

## 2.2

### Economic History of Tobacco Production: From Colonial Origins to Contemporary Trends

Tobacco occupies a prime place in the Indian economy on account of its considerable contribution to the agricultural, industrial and export sectors. India is the second largest producer of tobacco in the world. China and the USA rank first and third, respectively, in terms of tobacco cultivation. Brazil, Turkey, Zimbabwe, Malawi, Italy and Greece are the other major tobacco producing countries. Tobacco contributes substantially to the economies of these countries. In 2000–2001, the contribution of tobacco to the Indian economy was to the extent of Rs 81,820 million, which accounted for about 12% of the total excise collections. Foreign exchange earnings during the same period were Rs 9030 million, accounting for 4% of India's total agricultural exports. Endowed with favourable agro-climatic attributes such as fertile soil, rainfall and ample sunshine, India has the potential of producing different varieties of tobacco with varied flavours.

Figure 2.3 shows the locations and varieties of tobacco grown in various Indian states. Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Bihar and Tamil Nadu are the major tobacco producing states in India. Around 65% of India's production comes from Andhra Pradesh (34%), Gujarat (22%) and Karnataka (11%). Tobacco is also grown in Orissa, Uttar Pradesh and West Bengal. Andhra Pradesh, Gujarat, Karnataka and Uttar Pradesh together account for over 90% of the total tobacco production in the country.

Currently, Indian tobacco is exported to more than 80 countries spread over all the continents.

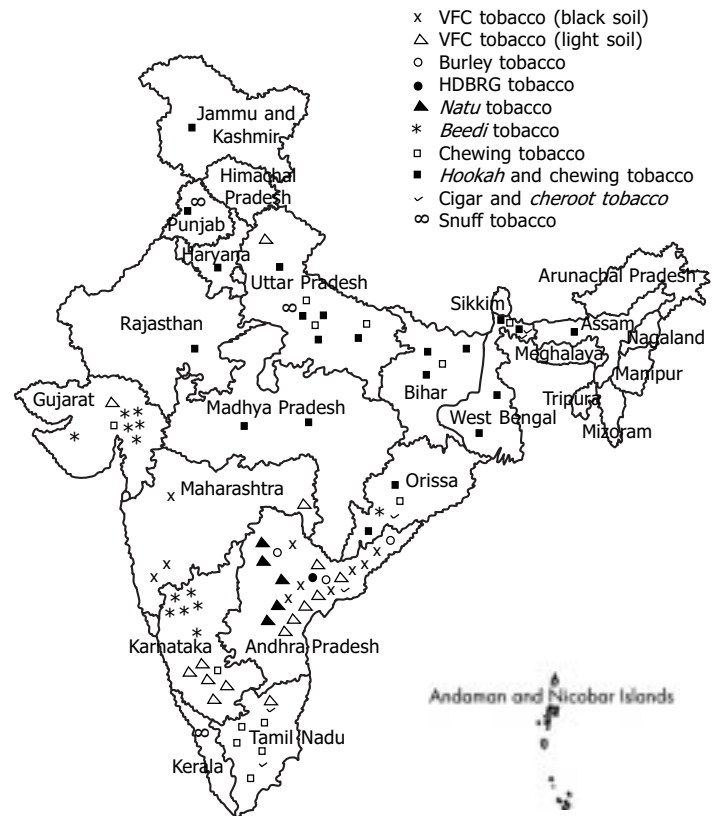


Fig. 2.3 The tobacco map of India (Note: map not to scale)

A few of the top multinational companies such as British American Tobacco (BAT), Philip Morris, RJ Reynolds, Seita, Imperials, Reemtsma, etc. and many companies with government monopoly import Indian tobacco either directly or indirectly.

The Indian market for tobacco products, however, has some characteristics rather different from most other markets. India has a large, highly integrated tobacco industry, which involves the cultivation of several varieties of tobacco, the manufacture of different tobacco products, including unprocessed and chewing tobacco, and an extensive distribution and retail system. Over the years, a combination of strong prices, domestic consumption, good export demand for tobacco and low prices of other crops helped the growth of tobacco from a cash crop to a manufacturing industry linked with commercial considerations. The tobacco industry in India includes the production, distribution and consumption of (i) leaf tobacco, (ii) smoking products such as cigarettes and

*beedis* and (iii) various chewing tobacco products. These factors present policy-makers with an unenviable dilemma. On the one hand, it is a robust and largely irrigation-independent crop, provides substantial employment, has significant export potential and, most importantly, is a source of ever-growing tax revenues. On the other hand, there are public health concerns about the effects of tobacco use with health advocacy groups and consumer-led lobbies asking for more controls on tobacco. In spite of its proven adverse implications for public health, the industry sustains itself in many quarters on the grounds of its contribution to employment and national production. The organized sector of the industry, dominated by multinational corporations, is at the forefront of canvassing support for the sector. The unorganized sector too exploits its emotive appeal as a mass employer of the poor, especially rural women.

### Economic history of tobacco

The immediate and tangible benefits that accrue from tobacco cultivation, manufacture and marketing act as incentives for farmers to grow tobacco and for the government to encourage tobacco cultivation and manufacture.

Tobacco has developed from a commodity to which great importance and value were attached (because of its presumed medicinal and evident intoxicant properties), and hence used for barter trade during the sixteenth and seventeenth centuries, to a cash crop in subsequent periods. The following aspects of tobacco can help in understanding why it has developed as a cash crop:

1. Tobacco has been contributing substantially to the total agricultural income.
2. It yields high net returns per unit of cultivation as compared to other crops.
3. It provides employment opportunities, both in agriculture and activities involved in the manufacture of tobacco products.
4. It is a major foreign exchange earner.
5. It is an important source of revenue, which

can be tapped relatively more easily than many other commodities. In view of its special qualities, a levy on it does not cause marked substitution effects and what the noted fiscal expert, Richard Musgrave terms 'the spite effects'.<sup>35</sup> Therefore, in practically every fiscal budget in India, the finance minister proposes raising a levy on tobacco products and justifies it on the ground that tobacco consumption is injurious to health.

6. There is considerable domestic and international demand for tobacco and its products.

The historical developments relating to the economic aspects of tobacco in India can be studied in two periods: the colonial era before India became independent in 1947 and the post-Independence period of national governance and policy-making.

### Pre-Independence period

Tobacco was initially grown in the Deccan region (South Central India), during 1605, and later spread to other parts.<sup>36</sup> The Virginia variety of tobacco was introduced in India in Andhra Pradesh in 1920 by the British officers of the Indian Leaf Tobacco Development Company (Box 2.3).<sup>37-40</sup> Sir Forbes Watson's *Cultivation and preparation of tobacco in India* (1871), said to be one of the earliest publications on tobacco, tells us more about Indian tobacco. Table 2.1 shows the area under tobacco cultivation and production in British India.<sup>37,41</sup>

The area under tobacco cultivation increased three times during the period from 1891–1892

**Table 2.1** Area under tobacco cultivation and production in British India<sup>37,41</sup>

Year	Area (x 1000 ha)	Production (million kg)
1891–1892	132.30	–
1920–1921	425.10	–
1939–1940	413.36	344.38
1945–1946	357.49	336.25

Source: Indian Central Tobacco Committee (ICTC) 1960; Sanghi 1992

### Box 2.3 Steps taken by the government (British India) to introduce tobacco as a major crop<sup>37–40</sup>

**1787**—Establishment of the Botanical Gardens at Sibpur, Calcutta (trials to grow tobacco were conducted).

**1829**—The government decided to promote cultivation of superior tobacco. Imported seeds were made available to the Agrihorticulture Society of Calcutta and trials on an improved variety continued for several years.

**1875**—Attempts were made to produce Virginia tobacco at Ghazipur in Uttar Pradesh.

**1875**—Growing and curing of tobacco continued in the Pusa farm in Bihar.

**1901**—The British and American Tobacco Company expanded their trade into India and set up three companies, which later together became the Imperial Tobacco Company India, i.e. the present Indian Tobacco Company (ITC) Ltd.

**1903**—The establishment of the Imperial Agricultural Research Institute and College at the Pusa farm initiated the cultivation of a new variety of tobacco.

**1920**—The Indian Leaf Tobacco Division (ILTD) of ITC experimented on the black soils of Guntur, Andhra Pradesh and successfully cultivated Virginia tobacco in 1928.

**1929**—Commercial and large-scale production of tobacco was initiated by the ILTD. The company established demonstration barns, provided technical guidance to them and encouraged local farmers to grow tobacco by providing financial assistance to construct barns, purchase fertilizers, wood fuel, etc. Slowly, tobacco cultivation spread to all the coastal districts of Andhra Pradesh.

**1933**—The ILTD introduced flue-cured Virginia (FCV) tobacco into the international market.

**1936**—A cigarette tobacco research station was established in Guntur to study the effect of soil and manure on the flavour of tobacco.

**1937**—Tobacco cultivation was introduced in Karnataka (Mysore State) by the Mysore Tobacco Company Ltd.

**1938**—India produced 499 million kg of tobacco and ranked second in production next to the USA (628.7 million kg). China was the third largest producer (446.8 million kg).

**1940s**—Cultivation of FCV tobacco was initiated in north Bihar (1940), Uttar Pradesh (1940) and Gujarat (1945–1946). In the first year (1943–1944), excise revenue from tobacco was Rs 9.65 crore. This led the government to explore other types of tax on tobacco as well as initiate measures to promote tobacco cultivation.

**1943**—The government set apart an annual, non-lapsable grant of Rs 10 lakh from the proceeds of excise duty imposed to extend the cultivation of high-quality leaf and improve the production of tobacco.

**1945**—The Tobacco Grading Inspectorate was established at Guntur to ensure the quality control of tobacco for exports, and the Indian Central Tobacco Committee (ICTC) was set up to look after the cultivation, technical and economic aspects of tobacco cultivation in India.

*Adapted from ICTC 1960; Directorate of Tobacco Development 1997; Kori 1998; Tobacco Board 2002*

**Table 2.2** Tobacco trade in British India (Rs in million)<sup>41</sup>

Year	Exports	Imports
1881–1882	1.20	0.63
1991–1992	1.41	1.17
1912–1913	3.84	6.94
1920–1921	7.49	25.59
1921–1922	7.18	16.51

*Source:* Sanghvi 1992

to 1920–1921. Since then, the area under tobacco cultivation has been hovering around four lakh hectares. The value of imports shown in Table 2.2 reveals that there was a great demand for tobacco, particularly cigarettes, by 1920. Since cigarettes were not manufactured in India, imports increased to meet the domestic demand. Revenue from tobacco increased six times, while the value of imports increased 26 times during a period of 40 years.

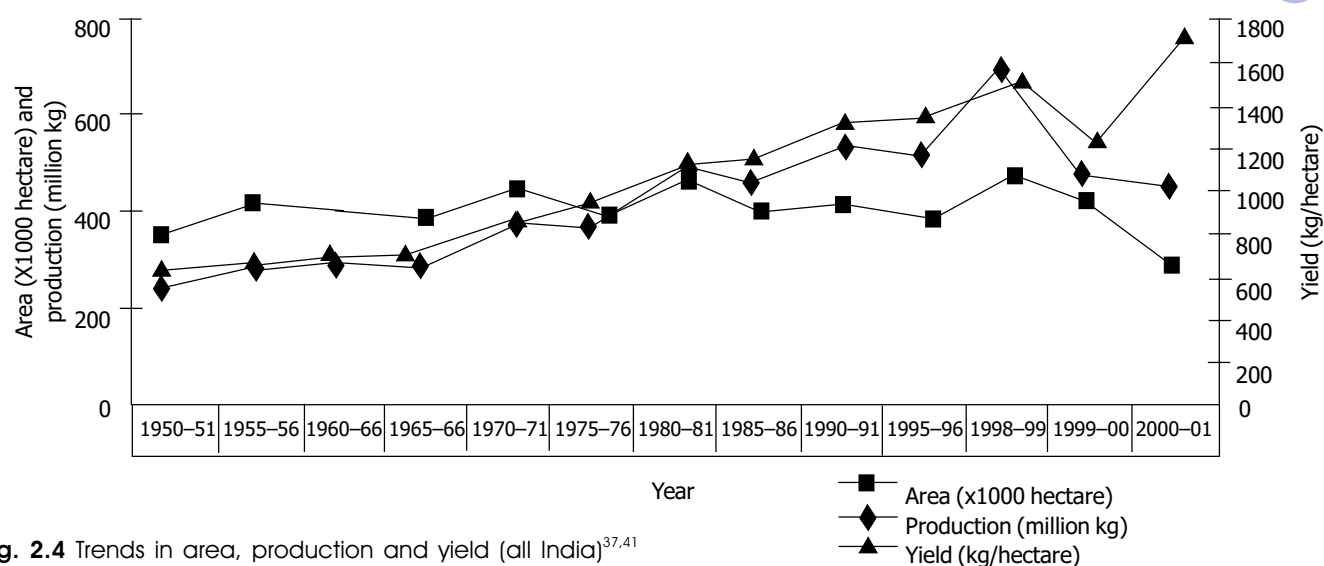
### Post-Independence period

Although tobacco was grown in many parts of India during the 1950s, the best quality crop was grown in Bihar, West Bengal, Tamil Nadu, Karnataka, Maharashtra, Punjab and Andhra Pradesh.<sup>42</sup>

Cultivation of flue-cured Virginia (FCV) tobacco spread to Tamil Nadu (1957–1958), Maharashtra (1961–1962) and West Bengal (1966). Till the 1960s, the cultivation of FCV tobacco was traditionally confined to the black soils in India. However, with increasing demand for light-bodied leaves and low nicotine/tar content, its cultivation was extended to Karnataka's light soils. Madras (now Chennai) was leading in the area under tobacco cultivation until the formation of Andhra Pradesh in 1953. West Bengal was also one of the leading producers before 1947.

Figure 2.4 and Table 2.3 give details of tobacco cultivation and consumption, and the revenue derived from it in the post-Independence period.<sup>37–41</sup>

The area under tobacco cultivation increased within the first 20 years of Independence.



**Fig. 2.4** Trends in area, production and yield (all India)<sup>37,41</sup>

Source: Indian Central Tobacco Committee (ICTC) 1960; Sanghvi 1992

Although there was a steep reduction in the area in 1975–1976, by 1980–1981, the area under cultivation increased by 22%. This increase was the result of initial efforts taken by the Tobacco Board set up in 1975. The reduction in crop area, observed in 2001, was due to a crop holiday observed in Andhra Pradesh. This was in response to an unsold surplus of tobacco produce from the preceding years. These fluctuations have occurred only in the tobacco growing regions of India. Overall, the area under cultivation has been limited to four lakh hectares, because of the non-suitability of the soil for tobacco cultivation in other parts of India.

From 1951 to 2001, there was an increase in the production by 130%, in excise revenue by 31,614%, in export revenue by 5823% and in consumption by 92% (Table 2.3).

The worldwide trend in the area of tobacco cultivation and production shows that while there has been a relatively modest growth in the area under tobacco cultivation, a steady growth in the production area has taken place, pointing to substantial productivity gains. There has also been a shift in tobacco production from the developed to developing countries. India's share in the world tobacco production was 10.2% in 2000, while that of China was 36.7%. However, in terms of productivity, India has always remained much below the world average by 20%–40%. An analysis of variety-wise tobacco production reveals that the bulk of total tobacco production in India consists of non-cigarette tobacco products as there is a strong, but unorganized, domestic market for non-cigarette tobacco products. Production of cigarette tobacco, mainly FCV, though increasing, still

**Table 2.3** Tobacco economy in the post-Independence period<sup>39,41</sup>

Year	Area (X1000 hectare)	Production (million kg)	Excise revenue (Rs in million)	Export revenue (Rs in million)	Tobacco consumption (million kg)
1950–1951	360	260	258	150	245
1960–1961	400	310	540	160	328
1970–1971	450	360	2284	320	367
1980–1981	450	480	7553	1400	360
1990–1991	410	560	2,6957	2630	474
2000–2001	290	490	8,1824	9034	470
2001–2002	–	601	–	8885	–

Source: Tobacco Board 2002; Directorate of Tobacco Development 1997

accounts for only 30% of the total production in the country. This is because of the 200 million tobacco consumers in India, only 13% consume it in the form of cigarettes, while 54% consume it in the form of *beedi* and the rest in raw/*gutka* forms.<sup>43</sup> Worldwide, 85% of the tobacco cultivated is used in the production of cigarettes. Hence, the tobacco consumption pattern in India markedly differs from the rest of the world in terms of product configuration. Developments in the post-Independence period are listed in Box 2.4.<sup>38,40</sup>

A special feature of the domestic tobacco production scene in India is the varietal composition of the produce. India is the only country where the bulk of production consists of numerous non-smoking types of tobacco. The presence of a strong domestic demand for *beedi*, *hookah*, chewing and snuff tobacco necessitates the cultivation of non-cigarette types of tobacco to a relatively large extent. An analysis of variety-wise production of tobacco shows that during 1997–1998, *beedis* accounted for 29.6% of the total area under tobacco cultivation and 29.5% of the total production, whereas Virginia tobacco used in cigarettes was grown on 39.1% of the area under tobacco cultivation and accounted for 23.6% of the total production. However, the share of chewing tobacco in India's tobacco production has risen steadily over the years from 11.7% in 1993–1994 to 29.1% in 1997–1998.

### Types of tobacco grown in India

Unmanufactured tobacco is either exported, directly consumed as chewing tobacco, or used as an input in the production of manufactured items such as cigarettes, cigars and *beedis*. Usually, there are seven broad types of unmanufactured tobacco, based on the end-use and curing methods. These are: (i) FCV, (ii) Burley, (iii) Oriental, (iv) dark air/sun-cured, (v) light air-cured, (vi) dark air-cured (cigar) and (vii) dark fire-cured.

Currently, India produces 600 million kg (dry weight) of tobacco on an average. Of this, FCV

### Box 2.4 Developments in the post-Independence period<sup>38,40</sup>

**1947**—The Indian Central Tobacco Committee (ICTC) established the Central Tobacco Research Institute for undertaking research on cigarettes and the Lanka type of tobacco. Later, four research stations were established in Tamil Nadu (in 1948 for cigarette, *cheroot* and chewing tobacco), Bihar (in 1950 for *hookah* and chewing tobacco), West Bengal (in 1952 for wrapper and *hookah* tobacco) and Karnataka (in 1957 for flue-cured Virginia [FCV] tobacco) to study the different types of tobacco.

**1956**—The Tobacco Export Promotion Council (TEPC) was established to support, protect and promote the export of tobacco.

**1965**—The ICTC was abolished.

**1966**—The Directorate of Tobacco Development was established to act as an information agency on tobacco production, trade, marketing, export, consumption, etc.

**1975**—The Tobacco Board was constituted under the Tobacco Act, 1975, replacing the TEPC. The Tobacco Board is responsible for regulating the cultivation, production, marketing and export of FCV tobacco.

**1980-81**—The Agricultural Price Commission recommended a minimum support price for FCV tobacco grown in light and black soils.

**1983**—The National Cooperative Tobacco Growers Federation Ltd. (TOBACCOFED) was established by the Ministry of Agriculture and Rural Development to promote the production and marketing of non-FCV tobacco in the country. However, TOBACCOFED is defunct since a long time.

**1984**—Auction sale of FCV tobacco was introduced for the first time by the Tobacco Board in Karnataka and in Andhra Pradesh in 1985.

Adapted from Tobacco Board 2002; Directorate of Tobacco Development 1997

tobacco accounts for 31% (185 million kg). Cigarette (FCV), *beedi*, chewing, *hookah*, cigar, *cheroot*, snuff, *natu* and Burley tobacco are grown in different parts of India. FCV, burley and *natu* tobacco are the three main varieties of cigarette tobacco. Flue-cured Virginia tobacco is the primary ingredient in the manufacture of cigarettes. It is mainly cultivated in Andhra Pradesh and Karnataka, whereas *beedi* tobacco is grown in Gujarat. Tobacco used for chewing and *hookah* are grown in other tobacco producing states of India. Burley and Oriental types are blended with FCV in appropriate

proportions to create specific qualities of tobacco for cigarettes to cater to the taste of smokers.

- *Beedi* tobacco: This occupies 30%–35% of the total area under tobacco cultivation and is grown in Gujarat, Karnataka and Maharashtra. Nearly 85% of the world's *beedi* tobacco is grown in India. The average yield varies between 1000 and 1700 kg/hectare in Karnataka and Gujarat, respectively.
- FCV tobacco: It is grown in Andhra Pradesh and Karnataka. A small quantity of this tobacco is also grown in Orissa (Rayagada) and Maharashtra (Gadchiroli). It is the most remunerative crop due to the demand from domestic cigarette manufacturers and importers. In 2000–2001, the average yield of FCV tobacco was 1710 kg/hectare. Fifty per cent of the FCV grown in India is used by the domestic cigarette industry while the remaining is exported.
- Burley tobacco: This air-cured form of tobacco is used for cigarette blends and is grown in Andhra Pradesh.
- *Hookah* tobacco: (*Nicotiana rustica* variety) It is used for smoking and is grown in Uttar Pradesh, Bihar, West Bengal and Orissa.
- Chewing tobacco: This is used for *gutka*, snuff and pipe tobacco. It is grown in Tamil Nadu, Uttar Pradesh, Bihar, West Bengal and Orissa.
- *Natu* tobacco: It is sun-cured and grown in Andhra Pradesh.
- Cigar tobacco: This type of tobacco is grown in West Bengal and Tamil Nadu.
- *Cheroot* tobacco: It is grown in Tamil Nadu and Andhra Pradesh.

The production of different varieties of tobacco in India is shown in Table 2.4.<sup>44</sup>

### Unmanufactured tobacco

Recently, India became one of the largest producers of unmanufactured tobacco, ranking third after China and the USA (Table 2.5).<sup>45</sup> China produces 39.2% of the total world production, while India's share of unmanufactured tobacco production is 10.5%. During 2002–2003, the world production of unmanufactured tobacco was

**Table 2.4** Types of tobacco produced in India (2002)<sup>44</sup>

Type of tobacco	Quantity (million kg)
<i>Cigarette tobacco</i>	
FCV	175
Dark air/sun-cured	40
Burley	8
HDBRG	20
Oriental	0.1
DWFC	1
Subtotal	244.1
<i>Non-cigarette tobacco</i>	
<i>Beedi</i>	200
Chewing tobacco	65
Cigar	22
<i>Hookah</i>	60
Snuff	10
Subtotal	357
<b>Total</b>	<b>601.1</b>

FCV: flue-cured Virginia; HDBRG: Harvel De Bouxo Rio Grande; DWFC: Dark western fire-cured  
 Source: www.indiantobacco.com

6,024,000 tonnes of which India produced 592,000 tonnes. This is estimated to increase to 595,000 tonnes in 2003–2004.

### Manufactured tobacco

Manufactured tobacco is typically used for smoking such as in cigarettes and *beedis*, and in some varieties of chewing tobaccos. The production of different varieties of tobacco is directly related to the pattern of consumption. Internationally, smoking tobacco usage has shifted from traditional products such as hand-rolled cigarettes, cigars, *cheroots*, *beedis*, pipes and *hookah* to cigarettes (both filter and non-filter). As shown in Table 2.6, there has been an overall shift in manufactured tobacco production towards smoking use in India.<sup>46</sup> In this respect, the Indian trend is similar to the worldwide trend of more smoking tobacco products. The pattern of production within smoking products, however, presents a sharp contrast to the worldwide trend. *Beedi* is the dominant form of tobacco produced in Indian manufacturing units. *Beedis* alone account for 31% of all manufactured tobacco production while the

**Table 2.5** World unmanufactured tobacco production (in tonnes)<sup>45</sup>

	Production (in tonnes)			Share in world production (%)		
	1998–1999	2002–2003 (p)	2003–2004 (f)	1998–1999	2002–2003 (p)	2003–2004 (f)
China	2,010,250	2,365,988	2,224,481	32.2	39.3	39.2
United States	604,131	358,363	339,241	9.7	5.9	5.9
India	572,200	592,000	595,000	9.2	9.8	10.5
Brazil	373,150	551,250	515,720	5.9	9.2	9.1
Turkey	217,570	133,812	142,190	3.5	2.2	2.5
Indonesia	123,653	144,700	135,000	1.9	2.4	2.4
Malawi	95,996	124,301	122,580	1.5	2.1	2.2
Greece	127,000	120,000	121,000	2.0	1.9	2.1
Italy	112,225	108,460	106,250	1.8	1.8	1.9
Argentina	98,100	106,000	97,700	1.6	1.8	1.7
Pakistan	84,636	84,721	86,389	1.4	1.4	1.5
Others	1,815,666	1,335,094	1,187,016	29.1	22.2	20.9
World total	6,234,577	6,024,689	5,672,567	100	100	100

p: preliminary; f: forecast

Source: United States Department of Agriculture (USDA) estimates for February 2004

**Table 2.6** Value of the gross output of the manufactured tobacco sector<sup>46</sup>

Year	Value (Rs in million)						Share (%)				
	Sector 225	Sector 226	Sector 227	Sector 228	Sector 229	Total	Sector 225	Sector 226	Sector 227	Sector 228	Sector 229
1973–1974	1509.3	770.4	1504.7	453.3	4237.7	35.6	18.2	35.5	10.8		
1974–1975	1557.4	714.3	1317.4	444.6	4033.7	38.6	17.7	32.7	11.0		
1975–1976	1765.8	1055.9	2336.9	335.1	5493.7	32.1	19.2	42.5	6.1		
1976–1977	1952.8	2055.9	2758.3	440.0	7207.0	27.1	28.6	38.3	6.1		
1977–1978	2481.0	2704.9	2166.0	506.3	7858.2	31.6	34.4	27.6	6.4		
1978–1979	2565.8	2703.3	2519.4	556.3	8344.8	30.8	32.4	30.2	6.7		
1979–1980	2234.9	2824.4	1989.6	665.4	7714.3	28.9	36.6	25.8	8.6		
1980–1981	2445.4	2825.2	1821.5	701.1	7793.2	31.4	36.3	23.4	9.0		
1981–1982	3218.4	3481.7	2170.1	738.0	9608.2	33.5	36.2	22.6	7.7		
1982–1983	3187.5	4403.5	1445.8	1150.8	10,187.6	31.3	43.2	14.2	11.3		
1983–1984	3818.1	4420.1	4634.3	1394.3	14,266.8	26.8	30.9	32.5	9.8		
1984–1985	3290.2	5162.0	2994.4	1417.1	12,863.7	25.6	40.1	23.3	11.0		
1985–1986	3303.1	5257.6	3884.1	1443.7	13,888.5	23.8	37.9	27.8	10.4		
1986–1987	3057.5	6648.6	4275.4	1707.9	15,689.4	19.5	42.4	27.3	10.9		
1987–1988	2641.7	8428.3	4764.3	2085.0	17,919.3	14.7	47.0	26.6	11.6		
1988–1989	2824.1	9472.3	6720.4	2425.6	21,442.4	13.2	44.2	31.4	11.3		
1989–1990	4350.0	12,499.6	6919.4	3027.3	1149.2	27,945.5	15.6	44.7	24.8	10.8	4.1
1990–1991	5,1171.0	15,933.3	8605.3	3225.8	1733.4	34,614.9	14.8	46.0	24.9	9.3	5.0
1991–1992	8380.3	16,422.5	9874.8	2723.8	2468.4	39,869.8	21.0	41.2	24.8	6.8	6.2
1992–1993	9340.6	18,529.2	12,826.7	3398.5	3124.6	47,219.6	19.8	39.2	27.2	7.2	6.6
1993–1994	11,111.3	21,115.2	13,158.9	4503.0	3614.9	53,503.3	20.8	39.5	24.6	8.4	6.8
1994–1995	10,904.7	21,280.7	15,279.1	4289.2	4198.2	55,951.9	19.5	38.0	27.4	7.7	7.5
1995–1996	9777.1	18,681.9	13,609.2	5036.3	6181.5	532,860.0	18.4	35.1	25.5	9.5	11.6
1996–1997	13,742.3	22,696.2	21,112.6	5184.4	9077.7	71,813.2	19.1	31.6	29.4	7.2	12.6
1997–1998	11,939.1	24,919.6	26,832.4	8159.6	8468.9	80,319.6	14.9	31.0	33.4	10.2	10.5

225: tobacco stemming, redrying and other operations; 226: manufacture of *beedis*; 227: manufacture of cigars, cigarettes, *cheroots* and cigarette tobacco; 228: manufacture of snuff, *zarda*, chewing tobacco and other tobacco products; 229: manufacture of *paan masala*, catechu and chewing lime.

Source: Central Statistical Organization

share of cigarettes, cigars, *cheroots* and cigarette tobacco was 33% in 1997–1998. However, the production of chewing tobaccos such as *paan masala* and catechu is increasing over the years. The overall trend of total manufactured tobacco production showed a steady increase from Rs 4237.7 million in 1973–1974 to Rs 80,319.6 million in 1997–1998.

Of the four major manufacturers of cigarettes in India—the Indian Tobacco Company (ITC) Limited, Godfrey Phillips India (GPI) Limited, Vazir Sultan Tobacco (VST) Industries Limited and Golden Tobacco Company (GTC) Limited (Table 2.7)—ITC Limited alone accounts for more than 60% of the total production, and 80% of the sales and market share.<sup>47–49</sup> The cigarette industry all over the world is facing a declining trend and increased activity from anti-smoking lobbies. According to the US Department of Agriculture (USDA) estimates (Table 2.8), the production of cigarettes in India has declined from 98,000 sticks in 1997–1998 to 93,000 sticks in 2002–2003.<sup>45</sup> Although the share of domestic cigarette production has increased marginally over the years, it has mostly remained stable within the range of 1.5%–1.9%. According to the data provided by the Indian Tobacco Board and Reserve Bank of India (RBI), the production of cigarettes reached a peak of 94,050 million sticks in 1982–1983, declining subsequently thereafter.<sup>50,51</sup> In the

1990s, production started again, increasing till 1999–2000, and showed a decline for the next two years till 2002.

## Consumption of tobacco

India is one of the biggest tobacco markets in the world, ranking third in total tobacco consumption behind only the markets of China and the United States. However, the per capita consumption in the country is 0.9 kg compared to the world average of 1.8 kg.<sup>43</sup> Domestic unmanufactured tobacco consumption has increased from 483,360 tonnes in 1998–1999 to 488,130 tonnes in 2003–2004 (Table 2.9).<sup>45</sup> Tobacco usage in India is contrary to world trends since chewing tobacco and *beedi* are the dominant forms of tobacco consumption, whereas internationally, cigarette is the dominant form of tobacco use.

The use of tobacco and its various products appears to have declined in the rural and urban populations of India over the period from 1987–1988 to 1999–2000. According to the National Sample Survey (NSS) data shown in Table 2.10, consumption of tobacco in all recorded forms has reduced.<sup>52</sup> This trend in decline in consumption is faster among the urban population. Since *gutka* is a recent entrant, the trends of oral tobacco use are not clearly documented by using

**Table 2.7** Production, sales and market share of major manufacturers of cigarettes in India<sup>47–49</sup>

Company	Production (in millions)			Sales (Rs in million)			Market share (%)		
	1991–1992	1996–1997	2001–2002	1991–1992	1996–1997	2001–2002	1991–1992	1996–1997	2001–2002
ITC Ltd	32,953	46,094	53,551	22307.0	49270.7	80135.8	62.4	75.2	80.6
Godfrey Phillips India Ltd	15,802	12,896	8857	6704.9	8037.1	8944.9	18.8	12.3	9.0
VST Industries Ltd	14,900	13,545	8990	5089.1	5368.8	6499.8	14.2	8.2	6.5
GTC Industries Ltd	1866	8344	7214	1558.0	2502.1	3584.6	4.4	3.8	3.6
Total of the major four companies	65,521	80,879	78,612	35,659.0	65,178.7	99,165.1			
Total	70,563	83,078	88,000	35,739.7	65,358.2	99,381.4			
Share of ITC Ltd in total (%)	46.7	55.5	60.9	62.4	75.4	80.6			

Source: Centre for Monitoring Indian Economy (CMIE) Prowess (Release 2) database 2004; and CMIE, 'Industry market size and shares', July 1998 and August 2003

**Table 2.8** World cigarette production (1000 sticks)<sup>47</sup>

	Total production			Share in world production (%)		
	1997–1998	2001–2002 (p)	2002–2003 (f)	1997–1998	2001–2002 (p)	2002–003 (f)
China	1,683,549	1,709,505	1,735,000	30.2	30.5	34.5
Russia	180,500	375,000	380,000	3.2	6.7	7.6
Japan	267,050	229,000	224,000	4.8	4.1	4.5
Germany	181,904	212,500	211,000	3.3	3.8	4.2
Indonesia	216,200	200,358	186,000	3.9	3.6	3.7
Turkey	118,020	130,830	134,500	2.1	2.3	2.7
UK	163,547	133,014	130,000	2.9	2.4	2.6
Netherlands	116,263	126,292	126,500	2.1	2.3	2.5
Brazil	170,000	106,685	101,580	3.1	1.9	2.0
India	98,000	90,500	93,000	1.8	1.6	1.9
Korea	103,586	93,750	92,000	1.9	1.7	1.8
Others	2,282,148	2,194,477	1,622,069	40.9	39.2	32.2
World total	5,580,767	5,601,911	5,035,649	100	100	100

p: preliminary; f: forecast

Source: United States Department of Agriculture (USDA) estimates for February 2004

*paan*–tobacco alone as an indicator. After 1987–88, there is a declining trend in the consumption of the smoked forms, in both urban and rural areas.

Total cigarette consumption increased from 62,908 million sticks in 1970 to 81,514 million sticks in 1997. However, the per capita consumption of cigarettes decreased from 190 sticks in 1970 to 129 sticks in 1997. More recently, a decline in the number of cigarette

sticks consumed has been noted (Table 2.11).<sup>46</sup>

On the other hand, the share of domestic consumption of unmanufactured tobacco went up from 6.9% in 1997–1998 to 7.5% in 2002–2003. Over the years, India's position has risen from the third- to the second-largest unmanufactured tobacco consuming country in the world. This suggests that compared to cigarettes, more of the other forms of tobacco are consumed in India and that this trend is increasing in recent years.

**Table 2.9** World unmanufactured tobacco consumption (in tonnes)<sup>45</sup>

	Total domestic consumption			Share in world consumption		
	1997–1998	2001–2002 (p)	2002–2003 (f)	1997–1998	2001–2002 (p)	2002–2003 (f)
China	2,341,759	2,772,904	2,897,554	33.4	42.0	44.3
India	483,360	481,130	488,130	6.9	7.2	7.5
Russia	180,460	309,300	293,100	2.6	4.7	4.5
Germany	142,651	180,000	162,000	2.0	2.7	2.5
Japan	172,700	149,000	149,000	2.5	2.3	2.3
Indonesia	133,300	155,140	142,491	1.9	2.4	2.2
Turkey	108,850	120,100	123,000	1.6	1.8	1.9
Brazil	155,925	112,525	107,700	2.2	1.7	1.7
UK	136,750	100,750	100,750	1.9	1.5	1.5
USA	616,835	463,190	444,190	8.8	7.0	6.8
Philippines	74,690	94,120	96,320	1.1	1.4	1.5
Others	2,472,732	1,663,606	1,536,574	35.21	25.2	23.5
World Total	7,020,012	6,601,765	6,540,809	100	100	100

P: preliminary; f: forecast

Source: United States Department of Agriculture (USDA) estimates for February 2004

**Table 2.10** Monthly per capita quantity and value of consumption per 30 days<sup>52</sup>

NSS Round	Year	Paan (finished)		Beedi (number)		Cigarettes (number)	
		Quantity	Value (Rs)	Quantity	Value (Rs)	Quantity	Value (Rs)
<i>Rural</i>							
17	1961–1962	–	–	28.9	–	1.0	–
43	1987–1988	0.7	0.21	49.5	1.93	1.1	0.27
50	1993–1994	0.6	0.39	45.7	3.70	0.8	0.45
55	1999–2000	0.8	0.78	38.2	4.91	0.9	0.88
<i>Urban</i>							
17	1961–1962	–	–	47.5	–	7.7	–
43	1987–1988	1.7	0.70	38.7	1.60	4.9	1.47
50	1993–1994	1.4	1.16	32.4	2.79	3.7	2.45
55	1999–2000	1.2	1.76	22.1	3.12	3.2	3.68

Source: National Sample Survey (NSS) 2001

## Facilitators of tobacco production in India

The Tobacco Board, agricultural research institutes located in different parts of India and the tobacco industry, particularly ITC, are facilitating the sustained production of different types of tobacco in the country. *Beedi* tobacco seeds are supplied by the research station at Anand (Gujarat) whereas FCV tobacco seeds are supplied by the Central Tobacco Research Institute (CTRI) and ITC. In addition, research institutes affiliated to the Indian Council of Agricultural Research (ICAR) and universities are undertaking research on new and improved varieties. The Tobacco Board is promoting the production of FCV tobacco through regulated cultivation, processing and marketing of tobacco. Subsidies are provided for the purchase of coal, fertilizers, sprinkler sets, installing barn insulation, etc. Extension programmes, namely, demonstration plots, study tours, web portals, flow of bank credit via tie-up arrangements, meetings with exporters and importers, etc. are also taken up by the Tobacco Board. The Tobacco Institute of India (TII), the Indian Society on Tobacco Science (ISTS) and the Directorate of Tobacco Development (DTD) are promoting tobacco by providing information on production, prices, market, tax rates, government policies, etc. The Ministry of Commerce, Government of India provides assistance for study/business tours, conferences and exhibitions related to tobacco trade.

However, it may be stated here that the developments in tobacco research may help increase the yield, quality and flavour of tobacco, but not the area under tobacco cultivation. Further scope for increasing this area in India is limited because of the peculiar soil conditions and climate required for cultivating tobacco. Moreover, this may not be possible in the light of the growing anti-tobacco movement within the country, the World Health Organization's (WHO) Framework Convention on Tobacco Control (FCTC), World Trade Organization's (WTO) specifications on trade and agriculture and the government's decision to impose restrictions on tobacco consumption in India.

## Exports

Tobacco has been a traditional export item for India. However, the share of tobacco exports in India's total exports witnessed a declining trend from 1974–1975 to 2002–2003. The share of tobacco exports to total exports declined from 2.5% in 1974–1975 to 0.4% in 2002–2003. The share in disaggregated forms of unmanufactured and manufactured tobacco also depicted a similar declining trend. The declining share of tobacco exports to total exports is basically due to the sharp fall in the export share of unmanufactured tobacco.

In 1985, India exported unmanufactured tobacco products to nearly 50 countries. Currently, India has tobacco trade with 100 countries. It appears that exports have

**Table 2.11** World cigarette consumption (1000 sticks)<sup>45</sup>

	Domestic consumption			Share in world consumption (%)		
	1997–1998	2001–2002 (p)	2002–2003 (f)	1997–1998	2001–2002 (p)	2002–2003 (f)
China	1,666,047	1,697,291	1,722,349	31.3	31.3	34.8
Russia	245,000	375,000	378,000	4.6	6.9	7.6
Japan	336,600	292,046	286,500	6.3	5.4	5.8
Indonesia	199,136	181,958	171,100	3.7	3.4	3.5
Germany	140,630	143,164	142,000	2.6	2.6	2.9
Turkey	109,300	115,500	116,000	2.1	2.1	2.4
Italy	93,536	102,357	106,500	1.8	1.9	2.2
Brazil	97,000	105,500	100,200	1.8	1.9	2.0
Spain	89,900	94,309	94,300	1.7	1.7	1.9
India	96,820	89,455	91,160	1.8	1.7	1.8
Philippines	75,000	84,000	87,100	1.4	1.6	1.8
Others	2,171,899	2,148,548	1,649,591	40.8	39.6	33.4
World total	5,320,868	5,429,128	4,944,800	100	100	100

p: preliminary; f: forecast

Source: United States Department of Agriculture (USDA) estimates for February 2004

determined the production of FCV tobacco in India. In 1982–1983, India had a record production of 184 million kg of FCV tobacco, which was 6% of the world's tobacco production.<sup>53</sup>

The rise in the popularity of cigarettes opened the market for Indian FCV tobacco in the UK, Japan, the USSR, Egypt, Italy, China and Bulgaria. According to data available in 2001, Russia (27%), the UK (10%), Yemen (9%), Germany (8%), the Netherlands (6%) and Belgium (5%) are the major markets for Indian unmanufactured tobacco. Russia, Belgium, Germany, Nepal and Singapore are the major importers of FCV tobacco from India. Of the 200 exporters registered with the Tobacco Board in 2001–2002, there are 50 that export unmanufactured tobacco from India.

Although India is one of the major exporters of unmanufactured tobacco, it has yet to make its presence felt in the export market for cigarettes. From the data on tobacco exports, it is evident that India is known more for its unmanufactured tobacco than for the value-added manufactured products of tobacco. As early as in 1950–1951, 95% of the tobacco exports consisted of unmanufactured tobacco. Even after 90 years of the existence of a domestic cigarette manufacturing industry, India's tobacco exports still continue to be dominated by unmanufactured leaf, which was 84.6% of

the total tobacco exported in 2003–2004 (Table 2.12).<sup>51</sup> Nevertheless, due to the global increase in tobacco prices, India's export earnings have gone up by over 58 times from Rs 152 million in the beginning of the 1950s to Rs 8834 million. India's exports of tobacco and its products in terms of volume spurted from 44.6 million kg in 1950–1951 to 115.4 million kg in 2003–2004.

An analysis of variety-wise exports of unmanufactured tobacco shows that FCV tobacco accounted for between 60% and 82% of the total

**Table 2.12** Share of export performance of India from 1950–1951 to 2003–2004

Year	Unmanufactured tobacco		Manufactured tobacco	
	Quantity	Value	Quantity	Value
1950–1951	94.6	85.80	5.4	14.20
1955–1956	96.2	90.03	3.8	9.97
1960–1961	96.4	92.82	3.6	7.18
1965–1966	95.5	92.53	4.6	7.47
1970–1971	95.4	96.44	4.6	3.56
1975–1976	94.7	94.64	5.3	5.36
1980–1981	86.4	88.47	13.6	11.53
1985–1986	76.6	81.10	23.4	18.90
1990–1991	84.5	79.32	15.9	20.68
1995–1996	85.8	85.83	14.1	14.17
2000–2001	87.1	74.95	13.3	25.05
2003–2004	84.6	67.86	15.4	32.14

Values are expressed in percentages

Source: Tobacco Board 2004

exports of unmanufactured tobacco from the country during the 1990s. Similarly, the export value of FCV tobacco accounted for 75% to 90% of the total exports of unmanufactured tobacco. The other varieties of tobacco exported include SCN, SCV, Burley (all cigarette tobaccos) and *Lalchopadia*, *Judi* and *rustica* (chewing tobaccos).

India has an advantage over other countries in tobacco price and in the production of various varieties of tobacco from different agro-climatic regions. As a result, Indian tobacco is cheaper in the world market than that of other major producers. In spite of India having a comparative advantage over leading tobacco producing countries in terms of low cost of production, farm price and conversion cost, it has not emerged as a leading exporter. This is mainly due to low productivity and quality as compared to Zimbabwe, Brazil, the USA, etc. Table 2.13 shows that there have been fluctuations in tobacco exports from India. Though India has explored new markets, its share in the world market has declined.<sup>54</sup>

The continued accent on tobacco exports, mostly in unmanufactured form, is probably due to the limited scope for tobacco-based products from India. Despite 60 years of international trade, India has failed to take advantage of the worldwide increase in the demand for cigarettes. Exports of tobacco products from India are low. Chewing tobacco with a share of 43.8% leads the exports of tobacco products from the country

(Table 2.14).<sup>55</sup> Chewing tobacco is followed by cigarettes (29.7%), *hookah* tobacco paste (12.2%), and *beedis* (11.7%). However, there is not much scope for increasing the exports of manufactured tobacco products except cigarettes, which constitute the most widely used tobacco product in the world. Table 2.14 shows that the share of cigarettes in total manufactured exports increased both in volume and in terms of value from 1995–1996 to 2001–2002. However, the likelihood of the global tobacco market shrinking due to worldwide controls on tobacco and the extremely competitive nature of the global tobacco market would suggest that India's policies on tobacco agriculture and manufacture should not be guided by unrealistic expectations of potential exports.

## Employment

The structure of employment in the Indian tobacco industry largely reflects the structure of the consumer market for tobacco products in India. Specifically, the effect of the production of *beedis* dominates employment opportunities within the manufacturing sector of the domestic industry as this is a highly labour-intensive activity and involves much less sophisticated manufacturing techniques compared to those employed by cigarette manufacturers.

Within the tobacco industry, there are some important additional characteristics of the structure of employment. The vast majority of positions in the tobacco industry are available either on a part-time or seasonal basis. The main activities in which there is full-time employment are leaf processing, cigarette manufacturing, distribution and retailing. Of course, people involved with the distribution and retailing of tobacco products will derive only part of their livelihoods from the sale of tobacco products.

The manufacture of *beedis* is undertaken by part-time employees only. Seasonal employment dominates in the leaf-growing industry, with relatively small contributions to seasonal employment opportunities also coming from leaf processing and from brokering, auctions and

**Table 2.13** India's tobacco exports (in million kg)<sup>55</sup>

Year	Unmanufactured tobacco	Share (%) and rank in world tobacco trade	FCV tobacco	Share (%) and rank in world tobacco trade
1970	48	5% (5th)	48	12% (2nd)
1975	77	6% (4th)	71	13% (2nd)
1980	73	5% (5th)	65	11% (4th)
1985	64	5% (7th)	58	9% (4th)
1990	67	4% (8th)	44	7% (4th)
1995	68	4% (8th)	45	6% (5th)
2000	100	5% (6th)	65	6% (5th)
2001	83	4% (7th)	54	5% (5th)

FCV: flue-cured Virginia

Source: Tobacco Board, 2002

**Table 2.14** Production and exports of tobacco products from India<sup>55</sup>  
(quantity in tonnes and value in millions and percentage share in total exports)

Tobacco Products	Production						Share in total exports (%)					
	1995–1996		1998–1999		2001–2002		1995–1996		1998–1999		2001–2002	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Cigarettes	884	139	1432	317	2883	849	7.4	233	7.6	184	17.9	297
<i>Beedis</i>	676	115	998	307	961	334	5.7	193	5.3	179	5.9	117
HT paste	9376	261	12,811	366	8910	348	78.9	438	67.6	213	55.4	122
Chewing tobacco/ <i>zarda</i>	424	61	1191	500	2640	125	3.6	102	6.3	291	16.4	438
Cut tobacco	512	18	2506	225	652	69	4.3	29	13.2	131	4.1	24
Snuff	6	01	19	04	19	05	0.1	01	0.1	2	0.1	02
Others	5	02	0	0	11	02	0.0	03	0.0	0	0.1	01
Total	11,883	597	18,957	1719	16,076	2857	100	999	100	1000	100	1001

HT: *hookah* tobacco paste

Source: Tobacco Board 2003

related activities. The magnitude of seasonal employment in leaf growing, where many millions of people are engaged in the industry, emphasizes the importance of the industry in providing an income to these people, and in supporting family members and other people in these regional and rural communities. Other partial employment estimates reinforce the crucial role of the tobacco industry in providing employment opportunities, especially in leaf growing.

The *beedi* industry in India is labour-intensive. Since *beedi* rolling is largely considered to be a cottage industry, it generates much more employment at the manufacturing stage. It is estimated from the Annual Survey of Industries (ASI) data that almost 85% of employees of tobacco manufacturing industries are employed in the *beedi* industry.<sup>46</sup> Except the *beedi* industry, the number of employees in all other sectors of tobacco manufacturing units has declined over the period from 1973–1974 to 1997–1998.

### Excise revenue

Taxes on tobacco have long been debated in various countries. In many countries, both *ad valorem* and specific taxes are levied simultaneously on tobacco products. In fact, the structure of taxes on tobacco in India is slightly different. Until 1979, the primary form of taxing tobacco in India was through the levy of a tax on all types of leaf tobacco purchases, including those used for cigarettes, *beedis*, *zarda*

and snuff. In addition, an excise duty was levied on finished products. In that year, the government abolished the levy on leaf tobacco because (i) many people thought it was a tax on the poor farmers (producers) as well as an instrument for harassing them in the name of tax compliance, and (ii) it was becoming administratively difficult to collect the tax. Consequently, the entire tax burden was shifted to the finished products.

The tobacco industry in India is subject to a range of taxes imposed by the Central and State Governments. The Union Government raises revenue from the sales of all types of tobacco products predominantly through the imposition of excise duty calculated on an ex-factory basis. These are detailed in Section 6.8.

During 1998–1999, Rs 532,460 million was collected by the Indian Government from excise tax. The total excise duty generated by tobacco products was Rs 57,680 million which is 10.8% of the total excise revenue collected. Tobacco excise has become a particularly important source of revenue for the national budget. The data on revenue from excise duty highlights the preferential treatment accorded to the unmanufactured tobacco sector through the imposition of a lower excise on traditional tobacco products than that imposed on manufactured products. A recent study of the Indian tobacco industry concluded that traditional tobacco products, such as *beedis*, chewing tobacco and smokeless tobacco,

account for 81% of the national consumer market and yet they comprise only 12% of the total tobacco excise collected from tobacco products.<sup>56</sup>

However, the contribution of tobacco to the excise revenue has reduced from 14% in 1960–1961 to 10.8% in 1998–1999. The slowdown in the share of excise revenue is partly due to the nature of the tobacco consumption pattern in India and partly due to the excise rates over time. The bulk of tobacco consumption in India is in traditional forms such as *beedis* and chewing and non-smoking products, whereas the excise revenue from tobacco is largely

dependent on cigarettes, which account for one-fifth of consumption but contribute nearly four-fifths of the excise revenue.

Irrespective of the large contribution of cigarette industries to excise revenue, it has shown an increasing trend of profit. The profit of cigarettes and cigarette products industries reached 78.2% of the total profit of all tobacco industries in 1997–1998, from 61.2% in 1979–1980.<sup>46</sup> Similarly, the profit share of the *paan masala* and catechu industry has also increased substantially over the years. However, the profit margin of the *beedi* industry is declining over the years.

## 2.2 ECONOMIC HISTORY OF TOBACCO PRODUCTION

### KEY MESSAGES

- The entry of European colonial powers into India spurred the import of tobacco into India. Investment in production and export came later during the British rule.
- The policies of strong governmental support for tobacco agriculture, initiated during British colonial rule, have continued after Independence.
- Though recognized as a demerit good, tobacco plays a significant role in the Indian economy as it contributes substantially in terms of excise revenue, export revenue and employment.
- Tobacco cultivation has sustained despite social disapproval because of domestic demand (*beedi* tobacco) and the international market (flue-cured Virginia tobacco).
- The Tobacco Board, agricultural research institutes and the tobacco industry are the promoters of tobacco cultivation in India.
- India has emerged as a major producer and exporter of tobacco from being a mere importer some fifty years back.
- India is the world's second largest producer of tobacco and also the second largest consumer of unmanufactured tobacco. It is a major exporter of unmanufactured tobacco.
- From a leaf used initially as a medicine and intoxicant, tobacco has become a golden leaf reaping money for the producer and government.
- In sharp contrast to other countries, the major forms of tobacco consumption in India are *beedis* and chewing tobacco.
- Cigarettes, which are the major consumption category in other parts of the world, occupy the third place in India. The cigarette sector, however, has shown a rising profit trend.
- The export potential of tobacco is shrinking and domestic consumption too appears to be responding to interventions related to tobacco control.
- The need to restrict the growth of the tobacco industry and to progressively replace tobacco with alternative crops must receive serious policy consideration.