



FEDERATION OF ALL INDIA FARMER ASSOCIATIONS

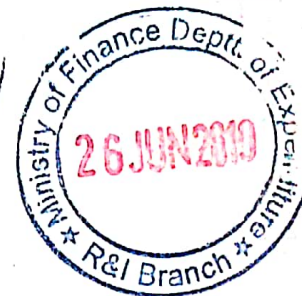
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Date: 26th June 2019

To

Shri Nirmala Sitharaman
Hon'ble Minister for Finance
Government of India
New Delhi



Respected Madam,

Sub: Farmers' appeal - Not to increase any taxation on tobacco to achieve revenue neutral rates

The Federation of All India Farmer Association is the non-profit organization, representing the cause of lakhs of Tobacco Growers in India. The Association strives to provide a collective voice to the Tobacco growers at the regional, State and national levels and works towards ensuring sustenance of farmer livelihood.

In the light of upcoming National Budget, this representation is to bring to your kind notice and explain regarding the hardships of FCV Tobacco farmers' because of punitive taxation and illicit trade.

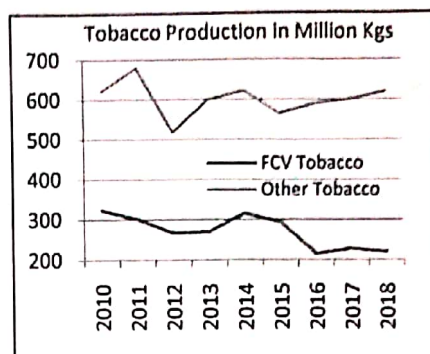
Madam, Government Council has increased the cess rates to correct an error in cigarette taxation under the new tax regime, which did not account for the cascading effect on Excise duty which existed in the pre GST system.

However, this has inadvertently led to an increase in Compensation Cess rates which, surely was not the intention of the Government. The revised Compensation Cess rates have resulted in additional taxes of around 13% above the pre-GST levels. We would like to underline that the principle of Revenue neutrality has been reiterated time and again by the Government in respect of fixation of tax rates in the GST era.

Any additional tax burden caused by the increase in Compensation cess rates will put further pressure on the livelihood of Indian Tobacco Farmers. As observed in the past that increase in the taxes have resulted in the inflow of huge quantity of illicit cigarettes in the market.

As you are aware, our buyers, the entire legal cigarette value chain is presently reeling under penalizing taxation on account of continuous increases in excise duties and compensation cess on cigarettes, which have cumulatively gone up by 202% between 2011/12 and 2017/18 leading to shrinkage of cigarette volumes by more than 25% since 2012/13.

FCV farmers have tried out various alternative crops and burnt their fingers. The Chilli crop as an alternate to tobacco has miserably failed during last season. In fact, since 2013-14, the earnings of FCV tobacco farmers have shrunk cumulatively by more than Rs. 4,000 crore due to drop in production (Refer Graph) of tobacco for the manufacture of domestic legal cigarettes. For the first time 22 FCV farmers committed suicide and many are under huge debt in the states of Andhra Pradesh and Karnataka.



During the last 6 years the consumption of Flue Cured Virginia (FCV) tobacco has reduced substantially due to excessive taxation on Cigarettes thereby giving huge boost to smuggled

Annual tax increases are given below:

Period	Wtd. Average in Increase n CED / GST Compensation Cess
2012-13	22%
2013-14	18%
2014-15	22%
2015-16	13%
2016-17	10%
2017-18	20%

Only 4% of the adult population in India consumes cigarettes. There are 6 times more Smokeless tobacco consumers than cigarette consumers and for every cigarette consumed, as many as 8 bidis are consumed in the country. This has been substantiated by several reports. Cigarettes account for 86% of revenue from tobacco taxation, while the contribution to tax collections from the other two segments is insignificant.

The legitimate cigarette industry size in India, which was at 110 billion sticks in 2011-12, has dropped thereafter significantly by 25% to about 83 billion cigarettes in 2016-17. In contrast, the illegal, duty-evaded cigarette segment has grown to about 26 billion cigarettes in 2017, i.e., almost 1/4th of the Industry.

The unintended consequences of steep increases in taxation are demonstrated by the huge growth of illicit trade. A steep increase in excise duty in the recent past has led to growth of smuggling of cigarettes in India due to the high tax arbitrage. There has been a 32% increase in illegal cigarette trade, increasing from 19.5 billion sticks in 2011 to 25.7 billion sticks in 2017, making India the 4th largest illegal cigarette market in the world (as per Euromonitor International) and further supported by an independent study done by FICCI. It has resulted in revenue losses of approximately Rs 13,000 crore and is growing annually. We have attached some of the numerous press reports which highlight the menace of cigarette smuggling.

In view of the above mentioned undesirable consequences of the increase in cigarette taxation beyond the pre-GST level and illicit trade, we appeal to the Government

- To correct the error and roll back the tax increase to the point, that the tax incidence is brought to pre-GST level - "Revenue Neutral level", consistent with the Government's stated objectives.
- Govt. to have a taxation policy that disincentivises cigarette smuggling in India, which will help curb illicit trade and increase the demand of domestic Indian grown tobacco
- To continue to support us by intervening when FCV farmers' are subjected to unrealistic regulations
- To reinstate Tobacco Export incentives to boost the economy of Indian FCV Farmers, which will be in line with Government's objective of "Doubling farmers income"

To save our livelihood and arrest further loss of employment opportunities, We FCV tobacco farming community are hopeful that Government will consider our issues before making any regulations / policies on us in the upcoming budget.

Thanking you in Anticipation,

Yours faithfully,
For Federation of All India Farmer Association [FAIFA]


B V Javate Gowda
President



A. I. Kalguda

Vikram R. Kumar

Ram's R. S. B.

U. S. B.