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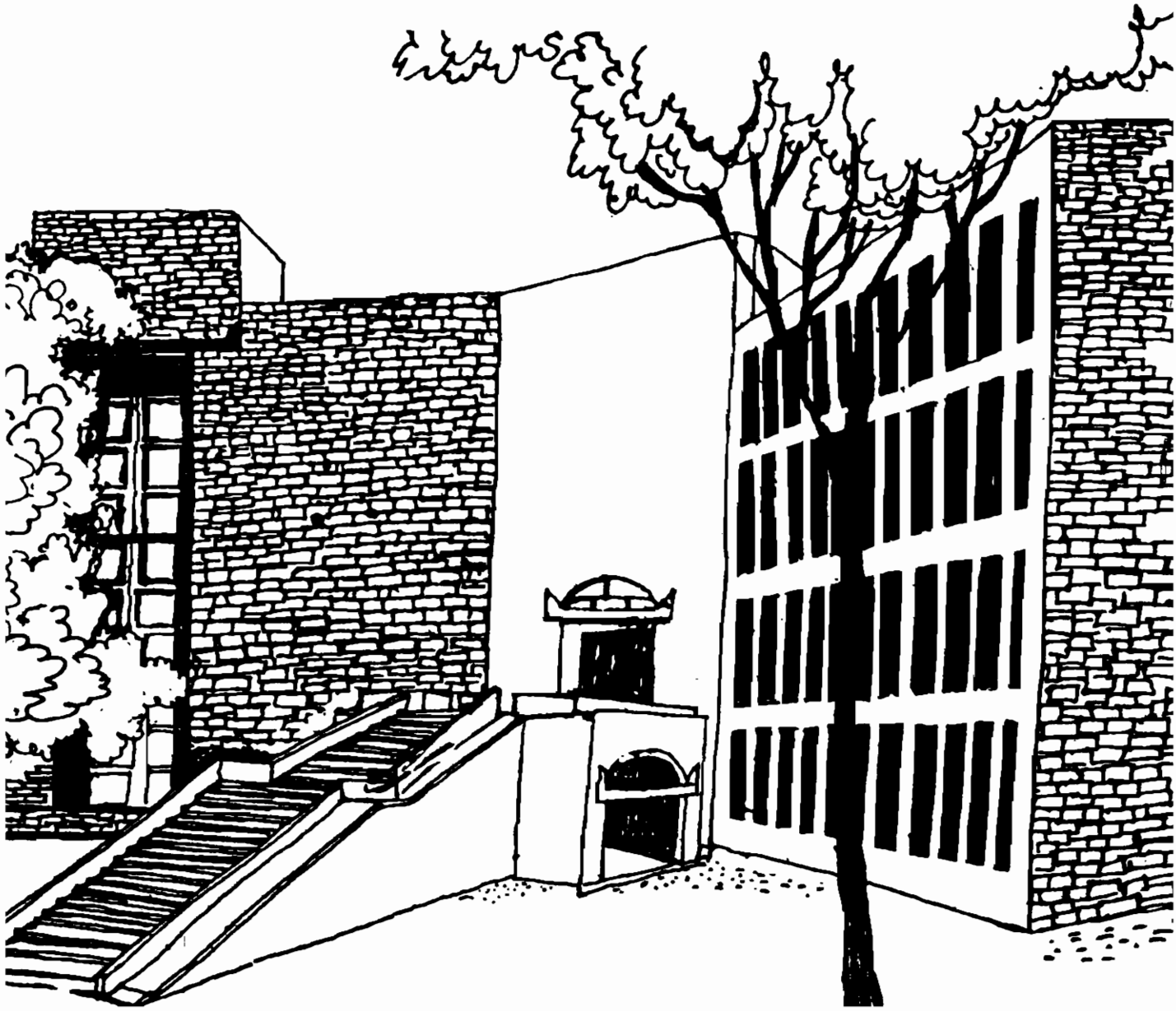

Tobacco Industry in India: Constraints for Development

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Tobacco Industry in India : Constraints for Development

Tobacco was introduced in India by the Portuguese during the seventeenth century. Currently, India is the third largest producer of tobacco in the world next only to China and USA (Table 1). It produces 450 million kgs of tobacco annually. Though tobacco occupied a mere 0.25 per cent (4.5 lakh hectares) of the total cropped area in the country it contributed Rs 507 crores to the foreign exchange earnings and Rs 3200 crores to the national exchequer by way of central excise during 1992-93 (NCAER 1993). It is estimated to have generated employment for 35 to 40 lakh people in activities like harvesting, grading, processing, transportation etc in addition to 7 lakh farmers. It is believed that nearly ten lakh people are engaged in trading and its products (Singhal 1995). Despite playing such a vital role in the economy the industry faces many constraints for its development and growth.

Table 1
World Production of Tobacco (Triennium) Average: 1988-90

Country	Lakh Tonnes	% share
China	26.28	38.2
USA	6.57	9.6
India	4.49	6.5
Brazil	4.41	6.4
Turkey	2.59	3.8
USSR	2.26	3.3
Italy	1.95	2.8
Indonesia	1.49	2.2
Greece	1.31	1.9
Zimbabwe	1.31	1.9
Other countries	16.13	23.4
World production	68.79	100.00

Source : Singhal Vikas, *Handbook of Indian Agriculture*, Vikas Publishing House, New Delhi, 1995, pp 336.

Area and Production

India produces both FCV(flue cured virginia) and non virginia tobacco. The FCV tobacco is used in the manufacture of cigarettes and non virginia in the manufacture of bidis, zarda, chewing tobacco, snuff etc. Table 2 shows the production of different types of tobacco in India.

Table 2
Production of Different Types of Tobacco in India (percentages)

Year	FCV	Natu	Bidi	Cigar	Hookha	Cheroot	Snuff	All Types	Total production (lakh kgs)
1970-71	26.6	11.1	27.6	4.1	8.3	21.1	1.2	100.0	3619
1975-76	27.7	10.9	31.4	4.3	7.1	17.2	1.4	100.0	3498
1980-81	26.1	10.6	36.5	2.8	7.7	14.8	1.5	100.0	5201
1985-86	18.0	13.8	39.3	4.0	6.8	17.0	1.8	100.0	4412
1990-91	20.2	10.6	35.3	2.6	5.8	13.3	2.2	100.0	5584

Source : NCAER, 'Export Potential of Tobacco Sector, New Delhi, Oct 1993.

The cultivation of different types of tobacco in the country is concentrated in certain zones.

- Virginia tobacco in coastal districts of Guntur, Prakasham, Krishna, East Godavari, West Godavari, Nellore, Khammam in Andhra Pradesh and Mysore, Shimoga, Mandya in Karnataka.

- Bidi tobacco in Charotar region of Gujarat and Nipan region of Karnataka.

- South Tamilnadu area grows chewing, snuff, cigar, filter and binder tobacco.

- North Bihar (Vaishalli, Samastipur, Muzzafarpur and Purnea districts) and West Bengal (Cooch Bihar and Jalpaiguri districts) produce Hooka tobacco, chewing tobacco and snuff tobacco.

Table 3 shows area and production of tobacco in different states in the country. Andhra Pradesh, Gujarat and Karnataka account for 80 per cent of the area and 78 per cent of production. About 90 per cent of the virginia tobacco is produced in Andhra Pradesh. Karnataka, West Bengal and Gujarat contributed the remaining 10 per cent. Table 4 illustrates the statewise production of virginia tobacco. Only 41.6 per cent of the area under tobacco is irrigated. It was 32.7 per cent in Andhra Pradesh, 66.5 per cent in Gujarat and only 3.9 per cent in Karnataka. In Tamilnadu and Uttar Pradesh tobacco is a wholly irrigated crop.

Although per hectare yield of tobacco has gone up from 1064 kgs in 1980-81 to 1361 kgs in 1990-91 it is still very low compared to 2500 kgs in Brazil and 2000 kgs in Zimbabwe. Productivity of the crop needs to be improved by following better cultural practices and developing high yielding varieties.

To maintain the current level of production as well as meet the incremental demand in the future not only varieties with better yield but also varieties which are tolerant to major diseases and pests such as black shank disease and root knot nematode need to be developed (Lakshminarayana 1992).

Apart from increasing productivity improving quality is also important. Harvesting the leaves at the right time, better curing and bulking methods would help to improve the quality of tobacco.

Table 3
Statewise Area and Production of Tobacco in India for the year 1991-92

States	Area		Production		
	(Hectares)	% of total area	Lakh Kgs	% to total production	% area irrigated (1989-90)
Andhra Pradesh	2,04,900	48.07	2543	43.94	32.7
Assam	2,200	0.52	13	0.22	
Bihar	15,200	3.57	86	1.49	
Gujarat	85,300	20.01	1543	26.6	66.5
Karnataka	53,200	12.48	436	7.53	3.9
Kerala	300	0.07	06	0.10	
Madhya Pradesh	1,000	0.23	05	0.09	
Maharashtra	9,700	2.28	80	1.38	
Orissa	15,100	3.54	96	1.66	
Rajasthan	1,900	0.46	22	0.38	
Tamilnadu	5,800	1.36	87	1.50	100.00
Uttar Pradesh	15,100	3.54	717	12.39	100.00
W.Bengal	14,000	3.28	137	2.37	
Others	2,500	0.59	17	0.29	
Total	4,26,200	100.00	5788	100.00	41.6

Source : Singhal Vikas, *Handbook of Indian Agriculture*, Vikas Publishing House, New Delhi, 1995, pp 334.

Table 4
Statewise Area, Production of Virginia Tobacco in India during the period 1989-90 to 1991-92

State	1989-90		1990-91		1991-92	
	Area (Hectares)	Production (Lakh Kgs.)	Area (Hectares)	Production (Lakh Kgs.)	Area (Hectares)	Production (Lakh Kgs.)
Andhra Pradesh	90,700	988	98,700	1870	1,35,400	1482
Karnataka	18,100	94	19,400	101	20,100	152
West Bengal	1,100	12	1,200	128	800	9
Total	109,900	1094	119,300	1099	1,56,300	1645

Source : Singhal, Vikas, *Handbook of Indian Agriculture*, Vikas Publishing House, New Delhi, 1995, pp 334.

Nearly one third of the cost of production of FCV tobacco is due to fuel required for curing. Energy conservation technology need to be developed to bring down the cost of energy. Efficient use of energy would reduce air pollution caused by firewood/coal.

Marketing of Tobacco

Marketing practices for tobacco in India varies from state to state and also for different types of tobacco. The most common practice is that farmers sell tobacco leaves after curing either at their own godowns or at the premises of the buyers or the auction floors. Virginia tobacco in Andhra Pradesh and Karnataka is marketed at the auction platforms under the aegis of the tobacco board. The farmers bring cured tobacco to the auction floor. Only the registered growers and buyers are allowed to take part in the auction. The buyers bid for each lot (bale) and the highest bidder is awarded that particular lot (bale). The buyer makes the payment to the board which in turn pays to the producer. The buyer has to pay 50 per cent of the value within 10 days and the remaining 50 per cent within 45 days of purchase through post dated cheques. The tobacco board controls the area through registration of growers and their barn capacity. The board estimates the requirement of the industry in the country and also assesses the likely export demand to arrive at the total requirements. These requirements are then converted into area on the basis of the yield. The area so arrived is then distributed to the geographical locations in different states and then to the farmers according to the curing capacity of their barns. Some farmers do not stick to the area allocated to them. This results in a large gap between the estimation of production in the beginning of the crop season and at harvest. This gives rise to fall in prices during glut and diversion of tobacco away from the auction floor in times of shortfall in production.

The non-virginia type tobacco growers are mostly ill informed and lack bargaining power and are subject to exploitation by traders and middlemen who delay payments for months and in some cases years. They indulge in malpractices in weighing and grading. In Gujarat, a two tier Tobacco Producers Cooperative structure was evolved to help market the produce of the growers. However, working capital constraints, lack of infrastructure, etc, are some of the problems faced by them which made their functioning not very effective. The Working Group on non virginia tobacco (1991) has recommended setting up of auction centres in line with the virginia tobacco with suitable modifications for different states. However, it has not been implemented so far due to powerful lobby of the traders. There is no gainsaying the fact that regulating marketing of tobacco leaves would eliminate the malpractices and help the growers to realise remunerative prices and timely receipts.

Exports

Although India is the third largest producer of unmanufactured tobacco in the world it ranks ninth in the world export market. The main exporting countries are USA, China, Brazil,

Zimbabwe, Turkey, Greece and Italy. Indian tobacco is exported to all parts of the world: Europe, Middle East, South and South East Asia, Africa, North and South America. During 1994-95 India exported 55,422 tonnes of tobacco valued at Rs 267.78 crores. This is 44.87 per cent less than for the year 1993-94. The decline both in terms of value and quantity is due to considerable decrease of exports to Russia and Eastern European countries and a significant fall in other regions as well. Table 5 shows India's exports to different regions during 1993-94. Unmanufactured tobacco constitutes bulk of exports accounting for 85.8 per cent of quantity and 85.6 per cent of value during 1992-93 (Table 6).

Export of tobacco products increased by 17.36 per cent in terms of quantity but declined to 24.80 per cent in terms of value during 1992-93 compared to the previous year. The decline is largely due to fall in exports of cigarettes. It declined by 68.15 per cent in terms of quantity and 67.85 per cent in terms of value (Table 7).

Table 5
India's Country/Regionwise Exports of Tobacco and Tobacco Products during 1993 to 1994

Country	Quantity (Tonnes)	Value (Rs. Crores)
United Kingdom	6628	40.82
Belgium	4773	17.93
Denmark	34	0.25
France	1811	2.10
Germany	5944	22.65
Greece	110	0.52
Irish Republic	40	0.19
Netherlands	1209	5.01
Portugal	68	0.20
Sweden	904	0.94
Switzerland	760	2.39
Eastern Europe	42083	188.19
Middle East	1004	3.46
South Asia and South East Asia	8789	45.37
Africa	8338	35.85
North and South America	2629	10.20
Australia	189	4.12
Total	85313	377.61

Source : Singhal Vikas, *Handbook of Indian Agriculture*, Vikas Publishing House, New Delhi, 1995, pp 338.

Table 6
India's Exports of Tobacco

Year	Unmanufactured Tobacco		Manufactured Tobacco		Total	
	Quantity (Lakh Kgs.)	Value (Rs. Crores)	Quantity (Lakh Kgs.)	Value (Rs. crore)	Quantity (Lakh Kgs.)	Value (Rs. Crore)
1950-51	422.0	13.05	24.0	2.16	446.0	15.21
1955-56	403.0	10.65	16.0	1.18	419.0	11.83
1960-61	458.0	14.61	17.0	1.13	475.0	15.74
1965-66	566.0	19.58	27.0	1.58	593.0	21.16
1970-71	475.0	31.40	23.0	1.16	498.0	32.56
1975-76	743.0	93.10	42.0	5.76	785.0	98.36
1980-81	790.0	124.41	123.0	16.27	913.0	140.68
1985-86	608.0	136.94	197.0	32.62	805.0	169.56

Table 6 (contd)

Year	Unmanufactured Tobacco		Manufactured Tobacco		Total	
	Quantity (Lakh Kgs.)	Value (Rs. Crores)	Quantity (Lakh Kgs.)	Value (Rs. crore)	Quantity (Lakh Kgs.)	Value (Rs. Crore)
1987-88	571.9	107.71	194.0	27.37	765.9	135.08
1988-89	435.5	100.40	110.4	25.54	690.9	125.94
1989-90	582.0	152.24	155.4	31.77	737.4	172.03
1990-91	699.6	193.43	171.3	69.96	870.9	263.39
1991-92	717.9	342.69	146.6	44.70	864.5	390.39
1992-93	812.9	434.41	134.2	73.33	947.2	507.74

Source:
1. National Council for Applied Economic Research (NCAER), *Export Potential of Tobacco Sector*, New Delhi, 1993.
2. Singhal Vikas, *Handbook of Indian Agriculture*, Vikas Publishing House, New Delhi, 1995, pp 335.

The value realized from export per unit (kg) is highest for bidis followed by cigarettes. As already noted the bulk of the exports from India consists of unmanufactured tobacca (85%) whose value per unit is much lower just Rs 46.6 per kg during 1994-95 (Table 8) compared to the manufactured tobacco.

Table 7
Exports Performance of Tobacco Products during 1994-95 Vis-a-vis 1993-94

Product	Exports during 1994-95		Exports during 1993-94	
	Quantity (tonnes)	Value (Rs Crores)	Quantity (tonnes)	Value (Rs Crores)
Cigarettes	1028	15.75	3226	48.99
Bidis	633	15.38	569	12.27
H.T.Paste	8145	21.50	5285	15.66
Cut tobacco	70	0.16	20	0.06
Chewing tobacco	811	6.61	111	2.15
Snuff	4	0.08	2	0.04
Zarda	4	0.34	2	0.26
Total (Including Others)	10822	59.95	9221	79.72

Source : Annual Report 1994-95, Tobacco Board, Guntur, p 39.

Table 8
Productwise Unit Value Realization

Product	1994-95 (Rs/kg)	1993-94 (Rs/kg)
Unmanufactured Tobacco	46.60	44.13
Cigarattes	153.21	151.86
Bidis	242.95	215.67
Hookah Tobacco Paste	26.40	29.63
Cut Tobacco	22.28	78.95
Chewing Tobacco	81.53	193.74
Total (Tobacco products including others)	55.39	86.45

Source : Annual Report 1994-95, Tobacco Board, Guntur, p 40.

The varied agro climatic regions along with cheap labour provide a great advantage for India in producing different types of tobacco at lower cost. However, India has failed to take advantage of these factors to boost exports.

The Indian tobacco is said to lack flavour so it is used only as a filler by the importers. This is a major reason for the unmanufactured tobacco constituting the bulk of exports. The deficiency in soil and agro climatic conditions which inhibit production of better flavour tobacco need to be overcome by developing new varieties. The option of biotechnology can be used while evolving such varieties. The improvement in flavour and fluffiness would help boost exports.

The presence of DDT residues in tobacco leaves is a major obstacle in increasing exports as the substance is banned in the developed countries. Recently, India has announced a ban on use of DDT. The move might help in increasing the share in export market for India.

The contribution of manufactured tobacco should be increased to earn more per unit of tobacco. The recent liberalization has paved the way for the entry of multinational companies in cigarette manufacturing. Apart from catering to the domestic market these companies need to be encouraged to export.

The unit cost of conversion of tobacco into cigarettes is understood to have been the lowest in India. It is reported orders worth 12 billion cigarettes have been received for supply of cigarettes of American blend (NCAER 1993). It is believed that only 50 per cent of the capacity is utilized in the cigarette manufacturing in India. More of contract production to certain brands abroad to be exported need to be undertaken.

The ethnic market in different countries need to be identified and their requirements for Indian brand cigarettes and other tobacco products such as zarda, bidis, chewing tobacco etc need to be identified and exports directed in that direction.

The present world wide anti-smoking campaign has opened the challenge to the scientists to reduce the harmful substances in tobacco so as to make tobacco smoking relatively safer. If the Indian scientists could develop varieties with low tar and low nicotine India could seize the world market. In the meantime efforts should be directed towards developing new uses of tobacco in other industries such as pharmaceuticals, pesticides, paints, soap etc.

Government Policies

The policy of hiking excise duty year after year by the government in order to increase revenue tantamounts to killing the golden goose. The Government has hiked excise duty 85 times on cigarettes from 1951-52 to 1992-93. The tax differential between cigarettes and non-cigarettes tobacco is at the ratio of 37:1. There are 200 million tobacco consumers in the country of which 25 million smoke cigarettes accounting for 12 per cent of tobacco users but paying 90 percent of the tax revenue. Some studies revealed that price elasticity of demand for cigarettes was more than 2. If so, a more rational excise policy would help to increase revenue as well as growth of the industry.

Apart from excise duty there are levies on other materials such as paper, filter etc. The higher the cost of cigarettes due to excise policy and other factors might have inhibited the bidi smokers to switch over to cigarette smoking. However, it is argued that for certain types of cigarettes price elasticity of demand is lower. Then reduction in excise would have only marginal impact.

The Government should follow a more stable excise policy with regard to cigarettes in order to help its growth. Further, the government should explore ways of reducing excise duties for cigarettes meant for exports which may not only help in earning foreign exchange but also better price of tobacco for farmers.

To sum up, tobacco industry plays a very vital role in generating employment, revenue for the government, earning foreign exchange, and increasing farmers' income. However, there are several constraints which hinder its growth. These constraints need to be overcome through appropriate policy measures in order to make the industry vibrant to face future challenges.

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