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Press Release

Protect our livelihoods: Go reasonable on tobacco growers with GST

New Delhi, 20 March 2017: Federation of All India Farmer Associations (FAIFA), a non-profit organization representing the cause of millions of farmers and farm workers of commercial crops across the States of Andhra Pradesh, Telangana, Karnataka, Gujarat etc. today appealed to the Shri Arun Jaitely, Hon'ble Finance Minister, Government of India to protect the interests of Indian FCV tobacco farmers while formulating the GST laws.

The appeal has also been submitted to various concerned Ministries such as the PMO, Ministry of Health & Family Welfare, Ministry of Agriculture, Ministry of Commerce & Industry, Ministry of Labour etc.

While most industry segments are cheering and eagerly waiting for an early roll-out of GST, we the FCV tobacco farmers are concerned that it should not spell doom on our livelihoods.

Mr. Murali Babu, General Secretary, Federation of All India Farmer Associations (FAIFA), said, "GST is a once in a lifetime opportunity for the Government to remove anomalies in tobacco taxation in India and bring a fair relief to the tobacco farmers without compromising on its tobacco control goals. The last prevailing taxation framework has been taking away livelihoods of FCV tobacco farmers and has promoted smuggling of cigarettes which has reached alarming levels."

GST is an opportunity to remove tax arbitrage in tobacco taxation and disincentivise illegal and contraband products which have been flooding the Indian market. GST is also an opportunity to remove discrimination among various class of tobacco farmers. There should not be any discrimination among cigarette, bidi, chewing tobacco farmers.

This labour intensive crop which provides livelihood to 4.6 Crore farmers, farm labour, retailers, bidi workers etc. has been witnessing a continued onslaught in terms of punitive and sustained increase in taxation and impractical regulation over past few years now.

At a time when the Government is looking at supporting farmers through loan waivers and friendlier GST rules, we the tobacco farmers find being discriminated.

This year, tobacco farmers are in serious trouble in Prakasam district of Andhra Pradesh, which witnessed drought for the fourth consecutive year in 46 of the 56 mandals. The loss to tobacco farmers during this season is estimated to be at about Rs 400 crore in Prakasam district alone.

While the market is decreasing every other day as far as home grown tobacco is concerned, the Indian tobacco exports are also sluggish due to weakening of currency of other exporting countries. This has resulted in 22 % decline in returns to farmers. The tobacco farmers are in extreme distress because of the declining off-take from domestic manufacturers. The regulatory overreach has also created panic and strain on the FCV tobacco farmers in the country even though overall tobacco consumption continues to grow.

If tobacco is taxed at the highest slab of GST – i.e. 28%, it will lead to a double digit increase from the current level of VAT levied on this segment. Over and above this there are media reports that there would be a levy of additional cess and that too only on cigarettes which will further put stress on this segment leading to further shrinkage in the legal cigarette volumes. The steep increase in the excise duty in the past has led to growth of the smuggling of cigarettes in the country due to the high tax arbitrage.

This is evident by the growing number of seizures of smuggled cigarettes. Illegal cigarette trade is 1/5th of the Cigarette Industry in India making country the 4th largest and fastest growing illicit market in the world, resulting in revenue losses of over Rs. 9000 crores and growing annually. Illicit trade in tobacco is often backed by organized crime and terrorist groups.

The shift in consumption to smuggled cigarettes has affected the Indian tobacco farmers' livelihood as the smuggled cigarettes do not use Indian tobacco. In the last two years, the FCV farmers have incurred severe financial hardship due to drop in domestic demand. These have resulted in harassment and distress to the livelihoods and the debt of the farmers is accumulating.

Any further tax increase on the already over-taxed legal tobacco industry will only accelerate the process of diversion of tobacco consumption into the illicit and the unorganized tobacco sector, with adverse consequences on Revenue Collection and the Tobacco Control objectives of the Government and serious implications on farmer livelihood.

No other country in the world unlike India has a huge and wide-spread dependence on the tobacco crop for livelihood. The ongoing distress of FCV tobacco farmers and others dependent on tobacco for their livelihood makes it very important for policy makers in India to strike a balance between the country's excessive Cigarette taxation and regulations and the livelihood of people. The socio-economic importance of tobacco and its employment-generation capacity should not be overlooked while framing tobacco taxation and regulatory policies in India.

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