

EXTINGUISHING THE TOBACCO INDUSTRY'S MAIN NARRATIVE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Tobacco is a product that kills more than 13 lakh Indians every year. The annual economic burden from tobacco use is estimated to be 177,340 crore which is more than 1% of India's GDP. About 27 crore people above the age of 15 years and 8.5% of school-going children in the age group 13-15 years use tobacco in some form in India. There is no doubt that tobacco use is highly detrimental to public health. We have to find the ways and the means to reduce the demand for tobacco among existing as well as aspiring users.

A large body of literature shows price and tax measures to be one of the most cost-effective measures to reduce demand for tobacco products. When tobacco products become more expensive, people either quit using them or use them less, and it incentivises many to not initiate the habit. Because it hurts both revenue and profits, the tobacco industry, globally, is always devising tactics and narratives that will pre-empt any kind of tax increases on tobacco products. The narrative of "increasing illicit trade" is something the tobacco industry has historically used to pre-empt potential tax increases on tobacco products in most countries around the world. The story is no different in India. The tobacco industry, led by ITC Limited, has maintained that the illegal cigarette trade accounts for as much as 25% of the cigarette market in India. In a recent report by the Tobacco Institute of India, a representative body of the cigarette industry, it was said that the illicit cigarette volume in India has grown by 44% from 2011 to 2019 while adding that high and increasing tax rates provide a profitable opportunity for tax evasion and encourage growth in illegal trade.

Low tobacco tax, poor health

In the interest of regulating tobacco use and protecting public health, it is important to examine whether there is any truth in these industry claims. When one takes a deeper look, however, it is easy to see that neither the estimates nor the methods used to derive them are backed by any transparent studies. On the other hand, there are two studies published in peer-reviewed scientific journals in recent years that estimate the percentage of illicit cigarettes in the Indian market using widely accepted best practice methodology to estimate the same. The [first study published in 2018](#) which used a survey of empty cigarette packs collected from retail outlets across different cities in India estimated that illicit cigarettes constitute 2.7% of the market. The second [study published in 2020](#) used tax-gap analysis to estimate that the percentage of illicit cigarettes was 5.1% in 2009-10 and 6.6% in 2016-17. Both these studies used transparent and replicable methods and their estimates of the illicit market were nowhere near the 25% figure that the tobacco industry in India has been using to influence the public discourse on tobacco taxation.

The economic burden from tobacco use in India has increased by 22% in real terms over the period 2011 to 2017. There has been a 3% real decline in Goods and Services Tax (GST) revenues from tobacco products in the past two financial years. On the other hand, the annual reports of ITC show their profits after tax in real terms have increased, on average, 3% every year for the past 10 years. One must also note that despite all the business diversification ITC has undertaken over the years, close to 85% of its profits still come from the cigarette business alone.

Exaggerating both the scale and the extent of illicit trade has been a means the tobacco industry has used historically to advocate against tobacco tax increases. However, it is to be noted that taxes and prices are not the key determinants of illicit trade. There is sufficient evidence in the literature on illicit trade in cigarettes that shows tax increases only have a minimal impact, if at all, on illicit trade. There are several countries where tobacco taxes are quite high and yet have low levels of illicit trade, while there are also countries with high levels of illicit trade despite having relatively low tax rates. Several factors such as the quality of tax administration, the strength of the regulatory framework, government commitment to control illicit trade, the strength of governance, social acceptance, and the presence of informal distribution networks are known to play a larger role in determining the scale and the extent of an illicit market.

India among countries with lowest quit rates for smoking: report

The estimated percentage of the illicit market for cigarettes in India is far lower than most countries out there and well below the world average at 11.2% as estimated in a recent study (<https://bit.ly/32SGhwI>) on the illicit cigarette market across 36 countries. Eliminating all forms of illicit trade in tobacco products through a package of measures is one of the major objectives of the Protocol to Eliminate Illicit Trade in Tobacco Products under the World Health Organization's Framework Convention on Tobacco Control. The Protocol provides the tools and the measures to eliminate or minimise illicit trade which includes strong governance, establishing an international track and trace system, and securing supply chains. India has already ratified the World Health Organization Protocol and it should now show leadership in implementing these measures to effectively address even the relatively lower levels of illicit trade.

Over a quarter of students exposed to second-hand smoke: survey

India had no significant tax increases on any of the tobacco products for the past four years since the introduction of GST in 2017 because of which tobacco products have become more affordable as shown in recent studies. There is no scientific or public health rationale not to increase tax on tobacco products for unfounded fear of increasing illicit trade.

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It is unbecoming of a mature democracy when the government indulges in a tug-of-war for credit

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