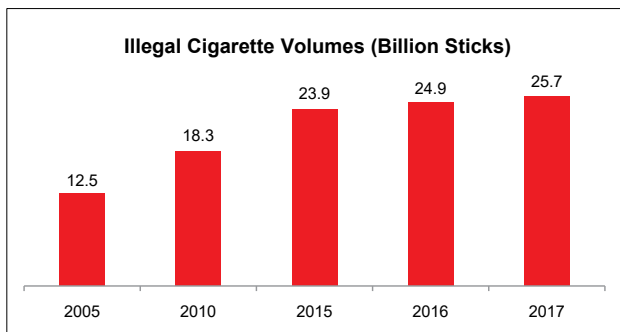


# SHARP GROWTH IN ILLEGAL CIGARETTE TRADE IN INDIA DUE TO EXTREME REGULATIONS & EXCESSIVE TAXATION ON CIGARETTES



January 2019

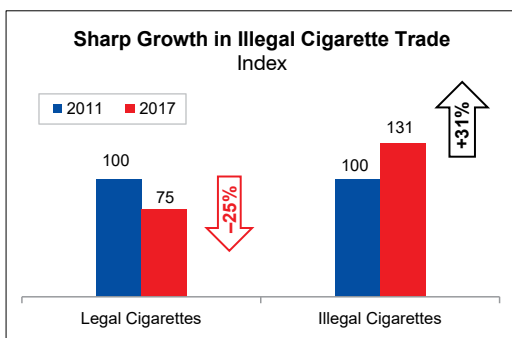
- Illegal cigarettes are sold cheap due to tax evasion affording a huge arbitrage opportunity. Availability of these products spreads across urban as well as rural markets – in metros they are almost universally available.
- According to Euromonitor International, illegal cigarettes have more than doubled since 2005, accounting for 1/4<sup>th</sup> of the Indian Cigarette market and making India the 4<sup>th</sup> largest illegal cigarette market in the world.



*Source: Euromonitor International, 2018*

- Growth in illegal cigarette trade has many serious consequences:
  - Results in revenue loss of Rs. 13,000 crores to the national exchequer
  - Aids the prevalence of organized criminal syndicates that control illegal trade in cigarettes
  - Undermines the tobacco control policies of the government by not adhering to tobacco regulations
  - Adversely impacts the demand for domestic tobaccos since contraband products do not use locally grown tobaccos
- As per the information contained in Government Replies to Questions in Parliament, 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.
- The reported seizures are only the tip of the iceberg of a much larger operation, as for every seizure dozens of consignments escape any surveillance.

- High Cigarette taxation and extreme tobacco control regulations such as the 85% Pictorial Warning on Tobacco Product Packs in India have led to the decline of Legal Cigarettes in the country while Illegal Cigarette trade has grown significantly.
- Both high taxation on Cigarettes and extreme regulations produce counter-productive results. They 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.
- According to a study by IMRB (Indian Market Research Bureau), since the implementation of 85% Pictorial Warning in India in April 2016, consumers have begun to demonstrate a noticeable preference for smuggled cigarettes without the prescribed warnings.
- High taxation on cigarettes over the years particularly the past 6 years, has impacted the legal cigarette industry and provided a huge fillip to the illegal cigarette trade in the country.



*Source: Cigarette Industry Factory Shipments; Euromonitor International*

- The Goods and Services Tax (GST) regime introduced in July 2017, has further increased the tax burden on Cigarettes by increasing the GST Compensation Cess rates by a weighted average of about 13% over the pre-GST tax rates.
- Incidence of taxes on cigarettes after accounting for the GST Cess increase has trebled in the last 6 years.

# Illegal Cigarette Seizures by Enforcement Agencies

As reported by Media since January 2018

Date	Place	Seizure Value (Rs. Lakhs)	Enforcement Agency	Source
December 16, 2018	Vijayawada	15	Police	The Times of India
December 16, 2018	Palghar, Maharashtra	330	Police	Mumbai Mirror
December 12, 2018	Chennai	0.74	Customs	The Times of India
December 8, 2018	Chennai	0.36	Air Intelligence Unit	The New Indian Express
December 5, 2018	Dibrugarh, Assam	76	Directorate of Revenue Intelligence (DRI)	Dainik Jagran
December 4, 2018	Chennai	1.5	Police	The Times of India
November 29, 2018	Guwahati	398	DRI	GPlus
November 5, 2018	Trichy Airport	10	Air Intelligence Unit	The Times of India
November 2, 2018	Guwahati	559	DRI	Hindustan Times
October 19, 2018	Vasco, Goa	200	DRI	The Navhind Times
October 12, 2018	Mohali	0.75	Customs	The Times of India
September 30, 2018	Chennai	423	DRI	The Hindu
September 27, 2018	Siliguri, West Bengal	3.45	Railway Police	Dainik Jagran
September 18, 2018	Bengaluru	5	Police	Deccan Chronicle
September 15, 2018	Haldia Dock, West Bengal	186	DRI	Binj.in
September 13, 2018	Mumbai	-	DRI	The Indian Express
September 12, 2018	Vijayawada	6.22	Police	The New Indian Express
September 8, 2018	Assam	-	Police	India Blooms
September 4, 2018	West Bengal	44	Customs	United News of India
August 31, 2018	Kolkata	12.38	Customs	Sanmarg

Date	Place	Seizure Value (Rs. Lakhs)	Enforcement Agency	Source
August 30, 2018	Mumbai	21	DRI	DNA
August 22, 2018	Mumbai	100	DRI	The Asian Age
August 4, 2018	Patna	64	DRI	Hindustan
July 30, 2018	Pandhurna, Madhya Pradesh	10,000	Central Excise	The Hitaveda
July 28, 2018	New Delhi	20	Police	The Times of India
July 25, 2018	Thoothukudi, Tamil Nadu	2	Police	The Hindu
May 31, 2018	Kolkata	36	Airport Officials	The Telegraph
May 20, 2018	Chennai	-	Police	The New Indian Express
May 12, 2018	Thane (Rural), Mumbai	1.52	Police	The Afternoon
May 7, 2018	Kochi	0.33	Customs	The Times of India
April 25, 2018	Kolkata	155	DRI	India Today
March 25, 2018	Delhi	10	State Tobacco Control Cell	The Asian Age
March 19, 2018	Kolkata	5	Customs	The Telegraph
March 10, 2018	Pune	4.6	Police	Sakal Times
February 21, 2018	Bengaluru	4	Airport Officials	The Indian Express
February 13, 2018	Ahmedabad	144	DRI	The Indian Express
February 9, 2018	Vadodara	0.25	Police	The Times of India
February 2, 2018	Chennai	900	Customs	The Times of India
January 27, 2018	Coimbatore	-	Customs	Daily Thanthi
January 13, 2018	Patna	65	DRI and Railway Protection Force	The Times of India
January 12, 2018	Guntur	60	DRI	Business Standard
January 6, 2018	Kolkata	16	Customs	The Telegraph
January 3, 2018	Mumbai	600	DRI	The Times of India

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## 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. 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.



### The Tobacco Institute of India

316-318, 3<sup>rd</sup> Floor, E-Block, International Trade Tower, Nehru Place, New Delhi - 110019  
Phone: 91-11-26231214-16 | E-mail: [tii@tiionline.org](mailto:tii@tiionline.org) | Website: [www.tiionline.org](http://www.tiionline.org)  
CIN: U16003DL1992 NPL085954