

Impact of High Taxation and Extreme Regulations on Indian Tobacco Sector



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Published by

The Tobacco Institute of India

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CIN: U16003DL1992 NPL085954

2025

Preface

The Tobacco Institute of India (TII) is pleased to publish the Handbook **Impact of High Taxation and Extreme Regulations on Indian Tobacco Sector** with a comprehensive picture of the Tobacco sector in India.

The Handbook covers several Policy issues being faced by the sector besides highlighting the enormous socio-economic significance of tobacco cultivation in India and the huge livelihood dependency on it.

Findings and statements from various national and international studies, Government Sources/Publications, UN and other International agencies constitute an integral part of this Handbook.

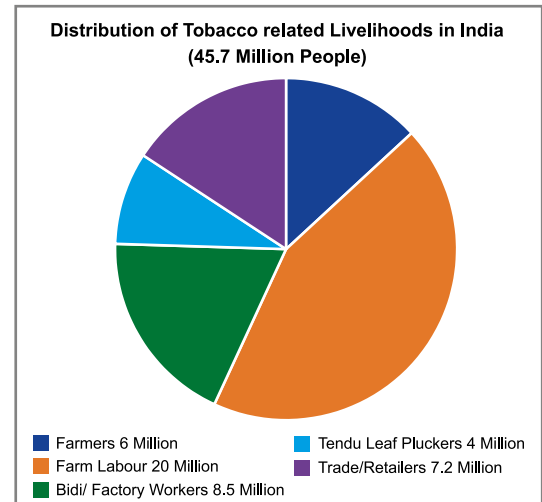
We are confident that this Handbook will serve as an effective reference document towards developing a fair and balanced understanding of the various facets of the country's Tobacco sector.

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Socio-Economic Significance of Tobacco in India

- India is the 2nd largest producer of tobacco in the world, providing livelihood to 4.57 crore (45.7 million) people in the country.
- The Tobacco Industry in India provides livelihood to farmers, farm labourers, tribals, women workers and their families and approximately 70% of whom are in the agricultural sector.
- Tobacco is a highly labour intensive and remunerative crop providing significantly higher returns than other crops grown in similar agro-climatic regions.
- Tobacco is grown in semi-arid and non-irrigated lands, where no other equally remunerative cultivation is possible.
- No other country in the world has such widespread dependence on tobacco for livelihood as India.
- Tobacco products generate Tax revenues exceeding Rs. 76,000 crores annually.
- Foreign exchange earnings through the export of tobacco & tobacco products garner about Rs.17,000 crores per annum.
- According to an ASSOCHAM study¹, the Tobacco Sector in India contributed Rs.11,79,498 crores to the country's economy in 2016. The current value, adjusted for inflation based on the consumer price index from 2016 to 2025 would be around Rs.18 lakh crores.



Sources: 22nd Report of the Parliamentary Committee on Subordinate Legislation (10th Lok Sabha); Reply to Lok Sabha unstarred question no.2768, August 7, 2023; Industry estimates; M.P. Govt. Ad. (TOI, June 8, 2000); A.C. Nielsen Retail Census – 2014

Tobacco sustains the livelihood of millions in India, while also contributing significantly to government revenues and earning valuable foreign exchange for the country.

¹ASSOCHAM TARI Study - 2019

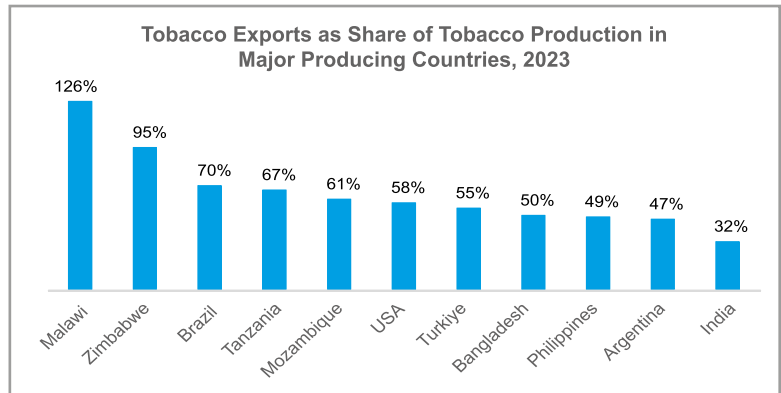
Tobacco Farming in India is Sustainable

- Sustainable farming is practiced in many agricultural commodities in India including tobacco.
- Major initiatives in agricultural practices, farm mechanization and fuel conservation are being undertaken to ensure sustainable tobacco farming in India.
- Tobacco is a particularly tough crop that can be grown in harsh conditions, the need for significant amounts of fertilizers is lower compared to other crops.
- Plant protection product (pesticide) use on tobacco is comparable to that of other crops.
- Tobacco is grown on poor and marginal soils that are largely unsuitable for cultivating other crops.
- Tobacco production in India does not lead to deforestation or any major impact on soil fertility and erosion.
- Flue-Cured Virginia (FCV) is the only type of tobacco that requires an external source of energy for curing. FCV tobacco represents around 30% of the total tobacco produced in India.
- FCV tobacco growers have adopted use of alternative fuels for curing such as agri-wastes and wood procurement from commercial sources to avoid consumption of natural wood. Additionally, energy conservation technologies like Barn roof insulation and installation of electric barns are propagated to conserve energy.
- Contrary to the allegations of WHO and anti-tobacco NGOs, tobacco farming is done in a sustainable manner to minimize the impact on environment.

Tobacco cultivation in India witnesses several sustainable farming initiatives in order to bring in efficiency & avoid causing any adverse environmental impact through tobacco growing.

Huge Potential for Indian Tobacco Exports

- In recent years, India's tobacco exports have seen remarkable growth, showcasing the immense potential of Indian tobaccos and its valuable contribution in foreign exchange earnings.
- Being the second largest tobacco producer in the world, India has a vast untapped potential to increase its share in the global tobacco trade.
- India currently exports only around 30% of the tobacco produced in the country, whereas other leading tobacco-growing countries like the USA, Brazil export around 60 to 70% of their tobacco production. Zimbabwe exports almost all of its tobacco production.
- Even in the case of Flue Cured Virginia (FCV) tobacco, India exports only around 50% of FCV produced in the country.
- This presents a considerable opportunity for India to expand its footprint in the global tobacco trade and reinforce its position in international markets.
- In order to accelerate the growth in Indian tobacco exports, the Government should provide export incentives similar to what other large tobacco-producing/exporting countries like Zimbabwe, Malawi etc. offer to the tobacco sector.
- This would not only benefit domestic tobacco farmers by ensuring better returns but also create a positive economic ripple effect in tobacco-growing regions.

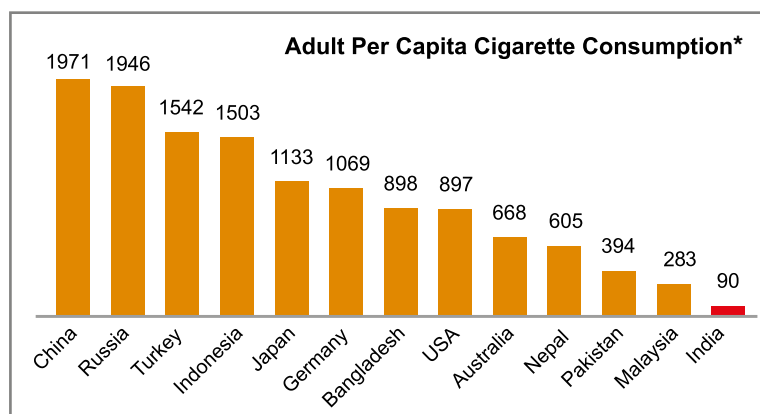


Source: FAOSTAT (<https://www.fao.org/faostat/en/>); Tobacco Board, GoI
 Note: Exports may include production from previous periods or re-exports raising exports share above 100%

There is a need to strategically align domestic leaf production, skewed towards non-cigarette tobaccos, with global demand which is primarily for cigarette tobaccos such as FCV through well-planned policy measures.

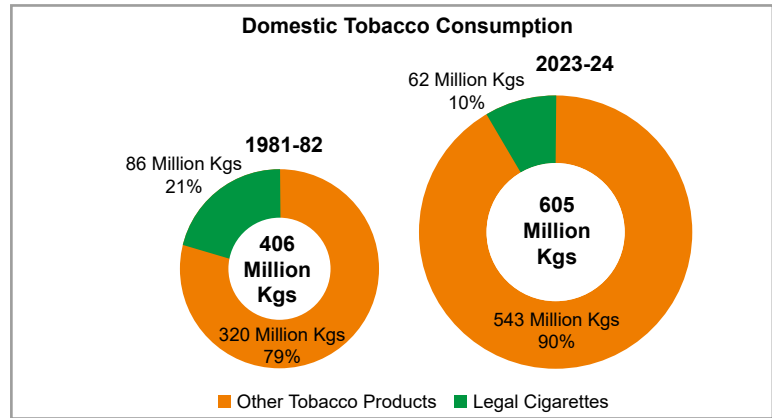
Pattern of Tobacco Consumption in India is Unique

- Legal cigarettes represent only 10% of overall tobacco consumption in India.
- Globally, Cigarettes remain the dominant form of tobacco use accounting for 90% of tobacco consumption.
- The majority 90% of tobacco consumption in India is in the form of 29 tax-inefficient tobacco products such as bidis, chewing tobacco, khaini, etc. and illegal cigarettes.
- As per the Global Adult Tobacco Survey (GATS-II), Smokeless tobacco with a prevalence of 21% of the adult population (15+age) dominates tobacco consumption in India, followed by bidis with a prevalence of around 8% while Cigarettes remain the smallest at just 4% of the adult population. As per the Report, the overall consumer base of tobacco users in India is 28.6% of adults (15+ age).
- In terms of unit consumption, Bidis and Chewing tobacco are 8 and 22 times higher than the Legal Cigarettes.
- A comparison of the per capita cigarette consumption in different countries bears out this fact.
- This unique phenomenon of a very small proportion of tobacco use in the form of cigarettes is also evident from the fact that while India accounts for 18% of the world's population it accounts for only 1.8% of the world's cigarette consumption.
- The overall tobacco use and consumption in other cheaper forms including illicit cigarettes, often resulting from tax avoidance, has continued to grow in the country.

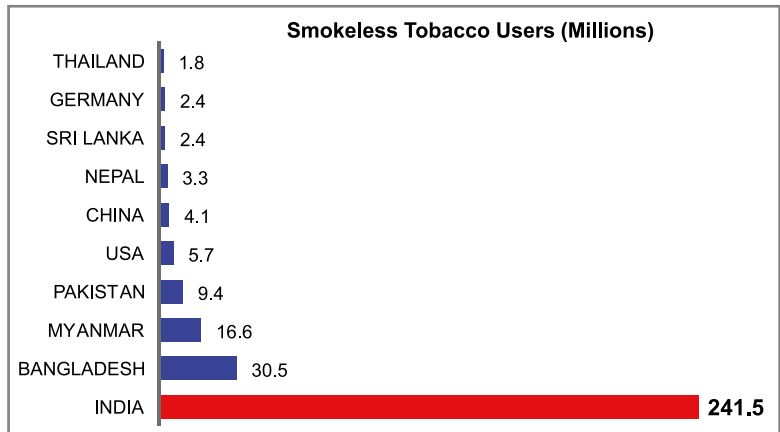


*Average number of cigarettes consumed per adult (15+ years) per annum
Source: The Tobacco Atlas, 7th Edition (Vital Strategies), 2022

- Overall tobacco consumption in the country grew from 406 million kgs in 1981-82 to 605 million kgs in 2023-24, a growth of 49%.
- During this period, consumption in the form of legal cigarettes, which is the major contributor to revenue, dropped by 28% from 86 million kgs in 1981-82 to 62 million kgs in 2023-24.
- Resultantly, the share of Legal cigarettes in total tobacco consumption has dropped from 21% in 1981-82 to a mere 10% in 2023-24.
- According to the Report, ‘Global Smokeless Tobacco Control Policies and their Implementation’ – prepared by the WHO FCTC Global Knowledge Hub on Smokeless Tobacco, India with 241.5 million smokeless tobacco users is the World’s largest smokeless tobacco consuming country in the world.



Source: USDA; Tobacco Board, FAO; Industry estimates
(Other tobacco products Include illegal cigarettes)

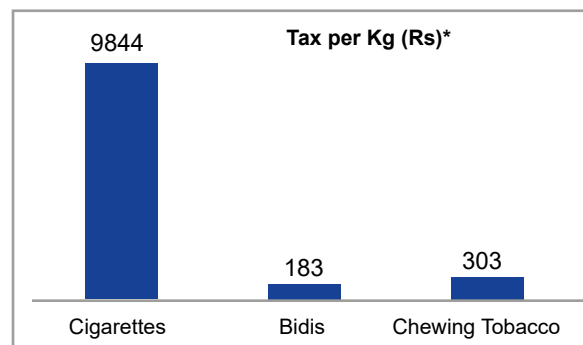
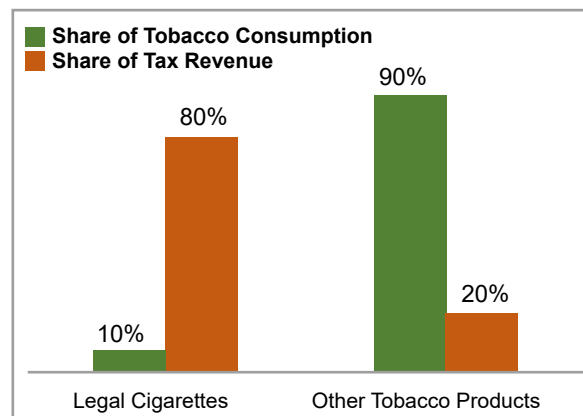


Source: Global Smokeless Tobacco Control Policies and Their Implementation, WHO FCTC Global Knowledge Hub on Smokeless Tobacco (2017);
Data for USA from CDC

Legal cigarettes represent the smallest segment of tobacco consumption in India, but they continue to be disproportionately targeted through excessive taxation and regulation.

Legal Cigarettes Major Revenue Contributors Despite Small Consumption Share

- Despite only a 10% share of tobacco consumption, the Government collects approximately 80% of its total tobacco revenue from legal cigarettes.
- While legal cigarettes are in the organised sector - compliant with regulations and taxation, non-cigarette forms are largely produced in the unorganised sector with rampant tax evasion & non-compliance with regulations.
- The tobacco taxation policy is highly skewed, impacting only the smallest component of tobacco consumption in the country.
- On a per Kg basis of tobacco use, tax on Cigarettes is 54 times higher than bidis and 32 times higher than chewing tobacco.
- This has many unintended consequences such as the steep increase in illicit cigarette volumes and the shift in consumption from legal tax-paid cigarettes to tax-inefficient forms of tobacco consumption, defeating both revenue and public health objectives.

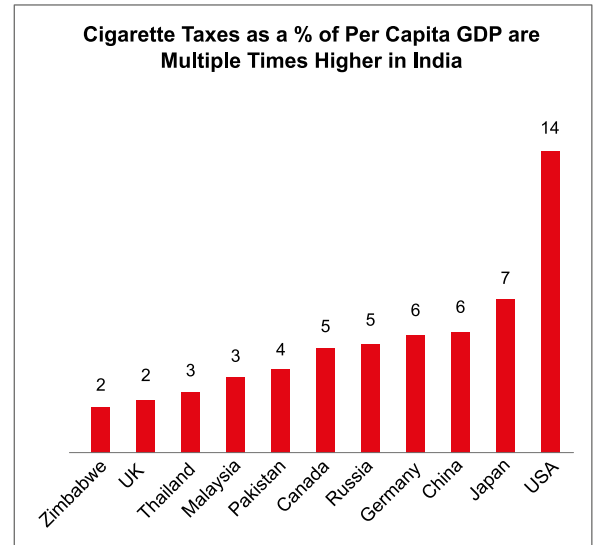
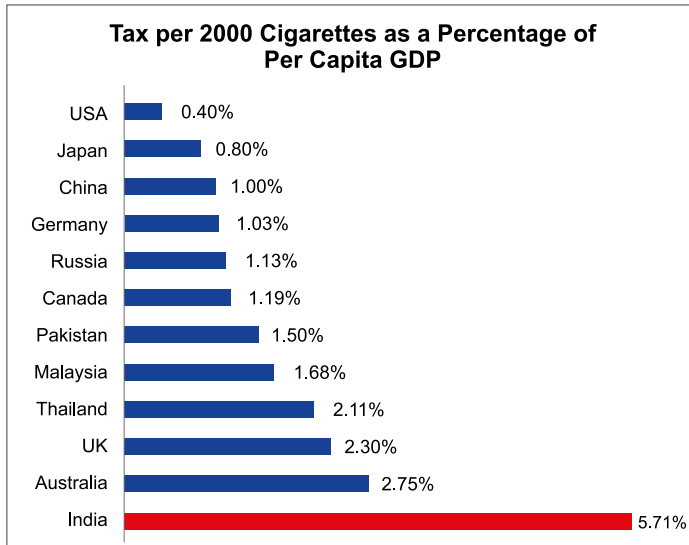


*Derived basis estimated tax collections & Tobacco used in manufacture of these products (2023/24)

Tax and regulatory policies of the countries where cigarette use dominates tobacco consumption cannot be replicated in India to achieve the social objectives of tobacco control.

Legal Cigarettes in India Amongst the Least Affordable in the World

- Over the years, cigarettes in India have become highly unaffordable due to excessive taxation.
- As a percentage of per capita GDP, Cigarette taxes in India, of the most sold brand, are amongst the highest in the world as per data released by the WHO.

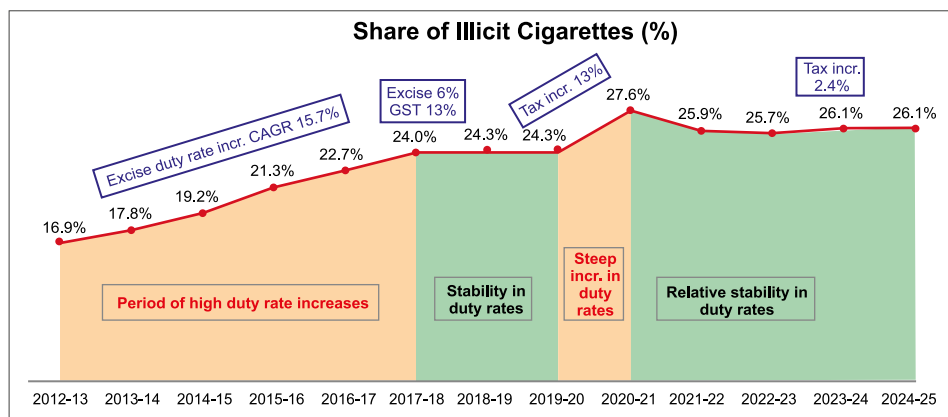


Source: Tax data- WHO Global Health Observatory, 2024 (Cigarette tax data for 2022)
Per Capita GDP-World Bank (Data for the Year 2022)

- This makes India one of the most expensive cigarette markets in the world.
- With such high levels of taxation, the affordability of legal cigarettes in India is significantly lower than in most emerging economies like Pakistan and Malaysia as well as developed countries such as Japan, the USA, Germany, China and the UK.
- The unaffordability of legal cigarettes has led to a shift in consumption from legal tax-paid cigarettes to cheaper forms of tobacco consumption including tax-evaded smuggled cigarettes.

High Taxation on Cigarettes Fuels Illicit Trade

- Historic data indicates that periods of high tax increases led to steep increase in illicit cigarette trade.
- Years of high taxation have also led to sub-optimal tax revenues and periods of stability resulted in strong revenue buoyancy.



Source: Illicit Share - Euromonitor International
 Tax increases - Excise duty rate increase up to 2017 and GST Compensation Cess + Central Excise Duty rate increases July 2017 onwards

- Relative tax stability since 2021-22 has helped the legal industry to stem the growth momentum of illicit trade to some extent and resulted in strong buoyancy in tax revenues.
- The legal industry has recovered some volumes from illicit trade without increasing overall consumption.
- Revenue growth from cigarettes during the period 2020-21 to 2024-25 was CAGR 10.7%.

A study ‘Causes & Control of Illegal Tobacco’, 2024, which provides an analysis from 71 countries, emphasizes that Governments cannot rely solely on enforcement to control illegal trade and disregard the more important influence of taxation and affordability.

Illicit Cigarettes Remain a Huge Challenge

- Due to the extremely low affordability of legal cigarettes in the country, consumers are induced to buy illicit cigarettes which are sold much cheaper as compared to legal cigarettes, due to tax evasion.
- According to the recent data released by Euromonitor International, India is the 4th largest illicit cigarettes market in the world.
- Illicit cigarette trade represents 1/4th of the cigarette market in the country and has become a huge menace with many adverse consequences.
- There are reports of seizures of illicit cigarettes almost daily. However, the reported seizures are only the tip of a much larger operation.
- Illicit cigarettes do not pay taxes to the Government and a large proportion of other tobacco products often evade taxes.
- Moreover, these cigarettes do not adhere to the mandatory 85% large pictorial warning and other statutory requirements.
- This has led to a huge loss of revenue to the Government estimated at Rs.23,000 Crores.
- Illicit cigarette trade directly affects the livelihood and earnings of tobacco farmers in the country as smuggled cigarettes do not use domestically grown tobacco.
- The illegal cigarette trade is in the hands of organized criminal syndicates and terror groups, both enemies of our country.
- WHO and international enforcement agencies have established the nexus between illicit cigarette trade and organized crime groups.

“In addition to its impact on tobacco control and government revenues, illicit trade in tobacco products fuels organized crime and corruption.”

Highlights from 20 years of Tobacco Control, WHO FCTC, 2025

Extreme Regulations Provide a Further Boost to Illegal Cigarettes

- The current tobacco control law namely, The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA), in India is amongst the most stringent in the world, particularly when compared with other tobacco producing countries like USA, China, Zimbabwe and Malawi.
- A study by National Law University (NLU), Delhi observed that Regulations in India often go beyond those implemented by countries that do not grow tobacco and have no livelihood dependence on this Industry...More regulations would substantially increase the cost of compliance and expand the parallel illegal industry.
- Pictorial warnings in India are presently mandated to cover 85% of the front and back of tobacco product packs. By virtue of this, India is ranked 10th in the world, in terms of warning size, whereas the global average warning size is less than 45%.
- The countries ranked ahead of India namely, Timor-Leste, Turkey, Maldives, Nepal, Vanuatu, Benin, Mauritius, New Zealand and Hong Kong, are very small nations with hardly any socio-economic significance of tobacco.
- Even among the top five tobacco producing countries, comprising 90% of world tobacco production, India has the largest sized pictorial warning on packs at 85%, followed by Brazil at 65% while USA, China and Zimbabwe have textual warnings only.
- China and USA are also large cigarette consuming countries together accounting for almost half of the global cigarette consumption.
- The Legal Cigarette Industry in India is licensed and is completely compliant with all tobacco control and other regulations while the same cannot be said about Illegal Cigarettes which are not bound by any regulations.

- The absence of pictorial warnings on packs of smuggled international brands of cigarettes conveys to consumers an impression that these cigarettes are safer alternatives to their Legal counterparts.
- Excessively large pictorial warnings hurt the Legal Cigarette Industry and provide a major fillip to the Illegal Cigarette trade.
- According to a study by IMRB (Indian Market Research Bureau), since the implementation of 85% Pictorial Warning in India in April 2016, consumers have demonstrated a noticeable preference for smuggled cigarettes without the prescribed warnings.
- The FICCI CASCADE-TARI Study* (2024) notes, “the mandated 85% pictorial warnings on front and back of tobacco packs has led to the growth of the illegal cigarette trade. Illegal trade, according to the study, sell products without any such warning and hence consumption of such products (usually smuggled) weans away consumers from legal markets.”
- Consequently, illegal operators are seeing consumer preference for non-compliant packaging as a huge opportunity and are exploiting it by flooding the Indian markets with attractive cigarette packs without the specified pictorial warnings.
- Certain smuggled international brands have introduced ‘paan’ flavoured variants, which obviously are made for the Indian market and are widely available.
- The extensive distribution and availability of smuggled cigarettes all over the country have created a misconception amongst consumers that these cigarettes are legal.

The combination of low prices to consumers, consequent to ‘nil’ tax cost and the incorrect perception created by the absence of statutory pictorial warnings on smuggled cigarettes provides significant buoyancy to illicit cigarette volumes.

*Challenging Landscape of Illicit Trade: How Changing Factors of Consumption Affect Illicit Markets in 5 Key Industries in India, FICCI CASCADE - TARI Study (September 2024)

Excessive Taxes & Extreme Regulations Counterproductive

- Much like India, many countries around the world, that implement harsher tobacco regulations and high taxes, are experiencing the growing threats of illicit tobacco trade.
- Countries like Australia, New Zealand, UK and some EU member nations, with similar extreme tobacco regulations and high taxes on cigarettes, have also seen a huge surge in illicit tobacco trade in the recent times.
- With Australia implementing steep tobacco tax increases, people are increasingly turning to black market in search of cheaper alternatives.
- Despite being an island nation with no tobacco cultivation or domestic cigarette manufacturing, Australia has not been able to control illicit cigarette trade and its many adverse consequences.
- The island nation is witnessing a sharp increase in illicit tobacco trade, resulting in substantial revenue loss and rise in organized crime.
- Australian Members of Parliament have called for “unpalatable” policy shift to rein in a black-market spiralling “out of control” and robbing taxpayers of billions of dollars in revenue.
- As these countries face the dangers of a spiralling black market, there is a growing demand to rein in the menace by avoiding unreasonable regulations and not increasing tobacco taxes further.



We must learn from the experiences of these countries (Australia, New Zealand, UK, EU etc.) and take timely steps to counter the menace of the growing illicit cigarette trade in our country.

Extreme Tobacco Control Measures are Propagated by NGOs to Influence Policy

- Extreme Tobacco Control Policies in India are being promoted by anti-tobacco activists and NGOs who are funded by overseas vested interests.
- These NGOs have no understanding of ground realities associated with tobacco cultivation and no appreciation of the dependency of millions on tobacco in the country.
- The relentless campaign waged by these groups, based on inadequate and misleading information is directed at influencing government policy.
- Extreme policies have fuelled livelihood concerns amongst a sizeable constituent of the country's population that is dependent on tobacco for its livelihood.
- India has remained at the forefront of tobacco control, implementing measures equally or more stringent than in many developed countries.
- Extreme regulatory policies, implemented at the behest of anti-tobacco NGOs, have led to the growth of illicit cigarette trade at the expense of legal cigarette Industry in the country.
- This has adversely impacted the legal Industry value chain, causing revenue losses for the exchequer and livelihood losses for the Indian tobacco farming community.

There is an urgent need to take cognizance of the consequences of extreme policy measures and promote balanced regulations towards protecting the interests of millions of farmers and workers dependent on tobacco for their livelihood.

WHO FCTC Proposals are Unreasonable & Impractical

- The Framework Convention on Tobacco Control (FCTC) of the World Health Organization (WHO) entered into force on February 27, 2005.
- The guidelines or recommendations made by WHO FCTC are “one-size fits all” solutions based on a western model of tobacco consumption.
- Many leading tobacco producing and exporting countries viz. USA, Indonesia, Argentina etc. have not ratified the WHO FCTC, anticipating adverse consequences for their economies and tobacco farmers.
- India, on the other hand, was one of the earliest signatories to the treaty and also the 8th country to have ratified it in 2004 disregarding tobacco's socio-economic importance in the country.
- The FCTC Guidelines and proposals are only recommendatory, allowing National Governments to adopt a flexible approach in policy adoption, considering their local conditions and domestic priorities.
- Excessive and unreasonable FCTC proposals are being driven by anti-tobacco activists at the behest of vested interests. These proposals could wipe out the livelihood of millions of Indian tobacco growers and those dependent on the crop.
- Over the past 20 years, FCTC processes have become increasingly exclusionary, secretive and non-transparent. Decisions are made behind closed doors with media, the public, legal Industry and tobacco growers explicitly excluded from the deliberations.

Stakeholder consultation is vital to avoid the serious consequences of FCTC-recommended policy measures on the livelihood of millions dependent on tobacco in India.

Key FCTC Initiatives that Pose a Serious Challenge to Farmers and other Stakeholders

- FCTC recommendations on some of its Articles have very tangible real life implications for the entire Tobacco Industry value chain, including farmers and farm workers in India.

Article 5.3	Article 6	Article 9	Article 17
<i>Denies access for consultation with Policy Makers</i>	<i>Recommends excessively high cigarette taxation</i>	<i>Seeks regulation of tobacco product contents</i>	<i>Seeks to shift farmers to alternative crops</i>
<ul style="list-style-type: none"> ➤ Recommendations are designed to keep the Tobacco Industry and other stakeholders out of any consultation with the Government ➤ Is unilateral, arbitrary and undemocratic ➤ Will adversely affect the livelihood of millions of people engaged in lawful economic activity. 	<ul style="list-style-type: none"> ➤ Resulting in the growth of illicit trade & enrichment of criminal syndicates and terror groups ➤ Cigarettes' small share of consumption unlike global pattern ➤ Cigarettes already over-taxed in India and have become unaffordable. 	<ul style="list-style-type: none"> ➤ Large proportion of Indian tobaccos will be unusable, as they are of semi-flavourful varieties ➤ Need will arise for imported flavourful tobaccos ➤ Loss of livelihood & adverse impact on farmer incomes 	<ul style="list-style-type: none"> ➤ Will adversely impact tobacco farmers in absence of viable alternatives ➤ India will lose its pre-eminent and advantageous position in production/exports ➤ Will benefit other tobacco producing countries as they increase their production of leaf tobacco to meet global demand.

FCTC has deviated from its original mandate and is engaged in advocating arbitrary and extreme proposals that pose serious threat to tobacco farmers and the millions that are dependent on tobacco for their livelihood in the country.

Policy Interventions are Needed to Revive Farmer Earnings, Enhance Government Revenues & Sustain the Legal Cigarette Industry

- Before adopting any further regulatory measures dictated by WHO FCTC, it should be ensured that the signatory countries to the FCTC have adopted and implemented all recommended tobacco control measures.
- Evidence-based, balanced and pragmatic tobacco control policies will protect livelihood of the millions of people who are dependent on tobacco industry in India.
- Participation of stakeholders in policy making process will ensure pragmatic, balanced and practical measures.
- Impractical regulations will only provide a boost to illicit trade, undermining legitimate trade in the country and destabilize the domestic legal industry.
- Stabilization of the domestic legal tobacco industry is essential for ensuring higher utilization of locally grown tobacco, which in turn will improve farmer incomes.
- The Tobacco Control Policy of the Indian Government should not be dictated by the misguided propaganda of the international NGOs and anti-tobacco activists.
- An approach seeking to strike a balance between regulations and livelihood of millions, particularly in absence of alternative crops and any other source of livelihood, is required.

Balanced and equitable tobacco taxation will optimize tobacco tax proceeds and leverage the untapped revenue potential from the industry by arresting the shift in consumption from legal duty paid cigarettes to illicit/smuggled tax-evaded cigarettes and to revenue inefficient tobacco products.

The Tobacco Institute of India

The Tobacco Institute of India (TII) is a representative body of farmers, manufacturers, exporters and ancillaries of the cigarette segment of the tobacco industry in India. Established in 1992, the Institute is recognized as a repository of reliable information on the industry and is privileged to be consulted by Government, Parliamentary Committees, Chambers of Commerce/Trade Associations and Media for information and policy recommendations on Tobacco issues.

As an organization, TII has always supported evidence-based, equitable, reasonable and implementable regulation and recognises the need to create greater awareness regarding tobacco consumption in India.



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