



ILLEGAL CIGARETTE TRADE POSES A HUGE THREAT TO INDIA

**Impacts Livelihood, Deprives Government of Revenue
& Promotes Organized Crime**



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& Promotes Organized Crime

THIRD EDITION



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Preface

In view of the overwhelming response to the First and Second Editions of *The Threat of Growing Illegal Cigarette Trade in India*, The Tobacco Institute of India is pleased to publish a Third Edition under the revised title *Illegal Cigarette Trade Poses a Huge Threat to India* in recognition of the urgency with which the issue needs to be addressed.

The third edition of this Handbook includes updated information on diverse aspects of the Illegal Cigarette Trade in India besides giving a Global overview of the problem. The Handbook attempts to provide an insight into the extent, growth, driving factors and impact of illegal cigarette trade in India and the ways to combat it.

The handbook captures findings and observations from various national and international studies, Government Publications, UN and other International Agencies on the menace of illegal trade in cigarettes.

We are confident that this Handbook will serve as an effective reference document for the fight against the soaring illegal cigarette trade in India.





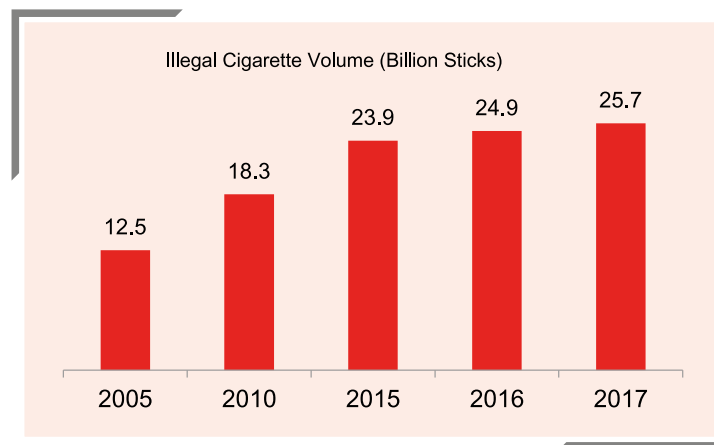
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“*Smuggling is a deep scourge whose brunt is directly borne by industry, government and society... It undermines the local industry, suppresses innovation and investment... reduces the volume of revenues collected from duties and levies by the government, fuels transnational crimes and hampers the health of citizens.*”

Invisible Enemy: A Threat to Our National Interests, FICCI CASCADE

Illegal Cigarette Trade in India has Grown Unabated

- Illegal Cigarette trade currently accounts for as much as 1/4th of the Cigarette Industry in India with more than 25 billion sticks of Illegal cigarettes consumed in 2017.
- Illegal Cigarettes have more than doubled since 2005 and according to Euromonitor International, India is now the 4th largest illegal cigarette market in the world.
- Based on current tax rates on cigarettes, the Government loses Revenue of Rs. 13,000 crores per annum on account of illegal cigarette trade.



Source: Euromonitor International, 2018

- There is widespread and growing presence of Illegal cigarettes in the country as deceitful retailers benefit enormously by pushing sales of these cigarettes.
- Illegal Cigarettes are offered to retailers with higher trade margin and at extremely low prices (due to tax evasion) compared to those legally manufactured in India.
- In recent years availability of Illegal Cigarettes has spread across urban as well as rural markets and in metros they are almost universally available.



01

ILLEGAL CIGARETTE TRADE POSES A
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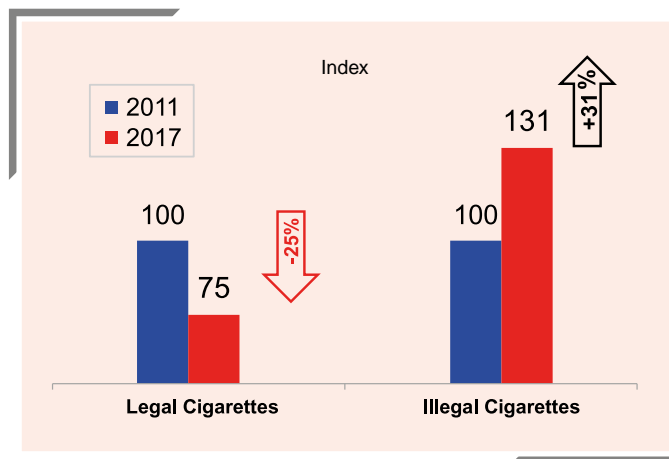


02

ILLEGAL CIGARETTE TRADE POSES A
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High Cigarette Taxation is the Primary Driver of Illegal Trade

- High taxes do not reduce demand, but merely shift the demand from the Legal tax paid and regulation compliant products to Illegal tax-evaded and regulation non-compliant products.
- The unprecedented trebling of Cigarette Taxation in a short span of 6 years between 2011 and 2017 has served as a great incentive to illegal trade operators through the consequent surge in available arbitrage.
- The escalating arbitrage opportunity has led to a significant growth in illegal cigarette trade in the country with its consequent impact on the legal industry as is evident in the chart (right).
- As a result of high taxes and the growth of illegal cigarette trade Legal cigarettes have dropped by 25% between 2011-12 and 2017-18 while illegal cigarettes have grown by 31% during the same period.



Source: Industry Clearances & Euromonitor International

Policy Makers should take cognizance of the important role that high taxes play in driving the growth of illegal cigarette trade in the country.

Non-Adherence to Regulations Incentivizes Illegal Trade

- Legal Cigarette manufacture in India is in the organized sector, is licensed and is completely compliant with all tobacco control and other regulations. The same cannot be said about Illegal Cigarettes which do not comply with any regulations.
- Non-adherence of Illegal Cigarettes with regulations like Pictorial Warnings, conveys an impression that they are safer alternatives to their Legal counterparts.
- According to an Indian Market Research Bureau (IMRB) study, consumers have demonstrated a noticeable preference for smuggled cigarettes after the implementation of 85% Pictorial Warnings in April 2016.
- There has been a sharp spurt in the smuggling of large consignments without warnings or with text warnings in foreign languages into the Indian market and are freely available at retail outlets that sell smuggled cigarettes.
- The Government has stated in the Parliament that incidents of seizures of smuggled cigarettes across India have more than doubled to 3,108 in 2016-17 from 1,312 incidents in 2014-15.

Consignments seized by enforcement agencies in India have confirmed absence of the specified warnings from packaging of smuggled brands.



03

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1.5kg of gold, 50 cartons of cigarettes seized

Times News Network

Kochi: Indian customs seized 1.5kg of gold and 50 cartons of cigarettes worth Rs 25 lakh in the first seizure. 10kg of gold was seized from a gold smuggler from Dubai. The gold was in the form of 100g gold and bangles.



The four seizures on Sunday seized contraband valued at Rs 25 lakh.

lars. The AIT seized 50 cartons of cigarettes in the fourth seizure at CoT.

Previously, smuggling of cigarettes was seized in a seizure at CoT. The seizures were valued at Rs 25 lakh.

Saturday seized 20kg of gold and 50 cartons of cigarettes worth Rs 25 lakh. The seizures were found hidden in the smuggling of a seized white car. The Wednesday seizure had found an attempt to smuggle out foreign cigarettes through CoT. Foreign cigarettes were valued at Rs 25 lakh.

UNI
United News of India
Published on March 13, 2019

DRI sleuths seize foreign cigarettes worth around Rs 5.25 crore in Bihar



Directorate of Revenue Intelligence

Muzaffarpur, March 13 (DRI) Directorate of Revenue Intelligence (DRI) sleuths

With the assistance of Kachhwa Sectors, DRI (DRI) personnel seized foreign

DECCAN Chronicle

Currency, gold, cigarettes worth Rs 70.5 lakh seized at Chennai airport
Published 9th, 2019

Chennai: A total of Rs 70.5 lakh worth foreign currencies, gold and foreign cigarettes were seized at the Chennai Airport here on Friday.

Five men were arrested and three separate cases of smuggling were registered.

Chennai residents arrived from Dubai in a private airline on Friday morning.

राजधानी एक्सप्रेस से 2880 पैकेट विदेशी सिगरेट बरामद

जम्मू काश्मीर, दिल्ली: एयरपोर्ट पर बुधवार को दिन में तीन बजे जबकि एयरपोर्ट 12423 से आगमन की ब्रह्म विष्णु की टोक में परामर्श कर नंबर 17862 में 2880 पैकेट विदेशी सिगरेट बरामद किए हैं। रायपुरी का



रिपोर्ट: दिल्ली: एयरपोर्ट पर बुधवार को दिन में तीन बजे जबकि एयरपोर्ट 12423 से आगमन की ब्रह्म विष्णु की टोक में परामर्श कर नंबर 17862 में 2880 पैकेट विदेशी सिगरेट बरामद किए हैं। रायपुरी का

Seizures of Illegal Cigarettes Across India by Enforcement Agencies during 2018-19

Bengaluru, Dibrugarh (Assam), Ghaziabad, Guwahati, Haldia Dock, Howrah, Hyderabad, Kanpur, Kishanganj (Uttar Pradesh), Kochi, Kolkata, Lucknow, Mangaluru, Mohali (Punjab), Mumbai, Muzaffarpur, New Delhi, Pandhurna (Madhya Pradesh), Patna, Siliguri, Thoothukudi (Tamil Nadu), Trichy, Vasco (Goa), Vijayawada

IN BRIEF

Cigarette haul at airport

AIRPORT: Imported cigarettes with a market value of Rs 36 lakh were seized from a car parked



Illegal Foreign cigarettes seized in Guwahati

G Plus News | November 29, 2018

GUWAHATI: In a major haul of illicit cigarettes, the Directorate of Revenue Intelligence seized 33,60,000 sticks of cigarettes of foreign origin in Guwahati from a warehouse. The consignment is valued at Rs. 3,98,00,000.

It is to be mentioned that the illegal cigarette trade comprising of internationally smuggled and locally manufactured, tax-evaded cigarettes accounts for as much as 1/4th of the cigarette industry in India.

Based on the current tax rates on cigarettes, it is estimated that the Government loses Rs. 13,000 crore per annum due to the illegal cigarette trade.

Source: <http://www.guwahatipius.com/daily-news/illegal-foreign-cigarettes-seized-in-guwahati>

Cigarette sticks worth 21 lakh recovered

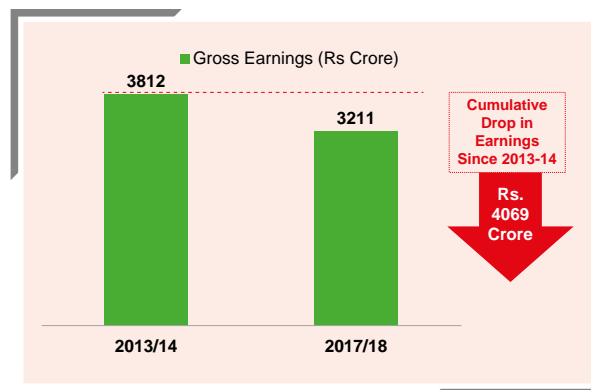
STAFF REPORTER

GUWAHATI, April 1: RPF (Railway Protection Force) conducted a drive against undesirable elements over Guwahati Railway Station on Sunday. During checking, they detected seven poly bundles at PF No 4/5. The poly bundles were unloaded on Friday from T/No 55602 DN. On being checked, RPF found 30,000 sticks of Cigarette of Mynmar Origin in each poly bundles with total 2,10,000 sticks. Values of the detected Cigarettes are approximately Rs 21 lakh. The detected Cigarettes were handed over



Cigarette Smuggling Impacts Tobacco Offtake and Farmer Earnings

- Growers of Flue Cured Virginia (FCV) tobacco in the States of Andhra Pradesh, Telangana and Karnataka are largely dependent on the Legal Cigarette Industry in the country for offtake of their produce.
- The huge drop in Legal Cigarette volumes and the consequent reduction in the demand of FCV tobacco in cigarette manufacture have thus reduced earnings of tobacco farmers.
- Since 2013-14, the earnings of FCV tobacco farmers have shrunk cumulatively by more than Rs. 4,000 crores due to the drop in offtake of tobacco for the manufacture of domestic legal cigarettes.
- The reduction in domestic demand is transferring to the burgeoning illegal smuggled cigarettes which do not use tobaccos grown in India.
- The reduction in offtake severely affects tobacco farmers as they are left with unutilized land in absence of any viable remunerative alternative crop.



Source: Derived based on Auction Prices and Quantity of FCV Tobacco marketed - Tobacco Board, Government of India

Stringent measures directed at containing the unfettered drive of illegal operators will help recovery of the legal industry thus improving the fortunes of lakhs of distressed farmers in the country.

Illegal Tobacco Trade Funds Organized Crime and Terror Groups

- Increasing illegal trade encourages the entry of organized criminal and terrorist syndicates, which could have serious consequences for the maintenance of law and order.
- Growth in illegal trade implies availability of more funds with anti-social and criminal elements to execute their unlawful activities against society.
- Internationally, it has been determined, for example by the US Department of Homeland Security, that profits from cigarette smuggling have been used to fund criminal and terrorist activities posing a huge threat to National Security.
- Cigarette smuggling facilitates other crimes and provides funding for additional criminal activities, including money laundering, bulk cash smuggling, and the trafficking in humans, weapons, drugs, antiquities, diamonds, and counterfeit goods.
- According to the International Consortium of Investigative Journalists (ICIJ), attracted by huge profits, quick turnovers, a captive market and relatively light penalties if caught, organized crime now controls large sectors of smuggling.

“Europol sees tobacco smuggling as a ‘crime enabler’ or ‘threat financier’. The huge illegal profits criminals make are used to fund other areas of serious organised crime.”

European Union for Law Enforcement Cooperation,
Review Report: 2016-2017



07

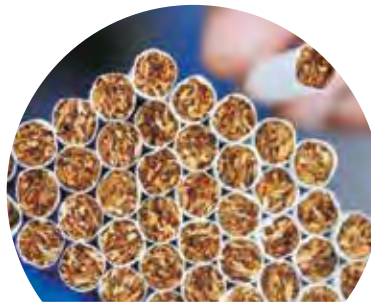
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India is A Major Victim of Cigarette Smuggling

- The Illegal Cigarette Trade is a multi-billion dollar business globally, fueling organized crime, robbing governments of much needed tax revenue and undermining tobacco control objectives.
- Cigarettes, being highly taxed, easy to transport and having an attractive risk to reward ratio, are among the most illegally traded goods in the world.



600 Billion
Illegal Cigarettes are
consumed globally



10%
of the Cigarettes
consumed world wide
is Illegal



US\$40 - 50 Billion
is lost in tax revenue

- Smugglers of International brands seek overseas markets with attractive tax arbitrage and move Consignments through both land and sea routes into these opportunity markets.
- India with its vast land and sea borders and its attractive tax arbitrage due to punitive taxation on cigarettes is a target destination for smuggled cigarette trade operators.
- International Cigarette brands smuggled into India find a ready market in the country with existing demand, easy accessibility and cheaper prices (due to tax evasion) compared with domestic legal cigarettes.

Hasty Implementation of WHO Illicit Tobacco Trade Protocol Won't Help Countering Illegal Trade in India

- The Protocol to Eliminate Illicit Trade in Tobacco Products is a new international treaty under the WHO's Framework Convention on Tobacco Control (FCTC).
- The Protocol seeks to establish a global tracking and tracing regime within five years of entry into force.
- The Protocol has come into force in September 2018 and has been ratified by 52 countries, including India as on April 2019.
- However, the countries from where smuggled cigarettes enter into India viz., Myanmar, Indonesia, Malaysia, Korea, China etc. have not ratified the Protocol.
- The Protocol will succeed in confronting smuggled cigarette trade in India only when it is implemented simultaneously across the globe.
- It is the smuggled international brands and the accompanying global illegal cigarette trade that requires monitoring and surveillance through a Track and Trace System.
- Even if not globally, the Protocol should at least be implemented in countries from where smuggled cigarettes flow into India before it is implemented in India.

It is important that the Protocol is implemented simultaneously across the globe and not unilaterally in India. Any attempt to implement it hastily and in isolation in India is unlikely to achieve the stated objectives of the Protocol.



09

ILLEGAL CIGARETTE TRADE POSES A
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Legal Tobacco Industry Provides Livelihood to 45.7 Million People and is A Significant Contributor to the Exchequer

- India is the world's 2nd largest producer of tobacco with an estimated annual production of around 800 million kgs. Tobacco is a highly remunerative crop grown largely in semi-arid and rain-fed areas.
- Tobacco is an important commercial crop in India, generating enormous socio-economic benefits in terms of agricultural employment, farm incomes, revenue generation and foreign exchange earnings. Tobacco Industry provides livelihood to 45.7 million people including farmers, farm labour, rural poor, women, tribals etc., around 70% of whom are engaged in the agricultural sector.

Type	Millions	Source
Farmers	6	22 nd Report of the Parliamentary Committee on Subordinate Legislation (10 th Lok Sabha)
Farm Labour	20	
Bidi/Factory Workers	8.5	Reply to Lok Sabha starred question no.180 dated August 19, 2013; Industry estimates
Tendu Leaf Pluckers	4	M.P. Govt. Ad. (TOI, June 8, 2000); Industry estimates
Trade/Retailers	7.2	A.C. Nielsen Retail Census - 2014
Total	45.7	

- Tobacco products generate a significant share of the country's tax revenues amounting to more than Rs.39,000 crores annually. Exports of leaf tobacco and tobacco products generated foreign exchange earnings of Rs.5,540 crores in 2017-18.

“Tobacco occupies a prime place in the Indian economy on account of its considerable contribution to the agricultural, industrial and export sectors.”

**Report on Tobacco Control in India,
Union Ministry of Health & Family Welfare, 2004**

Illegal Trade Takes Away Livelihood, Causes Revenue Losses and Defeats Tobacco Control Objectives



Results in an annual revenue loss of more than Rs.13,000 crores to the national exchequer



Poses serious livelihood challenges to Indian tobacco farmers since contraband products do not use local tobaccos



Encourages the entry of organized criminal syndicates with serious consequences for maintenance of law and order



Seriously undermines the social objectives of tobacco control as illegal trade not only makes available tobacco products at extremely low prices (due to evasion of applicable taxes) but also products that are of suspect quality, manufactured under unhygienic conditions





Systemic Policy Intervention Needed to Curb Illegal Cigarette Trade in India

- » Adoption of a moderate and stable tax regime for Cigarettes
- » Enforcing equitable, balanced and practical tobacco control policies
- » Ensuring stricter surveillance by enforcement agencies and harsher penalties against illegal operators
- » Raising public awareness of the problem and its impact on society
- » Making systemic Policy intervention to reduce the attractiveness of the Indian Cigarette Market for smugglers of International brands

Enforcement alone cannot fully address the menace of the large and growing illegal cigarette trade in the country. There is an urgent need for the Government to make systemic policy intervention with regard to high taxation and excessive regulation in order to adequately deal with the huge Illegal Trade problem in India.

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, whose members account for more than 98% of the country's domestic sales of duty paid cigarettes. 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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