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Press Release

Tobacco farmers returns declines 22% because of high and discriminatory taxation policies on cigarettes

- Farmers appeals to government to bring stability in farm prices by not increasing excise duty on tobacco
- Punitive taxation fueling Illegal & smuggled cigarettes market, consequently reduces leading demand for home grown tobacco. This has resulted in decline in farmers income

New Delhi, 23 January, 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 recoup from the onslaught of heavy taxation on legal cigarette industry and help bring stability in farm prices.

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.

India is the World's 2nd largest producer and 3rd largest exporter of tobacco, earning the country foreign exchange of more than Rs. 6,000 Crores. 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.

Mr. Murali Babu, General Secretary, Federation of All India Farmer Associations (FAIFA), said, "We are very disturbed because of the declining off-take from the domestic manufacturers. The Indian tobacco exports are also sluggish and this has resulted in 22% decline in the farmer returns. Regulatory overreach has created panic and strain on the FCV tobacco farmers in the country. For the first time in independent India, 22 FCV farmers have committed suicide in Andhra Pradesh, Telangana and Karnataka."

This is a result of the excessive increase in the Excise Duties on tobacco products, cumulative increase of 118% since 2012/13, leading to 22% shrinkage in the legal cigarette volumes. The steep increase in the excise duty 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.

FAIFA appeals to the Government to please intervene in the matter so that there is no increase in excise duty rates on tobacco in 2017/18 to enable recovery and bring stability in farm prices.

For further information please contact:
Murali Babu – 9989005898
Venkatesh Warlu – 8897019097