, are making sustained efforts on the ground. Despite their commitment and vigilance, the scale and sophistication of smuggling networks remain a persistent challenge.

Heavy taxation on cigarettes has proven counterproductive. Take Australia as an example—its aggressive taxation strategy has backfired. With tobacco excise now at $1.40 per cigarette, more than five times higher than 15 years ago, government revenues have dropped to two-thirds of 2019–20 levels and are projected to fall by 75% in the coming years. Meanwhile, the black market is costing the Australian treasury over $10 billion annually. Despite soaring tobacco taxes, Australians continue to smoke, and smugglers are thriving at the expense of public health and government revenue.

Jitendra Parsad in his reply in the Lok Sabha also emphasized that the government of India has taken concrete steps to curb illicit cigarette smuggling. The government has introduced a compliance framework for tobacco manufacturers, monthly production data, and technical validation certificates to enable real time tracking of manufacturing to track illicit manufacture of supply of tobacco and related products.

Additionally, the Union Budget 2025–26 introduced a “Track and Trace” mechanism under Section 148A of the CGST Act, requiring unique identification markings on tobacco product packages. This system strengthens supply chain oversight, curbs illicit production, and enhances enforcement efficiency.

The rampant cigarette smuggling in the country can be corroborated with the findings of a recent report by FICCI CASCADE titled "Consuming the Illicit: How Changing Factors of Consumption Affect Illegal Markets in 5 Key Industries." According to the report, the illicit tobacco market in India has expanded by 17.7% from 2018-19 to 2022-23 from ₹25,495 crore to ₹30,012 crore.

The DRI Bulletin April-September 2024 states that apart from the Myanmar-India border, the smuggling syndicates based in South East Asia and the Middle East carry out major operations through the sea route. Though illicit cigarettes are reportedly manufactured in South East Asian countries, it appears that the consignments are initially shipped to Dubai from this region and then re-routed to India.

While tobacco taxes aim to curb smoking, excessive rates have become counterproductive— fuelling illicit trade, reducing revenue, and increasing health and safety risks through substandard products.

Source: *https://www.thehansindia.com/business/north-east-maharashtra-goa-tamil-nadu-and-west-bengal-emerging-as-cigarette-smuggling-epicentres-dri-1002422*