

EXECUTIVE BRIEF

1. About the Study

1.1. The main objectives of the study are :

- i) To study the income and employment generation in different tobacco related activities right from cultivation to manufacturing and marketing of finished products.
- ii) To estimate the extent of tax revenue and foreign exchange earnings from tobacco related activities.
- iii) To analyse the impact of tobacco consumption on household budget.
- iv) To examine the tobacco related health issues and cost-benefit analysis.
- v) To identify the major policy issues and to propose policy approach.

1.2 The required data and information for the study have been obtained from

- i) Several secondary sources such as statistical and research reports, documents, communications, etc.
- ii) Primary data and information collected through field visits of tobacco growing areas, research centres in different states and tobacco consumers.
- iii) Group meetings and discussions with manufacturers, associations, health experts, researchers, policy makers and non-government organisations.

2. Production and Marketing

- 2.1
 - i) Asia and North America are the two continents which accounted for about 75 per cent of the world tobacco area and production.
 - ii. The area under tobacco in the world has stagnated around 4.4 M.ha during 1985 to 1996.
 - iii. Production of tobacco in the world has increased from 6.80 million tonnes to 7.2 million tonnes between 1985 and 1996 without an increase in the area under the crop.
- 2.2.
 - i India's share in the world tobacco area has come down from 9.8 per cent in 1985 to 8.8 per cent in 1996, while the production share fluctuated around 7 per cent during the period

- ii Yield of tobacco in India is low with 1307 kg/ha compared to world average of 1579 kg/ha (triennium average of 1994-1996)
 - iii In India the area under tobacco accounts for about 0.3 per cent of gross cropped area and this share has not changed over time.
- 2.3. The area under tobacco in India has grown at an annual rate of 0.88 per cent, while the production has grown at 3.6 per cent and much of the growth in production was contributed by productivity. During the last decade production of Flue Cured Virginia (FCV) tobacco has grown at an annual rate of 5.2 per cent, while bidi tobacco has grown only at 1.8 per cent per annum.
- 2.4. In the tobacco production in India, the share of bidi tobacco is 41 per cent, share of cigarette tobacco is 39 per cent. and other tobaccos account for 20 per cent. The major tobacco growing states in India are Andhra Pradesh (41.1 per cent), Gujarat (25.1 per cent) and Karnataka (13.5 per cent), in terms of area.
- 2.5. Cost of cultivation of tobacco per hectare varied from Rs.22.5 thousand for Light Soil Burley (LSB) to Rs.42.4 thousand for Northern Light Soil Flue Cured Virginia (NLS FCV). Similarly, the net income per hectare varied from Rs.10.6 thousand for LSB to Rs.36.6 thousand for Karnataka Light Soil Flue Cured Virginia (KLS FCV).
- 2.6. Well defined marketing system is evolved for FCV tobacco through Tobacco Board. The Board helps the farmers at various levels starting from issuing licenses for growing tobacco to the final stage of auctioning. However, there is a feeling that licensing system is not working satisfactorily. For Non-FCV tobacco there is no auction system.

3. Tobacco Products and Trade

- 3.1. Asia is the largest producer of cigarettes in the world with 2813 billion sticks (50 per cent of world production) followed by Europe (1339 billion sticks) and North America (890 billion sticks). The cigarette production in India was 105 billion sticks in 1996-97.
- 3.2. The excise duty on cigarettes has great influence on the price of cigarettes and with ever increasing excise rates and consequent increase in cigarette prices, the demand for cigarettes is falling.
- 3.3. Global exports of tobacco were 1,644 Mn.kg in 1994 of which the share of the developing countries was 61 per cent. Global imports of tobacco were 1,628 Mn.kg of which developed countries take a major share. Unmanufactured tobacco exports are higher from developing countries where as manufactured exports are higher from developed countries.
- 3.4. India's tobacco export in 1996-97 by volume was 130,581 tonnes of which 95,985 tonnes was in the form of FCV tobacco. In value terms tobacco exports amounted to Rs.826 crores and 88.7 per cent of it is contributed by unmanufactured tobacco.

4. Employment and Income Generation

- 4.1. Tobacco sector as a whole has provided employment for about 27 million people in 1996-97 of which 82 per cent was in primary sector, 11.4 per cent in secondary sector and 6.3 per cent in tertiary sector. Bidi rolling alone provided employment for about 4.5 million people.
- 4.2. Tobacco sector as a whole has generated an income of Rs.42,217 crores in 1996-97 of which secondary sector accounted for 66.28 per cent. Cigarette industry has higher income generating capacity with a multiplier of 18.49 where as bidi industry has a multiplier of 6.44.

5. Taxation and Government Revenue

- 5.1. The excise revenue from tobacco had increased by about 100 times from Rs.48.6 crores in 1960-61 to Rs.4,946.9 crores in 1996-97 and the entire revenue in 1996-97 was contributed by manufactured tobacco.
- 5.2. Cigarette consumption in India is highly price elastic unlike in other developed countries as bidi is a close substitute for cigarette in the country and any increase in excise tax rate on cigarettes without a corresponding increase on bidis will reduce the demand for cigarettes and change the consumption pattern in favour of bidis.
- 5.3. The excise revenue per kg of cigarette tobacco was Rs 419.38 as against Rs.11.53 for non-cigarette tobacco in the year 1996-97.

6. Consumption and Expenditure Pattern

- 6.1. The average annual per capita consumption of all tobacco products in India is estimated at 0.83 kg (during 1990-95) which is less than that of world average of 1.8 kg.
- 6.2. In India, during 1950's and 1960's the predominant form of consumption of tobacco was products other than bidis and cigarettes (between 60 to 70 per cent). In 1970's a little over 50 per cent of tobacco consumption was in the form of bidis and cigarettes. The pattern further changed in favour of smoking tobacco by 1994-95 with bidi accounting for 53.6 per cent, cigarette 18.6 per cent and other form of consumption has come down to 27.8 per cent.

7. Health Issues: Cost-Benefit Analysis

- 7.1. One of the objectives of this study was to do cost-benefit analysis of tobacco in India. However, due to lack of reliable data on the morbidity and mortality associated with tobacco use and the cost of treatment of the tobacco associated diseases, cost-benefit analysis could not be carried out.

8. Environmental Issues

- 8.1. At the global level, tobacco industry uses on an average 7.8 kg of wood to cure one kg of FCV tobacco. In India, 4.8 kg of wood is used for curing one kg of FCV tobacco. It should be noted that FCV tobacco account for only 30 per cent of tobacco production in India and 37 per cent of FCV tobacco use wood for curing while the rest is cured by agricultural waste..
- 8.2. Concern has been expressed by environmentalists about deforestation due to tobacco curing. The quantity of wood used for tobacco curing is insignificant compared to the wood used for other uses.
- 8.3. Tobacco industry is supporting research and other efforts to reduce consumption of energy with cost effective techniques through designing better and more energy efficient barns (venturi, low profile), insulation to reduce heat loss and use of non-conventional fuels. Research is also in progress on the use of solar energy for curing tobacco and experimental barns have been put up.

9. Policy Imperatives

- 9.1. Based on the in-depth analysis, it is found that there are many distortions, discrepancies and contradictions in the present system of government policies as well as approach to the tobacco sector. Since this sector has interdependence not only with other sectors (industry, consumption, trade etc.) but also with social, health and environment, it is prudent to take a comprehensive view of their implications due to government policies
- 9.2. There is need to grow i) high value flavourful varieties in linewith world demand, ii) improve farm productivity. Private industry can play a lead role if allowed to do.
- 9.3. The study observes that tobacco cultivation does not degrade soil fertility. In addition, curing of FCV tobacco cannot be held responsible for deforestation as the

quantity of wood used for tobacco curing is insignificant compared to other uses of wood. The industry is taking up several measures to reduce the use of wood for curing tobacco. There are no sufficient grounds to accept the allegations on environmental effects of tobacco such as degradation of soil quality, deforestation and air pollution and they do not deserve any major policy interventions.

9.4. An important instrument in the hands of government is taxation. The government has been levying high rates of excise on cigarettes as it is believed to be the luxury of the rich, where as bidi is taxed at much lower rates considering it as a poor man's pride. The conventional wisdom is the product of a socialistic pattern of society syndrome. Expansion of tax base in tobacco segment is prevented by this discriminatory/high tax on cigarettes. Ratio of revenue to consumer spend is very high for cigarettes (56 per cent) compared to bidis (4 per cent) and total tobacco (24 per cent).