



FEDERATION OF ALL INDIA FARMER ASSOCIATIONS

H.No. : 4-19-1/24, 2nd Line Vijayapuri, JKC College Road, Guntur, Andhra Pradesh

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Date : February 16, 2017

To

Sri N. Chandrababu Naidu garu,
Hon'ble Chief Minister
Government of Andhra Pradesh
Amaravati

Respected Sir,

**Sub: Plea for of revenue neutrality on Cigarettes under GST to
safeguard interest of tobacco farmers of Andhra Pradesh.**



We are a non-profit organisation representing the causes of thousands of tobacco growers in Andhra Pradesh.

We are proud to inform you that tobacco is today one of the major commercial crops grown in Andhra Pradesh. Various types of tobaccos are cultivated in Andhra Pradesh for use in tobacco products such as Cigarette, Bidi, Cigar, Cheroot, Hookah, Chewing and Snuff etc.

The total tobacco crop in the country is 800 million kgs. Out of this only 300 million kg is of the FCV variety. FCV tobacco is grown in the state of Andhra Pradesh and thrives in soil and climatic conditions that are unsuitable for cultivation of other crops. FCV tobaccos are used for modern type of tobacco products like cigarettes while the non FCV tobaccos are used for non-cigarette tobacco products like Bidi, chewing tobacco, etc.

The success story of tobacco in Andhra Pradesh

FCV tobacco farming received a significant boost with the passage of the Tobacco Board Act in 1975, opening the doors of the Government backed institutional support to the farmers and increasing the prospect of sustainable livelihoods in rural areas of FCV-growing State like Andhra Pradesh. Being a regulated crop having institutional support and an organized system of auctioning, Banks also came forward to support tobacco farming by lending required funds to the farmers. The establishment of the Central Tobacco Research Institute (CTRI) by the Government also benefited tobacco farming by promoting cultivation of high-yielding seed varieties and better agricultural practices amongst the farmers, facilitating reduced cost of production and improvement in quality. As a result, the production of FCV tobacco, used in cigarettes, witnessed consistent growth in volumes till 2013-14 peaking at 213 million kgs in Andhra Pradesh bringing prosperity to the tobacco farmers of Andhra Pradesh.



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From Prosperity to Poverty

1. The tobacco market in India is different from most other countries in the world because in India only 62 million kgs of tobacco is used for domestic cigarettes out of the total consumption of 562 million kgs of tobacco.
2. Despite accounting for only 11 % of tobacco consumed, cigarettes account for 87 % of tax revenue from tobacco.
3. Because of the sharp difference in taxes, caused by discriminatory taxes levied on cigarettes, the tobacco consumed for domestic cigarettes has come down from 86 million kgs to 62 million kgs while total tobacco consumed has gone up from 406 million kg to 562 million kg in last 33 years.
4. Tobacco users in the country are shifting to cheap poor quality tobacco products as well as large amount of illegal cigarettes smuggled from other countries which do not consume Indian tobacco.
5. In addition, Indian product has been burdened with 85% health warning while illegal foreign cigarettes don't bear this. This has caused further shift of demand away from Indian cigarette products.
6. Indian FCV tobaccos are sourced from India largely due to cost advantage. This advantage stems due to a strong domestic demand base. As these tobaccos are essentially 'filler' in nature these can be sourced by international manufacturers from many countries. Therefore, it is important to maintain strong demand base for the Indian FCV tobaccos, which can insulate the Indian farmer from the vagaries of international tobacco markets.
7. As growers of good quality tobacco crop we are being punished because majority of tax burden is borne by growers of high quality FCV tobacco for Indian markets which is progressively becoming smaller.
8. Due to excessive taxation increase of over 100% in last three years on Cigarettes and extreme regulations, the demand for legal cigarettes in the country has declined by over 25% and continues to decline further. Unfortunately, the tough measures on Cigarettes have not reduced tobacco consumption in the country but benefitted the illegal operators and smugglers of foreign brand cigarettes, as well as producers of low quality tobacco products which do not provide remunerative prices for high quality FCV a tobacco. The production of FCV tobacco in Andhra Pradesh is likely to decline to 105 million kgs in 2016-17, a drop of over 50% over 2013-14.



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9. Considering the demand position, the Tobacco Board had reduced the authorized crop size of FCV Tobacco in 2016 by around 30% over 2015. The fall in authorized crop size has affected the farmers adversely since they have already made huge investments in tobacco curing barns and other infrastructure keeping in mind the earlier crop size. Now that the crop size has been reduced, the farmers will be left with unutilized land leading to further hardship.
10. Moreover, there is no remunerative, viable alternative crop which the farmers can grow on their unused land. FCV tobacco farmers in Andhra Pradesh therefore face the threat of having to undertake the reverse journey from prosperity to poverty because of the impact on the demand and price for domestic tobaccos.

Unable to face such a crisis many farmers in Andhra Pradesh are taking extreme steps of committing suicide.

The threat of further Taxes and Need for Revenue neutrality on cigarettes under GST

We were very concerned by the recent Union budget which has again imposed a further 6% increase in Excise Duty on Cigarettes without appreciating the hardships faced by the FCV tobacco farmers.

As if this was not enough, our understanding is that under GST cigarettes will attract fresh taxes inspite of the assurance given by the Union Finance Minister that under GST there will be no fresh taxes on cigarettes. We understand from media reports and Govt. sources that the Union Finance Ministry and the GST Council has proposed 28% tax rate on cigarettes under GST. However, the current average incidence of VAT on cigarettes is @ 24% and therefore the proposed GST levy @ 28% represents a 4% increase in the ad-valorem component of cigarette taxation under GST. This will only make the problems of growers of high quality FCV tobaccos worse, as quantum of tax borne by legal cigarettes will continue to grow and make it unfavourable vs other forms of tobacco and illegal foreign cigarettes. This will also contradict the stand taken by the Union Finance Ministry that GST on cigarettes will be revenue neutral. Therefore, in order to ensure revenue neutrality, the 4% increase in the value-added tax component should be balanced by appropriate reduction of the rates of Central Excise Duty.

We have also read press reports that the GST Council is proposing to impose a Cess on Cigarettes in addition to Central Excise duty and GST. As the combined levy of GST @ 28% and the reduced rates of Central Excise Duty as explained above will ensure revenue neutrality as per the stated objective of GST, there should be ideally be no requirement of levy of a Cess. However, should there be any other need for levy of a Cess on cigarettes, in order to ensure revenue neutrality, the Cess should also be adjusted by an appropriate reduction of the Central Excise Duty. And the best way to do this would be to substitute



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the specific central excise duty by a specific levy of Cess as suggested above. Otherwise, an inappropriate situation will arise, in that, a part of the Central Excise levy will continue to be in force in the specific format whilst another part will get converted into an ad-valorem levy of Cess.

In view of the massive issues which the tobacco farmers are facing, we strongly protest against any proposal that will increase the tax burden on domestic cigarettes which will impact our livelihood. If we do not adhere to revenue neutrality, demand for FCV tobacco will continue to decline and cause more difficulties for the farmers of Andhra Pradesh who are already facing undue distress.

Humble Request for your Kind Support for Andhra Tobacco Farmers Very Survival

The tobacco farmers have been at the receiving end of punitive taxation and impractical tobacco control policies for far too long and this has now become a question of life and death for them. 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.

Sir, we are sure that you will personally intervene in the matter to ensure that in the interest of tobacco farmers of Andhra Pradesh, the revenue neutrality on cigarettes is maintained under the GST regime.

We shall ever remain grateful for your kind support for the Andhra Tobacco farmers.

Yours faithfully,

For Federation of All India Farmer Associations [FAIFA]

P S Murali Babu
General Secretary

