

TRACING ILLICIT TOBACCO TRADE IN SOUTH ASIA



TRACING ILLICIT TOBACCO TRADE IN SOUTH ASIA

1st October 2010

With assistance from Framework Convention Alliance (FCA) & HealthBridge

All correspondence to: contact@healthbridge.ca

Disclaimer: The information and views expressed in this report does not necessarily reflect the views of FCA or HealthBridge, but represent the work of its authors. Unless otherwise specified, the names of most individuals have been changed to protect their identities. Their situations have been reported accurately.

TRACING ILLICIT TOBACCO TRADE IN SOUTH ASIA

Focus Countries:

Bangladesh, India, Pakistan and Sri Lanka

Research Contributors:

FHM Humayan Kabir

Daya Shankar Shukla

Nadeem Iqbal

Manjari Peiris





CONTENTS

Acknowledgements	vi
Four-Country Research Summary.....	vii
SECTION 1:	
TOBACCO UNDERGROUND: LOOSE BORDERS & BOOMING TRADE IN BANGLADESH.....	1
SECTION 2:	
SMOKE ALARM: ILLICIT TOBACCO & ALLIED TRADE ACROSS INDIAN BORDERS	31
SECTION 3:	
ILLICIT CIGARETTE TRADE IN & THROUGH PAKISTAN	67
SECTION 4:	
SMOKE SCREEN: UNVEILING ILLICIT TOBACCO TRADE IN SRILANKA	83

Acknowledgements

This explorative research is the result of inputs from diverse informants including, but not limited to, Government officials, enforcement agencies, inter governmental and non-governmental organisations, media fraternity and entities in the legal and illicit supply of tobacco products.

Researchers from the four study countries worked relentlessly to ensure high standards of validity and professionalism in gathering and analysing the data and developing the country reports.

In-country reviewers contributed immensely to the verification and validation of data in line with national, regional and international realities of illicit tobacco trade.

The management, technical and editorial teams at the Framework Convention Alliance and Health Bridge provided strategic advice and timely inputs leading to the timely completion of is report.

Your collective efforts are sure to go a long way in informing decision makers and the community about the nuances of illicit tobacco trade in South Asia and in initiating action to curb it in the near future.

Four-Country Research Summary

I. Introduction

As evidenced by the on-going negotiations of a protocol to combat illicit trade into tobacco products by the Parties to the WHO Framework Convention on Tobacco Control, the illegal trade in tobacco products has come to receive international attention in recent times.

Nevertheless, evidence regarding the nature, magnitude and strategies to address the problem is largely limited to Europe and North America.

Illicit trade was estimated to constitute nearly 11.6 % of global cigarette sales in 2009. In Asia, illicit trade constituted 9 % of the overall sales. Existing estimates and media reports indicate Bangladesh, India, Pakistan and Sri Lanka in South Asia as highly vulnerable to this out-law trade.

Illicit tobacco trade undermines public health measures such as taxation that help reduce tobacco use. Preliminary media reports from the region point towards linkages of illicit tobacco trade with extensive tax evasion, sabotage of customs and border controls and money laundering.

South Asia region presents some unique challenges to regulating illicit tobacco trade. The vast variety of tobacco products illegally traded within and out of the region and the major modes of trade differ considerably from the markets in the West that are familiar to international policy makers and regulators. The inadequacies of the tax collection mechanisms and the recent spurt in Free Trade Zones in the

region poses unique challenges to regulating illicit trade in South Asia. Research by Center for Public Integrity in the region also informs key areas for further research.

In developing an effective global strategy to combat illicit tobacco trade, it is important to begin by ascertaining the nature and modes of this illegal trade, their implications for public health, economy and the society and possible means to control them.

Framework Convention Alliance and HealthBridge has therefore commissioned a multi-country investigative research exploring the nature and magnitude of illicit tobacco trade in Bangladesh, India, Pakistan and Sri Lanka. The research was conducted between November 2009 and September 2010.

In-country researchers with expertise in investigative research from the four study countries gathered information on the illegal supply chain of tobacco and allied industries and analysed its contributing factors and impact on national and regional economies and public safety. The researchers engaged primary and secondary sources in gathering information. The analysis and views expressed in the country reports are solely that of the country researchers. Below is a brief summary of the common elements that emerge from the four, independent researches.

II. Research objectives

While the study objectives varied slightly in line with country priorities, the overarching goals of the multi-country research were to:

1. Explore the nature, forms and magnitude of illicit trade in tobacco and tobacco products in the study countries
2. Describe the impact of illicit tobacco trade on national and regional economy and public safety
3. Identify challenges in controlling the illicit tobacco trade
4. Identify best practices and strategies to control illicit trade in tobacco products

III. Methodology

Existing literature, government, media and tobacco industry reports on illicit tobacco trade in each of the study countries were reviewed. A conceptual framework and major leads for investigation emerged from these reviews. In two of the study countries, Bangladesh and Sri Lanka researchers formed an informal advisory group of experts from relevant fields that advised on the thematic areas and potential respondents for the research.

Researchers identified potential informants for the study, keeping in mind the need to have stakeholders who could contribute and verify information from diverse perspectives. Given the sensitivities and risks involved in the research, researchers from all the four study countries primarily engaged snowball sampling—beginning data collection with known entities such as enforcement agencies, media contacts, NGOs, tobacco users and retailers moving on to identify and interview contacts further up the illicit trade supply chain. Entities from both the legal and illicit supply chain formed part of the informants. Typically this included retailers, distributors, middlemen, wholesalers, manufacturers, transporters, carriers, owners of warehouses and importers.

Data was gathered over a period of 4-5 months. Missing information was sought through follow up field visits and through additional informants and reports. Information was collated and analysed against the conceptual framework of the research.

Major themes and observations from the research were identified and written into a draft report. In-country and international reviewers reviewed the reports. Feedback from the reviews was addressed and reports were finalised. The four country reports were then analysed for commonalities and differences in terms of the nature of illicit tobacco trade, contributing factors, challenges and control strategies.

IV. Scope of the Research

This groundbreaking research for the first time investigated the nature and forms of illicit trade in tobacco and tobacco products across four countries in South Asia. It has broadened the understanding about the problem, its contributing factors, challenges and control measures. It has brought to light the broad diversity of products and key inputs that are traded illegally within and out of the countries in the region.

Findings from the research throw light on the linkages between illicit tobacco trade and social development, corruption and organised crime and inform future policies and programming.

This research lays out a road map for future enquiry, policies and programmes. It has also brought to surface programmatic and research questions that needs more detailed enquiry.

V. Limitations of the Research

The research was done over a limited timeframe requiring it to select specific thematic areas of

focus within each country of investigation. The size and diversity of the study countries limited the choice of geographical areas that could be reasonably covered within its time limits. For instance, in the case of India, the investigation was limited to land routes in its North Eastern borders and the Pakistan research focussed on the misuse of Afghan Trade Agreement for the illicit trade of tobacco products.

The scope of each country research was to look at illicit tobacco trade coming into the territory or happening within its borders. Nevertheless, smuggling is a cross border phenomenon and it happens into and out of any given country. This study makes limited references to tobacco smuggling originating from or transiting through any of the study country to other countries in its neighbourhood and beyond. Complementary investigations looking at smuggling from the study countries to its neighbouring countries and beyond would provide a comprehensive understanding of tobacco smuggling in South Asia as well as from South Asia to other countries.

The research did not include smuggling of tobacco products from the study countries to countries or regions beyond its immediate neighbourhood. However, inflow of smuggling into the study countries from outside South Asia is briefly alluded to in the report in a limited manner.

The research throws light on diverse forms of illicit tobacco trade in each of the study countries, with primary focus on bootlegging or “ant” smuggling. While the study does indicate the presence of large scale smuggling in the researched areas, further investigations with longer timelines and resources would be required to explore if in detail.

While the research provides indicative estimates of the magnitude and impact of illicit tobacco trade, accurate estimations would require econometric studies specially designed for the purpose.

VI. Nature of Illicit Tobacco Trade in the Study countries

1. Diversity of illicit tobacco products:

Globally, cigarettes are recognised as the most smuggled tobacco products. Unlike in other regions, countries in the South Asia are known for the manufacture, sale and use of a wide variety of tobacco products. This found reflection in the diversity of smuggled tobacco products found in the study countries. In addition to cigarettes, all the four countries reported receiving smuggled bidis, chewing tobacco and tobacco leaves. Bangladesh received smuggled churuts (cigars) from Myanmar.

2. Cigarette smuggling

At least three of the study countries identified Middle East as one of the key sources of smuggled cigarettes. Bangladesh reported receiving smuggled cigarettes from Thailand, Singapore, Beijing and the Middle East; India from Bangladesh and Nepal; Pakistan from Afghanistan, Iran and the Middle East; and Sri Lanka reported contraband receipts from India, Malaysia and the Middle East.

3. Smuggling of non-cigarette tobacco products

All countries reported smuggling of both tobacco leaves and tobacco products across their borders, mostly from their immediate neighbourhood. Bangladesh, Sri Lanka and Nepal get smuggled (bidi) tobacco leaves from

India that feeds illegal bidi manufacturing within their jurisdictions. Chewing tobacco is also smuggled from India to these countries. Betel nuts from China as also from Indonesia via Nepal, feed the illegal manufacturing units of chewing tobacco products in India.

4. Illegal Manufacturing

All the four study countries identified illicit manufacturing of cigarettes and bidis as a growing problem within their territories. India reported large scale illegal manufacturing units of chewing tobacco operating in its Northern State of Uttar Pradesh. Pakistan has extensive illegal manufacturing of illicit cigarettes.

5. Routes of Trade

Three of the study countries reported that air, water and land routes are being engaged for smuggling of tobacco products into their territory. Illicit tobacco trade via air included diversion of tobacco products from airport duty-free outlets and achieve passengers carrying tobacco products in excess of permitted limits in their travel baggage. In the case of India, the study was limited to explore the land routes, while seizure data indicates smuggling via air and sea routes as well.

6. Modes of transport for illegal trade

Interestingly, the modes of transport ranged from the most human to the most mechanised. Human carriers on foot carried tobacco products in polythene or gunny bags across the land borders in two of the study countries. Cycles, hand pulled rickshaws and mini-vans and trucks ferried illegal tobacco across all land borders and within the country territories.

In the case of the island nation of Sri Lanka, boats plied to supply tobacco products and

leaves from India. Bangladesh also reported the use of feeder boats that brought smuggled cigarettes from mother ships anchored in its water bodies. All countries reported seizures of cigarettes in large containers in ships coming via the waterways.

7. Organisation of illicit tobacco trade

Research from the four countries reported primarily on small-scale smuggling involving individual carriers. Nevertheless, these individuals were invariably connected to a source of supply such as a dealer in a grey market and a destination retailer or warehouse. Though “ant” smuggling seems to be less organised, there is a chain in operation that facilitates the movement of goods in smaller quantities. In addition, seizure reports from all the four countries indicated higher levels of organisation, human and financial investments in illicit tobacco trade in the study country.

VII. Socio-Economic Impact of Illicit Tobacco Trade

1. Local/Border communities and smuggling

Individual carriers from Bangladesh, India and Sri Lanka borders reported being engaged in the illegal movement of tobacco products more as a means of sustenance in border towns that have few other means of gainful employment. Women and children are extensively engaged as carriers in the supply chain. Given alternate employment opportunities, many of them would prefer to move to jobs that are less risky. This points to the need for providing alternate employment opportunities in these high-risk areas for smuggling and to integrate tobacco control into the development and poverty alleviation programmes.

2. Economic impact

Estimation of illicit tobacco trade in any country is challenging given the clandestine nature of the business. Seizures data is considered to indicate roughly 10% of the actual volume of illicit tobacco trade. None of the study countries had comprehensive and cumulative surveillance and seizure data from diverse monitoring and enforcement agencies.

Estimations of the magnitude of illicit tobacco trade in the study countries were made on the basis of Government economic reports, import-export data, seizures and confiscations made, market observations, media reports and trade association data as and when available. These are indicative figures, which need to be confirmed through robust surveillance and seizure data.

The data gathered indicates substantial drain on Government revenues in all the research countries. This does not include lost opportunities and human hours spent on enforcement and smuggling control. Bangladesh loses US \$ 34 million annually from the smuggling of cigarettes and cigars. India loses US\$ 65 million annually just on account of betel nuts smuggled for the illegal manufacturing of chewing tobacco in the State that accounts most of the country's production. Pakistan suffers an annual loss of around US\$85 million as a consequence of the illicit tobacco trade.

3. Linkages with organised crime

All the four country researchers pointed to the distinct possibility of the identified smuggling chains funding anti-social or criminal groups. In Bangladesh, India and Pakistan, entities in the illicit supply chain paid "protection premiums"

for passage rights through areas controlled by various criminal groups.

Bangladesh- India border, India-Nepal and India Bangladesh borders and India-Sri Lanka waterways and Pakistan- Afghanistan border have recorded history of movement of criminal elements and weapons as also of illicit tobacco trade. Concerns were therefore raised by the researchers of the possibility of arms being intermingled with or traded in exchange of tobacco products transported across these borders. While they did not establish linkages between specific illicit tobacco trade rings and the criminal groups, research and literature review from all the four countries show close proximity between the two trades and that the proceeds from the illicit tobacco trade goes to fund organised crime.

VIII. Factors Contributing to Illicit Tobacco Trade

1. Lack of Legislative framework:

All the study countries have a range of customs and border control laws that prevent entry of goods from third party countries through permitted land borders. These include laws to monitor the movement of suspected goods, seize and confiscate illicit goods as well as initiate penal action against the offenders. All the same, laws requiring mandatory licensing of key entities in the supply chain of all tobacco products is missing in all the study countries. Until this year, Sri Lankan legislation did not require registration of bidi and white cigarette manufacturers leading to wide-spread mushrooming of illegal manufacturing units all across the island. None of the study countries seem to have adequate policy framework to require due diligence procedures to be

undertaken by entities in the legal supply of tobacco products.

2. Poor implementation of Existing Laws

All the study countries reported lack of implementation of existing laws that would help control contraband trade as well as illicit manufacturing. While the Indian law requires licensing of bidi and chewing tobacco manufacturing units, a significant majority of manufacturers are unlicensed and under report their production and revenues to evade tax and labour laws. Similar situation exists in cigarette manufacturing in Pakistan and bidi manufacturing in Bangladesh and Sri Lanka.

3. Low prioritisation of illicit tobacco trade in border control

Enforcement task forces at borders have a broad range of mandate for border control. The priority for the Border Security Force guarding the Indo- Bangladesh border, for instance, is protection of the fencing separating the two countries and prevention of cattle trafficking. In Bangladesh inspection of containers at ports are avoided in the face of opposition from importers and handlers.

4. Weak Law Enforcement:

Across board, all the study countries suffer from weak enforcement and border controls that are facilitating the illicit tobacco trade. All countries lack human and technical resources and equipments for active vigilance and investigations into suspected movement of tobacco products. Placement of short-range CCTV cameras to cover for lack of human resources has been cited as facilitating illicit tobacco trade across the Indo- Nepal border at Badhni. On the other hand, deployment of a new women contingent of Border Security

Force at India's Jamuniha border with Nepal has helped in inspection of women carriers of illicit tobacco products.

Enforcement officials often view border postings as punitive in nature, which lowers their morale and commitment. Enforcement agencies also cited the sheer volume of vehicular and human traffic across the land borders and the lack of space to stop and inspect vehicles at the border check-posts as forcing them to overlook suspected movements of illicit goods.

5. Corruption

Corruption and abetment of illicit tobacco trade by law enforcement agencies were reported from most of the investigated borders across the four study countries. Abetment to the crime ranges from sheer apathy on the part of the enforcement agencies in monitoring the movement of goods, overlooking suspected or known illicit trade activity to active abetment of the crime by accepting bribes and incentives.

6. Nexus between Politicians and smugglers

Just as the smugglers were reported to be linked to organised crime groups, they were cited to enjoy the patronage of the rich, the powerful and the political powers in all the study countries. In the face of political interference, enforcement agencies in the study countries registered helplessness in pursuing intelligence alerts, chasing suspected illicit traffic of tobacco products, in penalising the offenders or mounting criminal charges against them.

7. Tax differences

Tobacco industry often accuses increase in tobacco taxes as responsible for increased

smuggling. This need not be true when tax measures are implemented in a planned manner supported by adequate enforcement and border controls, heavy penalties for offences and other deterrent measures. While informants from the study countries did allude to tax differentials with neighbouring countries as responsible for smuggling across the borders, all the study countries reported major lapses in border control, weak enforcement and apathy to penalise offenders, all of which could be aiding smuggling.

8. Lack of Coordination between Enforcement agencies

While the research countries have initiated measures to tackle illicit tobacco trade to some extent, lack of synergy and coordination among the relevant Government Ministries, Departments and agencies have been cited as a major challenge to effective implementation of laws and control of illicit tobacco trade. At India's borders with Bangladesh, lack of coordination and trust between Shastra Seema Bal and Indian customs works to the benefit of smugglers and carriers who get away with their acts. In Sri Lanka, better coordination and exchange of information between Customs and Excise could lead to increased seizures and efficient use of resources.

IX. Control strategies

Experiences and best practices from the research countries bring to light key control strategies that help curb illicit tobacco trade in the region. These include:

1. Licensing key entities in the supply chain

All the research countries expressed concern over the growing problem of illegal manufacturing of tobacco products by entities

that operate without the required licenses. It is highly recommended that countries in the region urgently initiate mandatory licensing of manufacturers, wholesalers, distributors and eventually retailers.

2. Requiring Due- diligence procedures

A significant factor that allows the illegal players to evade the laws of the land is the absence of customer identification procedures. All entities in the supply chain should be required to do due diligence before engaging in business transactions. This would at minimum require that they check if the next entity in the supply chain hold a valid license for business at the time of placing orders.

3. Instituting effective Tracking & Tracing

A key measure to monitor the supply chain would be to require a robust tracking and tracing regime that applies to all tobacco products. This would require unit packs of tobacco products to carry a unique identification number which when read would provide details such as origin, transit route and intended destination of the packs. This system would help Governments to identify any diversion of tobacco products from the legal supply chain and initiate penal actions.

4. Ban Sale of Single Sticks:

Sale of tobacco products in single units or in the case of cigarettes as single sticks poses challenges to effective implementation of the tracking and tracing regime. It is therefore critical that Governments in South Asia ban sale of single cigarette sticks and sale of other tobacco products in single units.

5. Reinforce enforcement:

Good laws require robust enforcement systems to leverage their full benefits. Governments need

to make additional resource commitments—human, technical and financial to enhance border controls, upgrade equipments and build adequate databases.

6. Regional and international cooperation

Initiatives such as “Project Crocodile” by the Asia Pacific office of the World Customs Organisation have enhanced the ability of Governments in the region to monitor suspected movements and initiate timely seizures. Regional and international cooperation in training, exchange of information and technology transfer is desirable.

7. Tax increases

Given that South Asian countries have sizeable poor income groups that are price sensitive addicted to tobacco use taxes of all tobacco products is to be increased progressively. It is suggested that the tax measures are reinforced by enhanced enforcement measures and penalties to deter tax evasion and smuggling across the borders.

X. Recommendation for future research

This research provides initial stepping stones for detailed enquiry into illicit tobacco trade in

South Asia. Further research is suggested in the following areas to complement and elaborate on the findings of this research:

1. Investigation into Illicit tobacco trade in countries not covered under this research but are at risk
2. Enquiry into large-scale smuggling across countries in the region
3. Exploring outflow of illicit tobacco trade from the study countries into other countries
4. Estimation of the magnitude and economic impact of illicit tobacco trade in countries in South Asia
5. Investigation into the linkages between tobacco smuggling and organised crime as also the role of tobacco industry in abetting illicit tobacco trade in the region

References

1. Joossens L, Merriman D, Ross H, Raw M. How eliminating the global illicit cigarette trade would increase tax revenue and save lives. Paris: International Union Against Tuberculosis and Lung Disease; 2009.
2. How big was the global illicit tobacco trade problem in 2006? Washington DC: Framework Convention Alliance. February 2008.

SECTION 1

**TOBACCO UNDERGROUND:
LOOSE BORDERS & BOOMING
TRADE IN BANGLADESH**

FHM HUMAYAN KABIR

CONTENT

Executive Summary	5
Chapter – I: RESEARCH IDEA	7
1.1 Introduction	7
1.2 Bangladesh and Tobacco Smuggling	7
1.3 Study Objectives	8
1.4 Limitations of the study	8
1.5 Methodology & Data Source	9
1.5.1 <i>Brainstorming and Idea Generation</i>	9
1.5.2 <i>Identifying routes and spots for research</i>	9
1.5.3 <i>Building Rapport</i>	9
1.5.4 <i>Data Collection</i>	9
Chapter – II: TOBACCO INDUSTRY	10
2.1 Tobacco Industry in Bangladesh	10
2.1.1 <i>Market Structure: Tobacco Manufacturing</i>	10
2.1.2 <i>Legal Market</i>	11
2.1.3 <i>Economic Impact of Tobacco use</i>	11
2.1.4 <i>Health Impact of Tobacco Use</i>	11
Chapter – III: ILLEGAL TRADE.....	12
3.1 Types of Illegal Trade in Bangladesh	12
3.1.1 <i>Illegal Manufacturing</i>	12
3.1.2 <i>Smuggling</i>	12
3.2 Routes of Illegal Trade.....	13
3.2.1 <i>Bangladesh-Myanmar Border</i>	13
3.2.2 <i>Bangladesh-India Border</i>	15
3.3 Diversions from Ports of Entry	15
3.3.1 <i>Sea Ports</i>	15
3.3.2 <i>Airports</i>	17
3.4 Illicit Manufacturing of Bidis	17
Chapter – IV: ECONOMIC IMPACT	20
4.1 Impact of Illicit Tobacco Trade on Bangladesh Economy	20
4.1.1 <i>Revenue from Tobacco</i>	20
4.2 Fiscal Loss	20
4.2.1 <i>Tax Evasion</i>	21
4.2.2 <i>Economic Loss from Smuggling of Cigarettes</i>	21
4.2.2.1 <i>Teknaf Point</i>	21
4.2.2.2 <i>Chittagong Port</i>	23
4.2.2.3 <i>Dhaka City</i>	23
4.2.3 <i>Smuggling of Cigars</i>	23

4.3 Estimated revenue losses across tobacco products	23
4.3.1 Revenue Loss from Cigarettes	23
4.3.2 Revenue Loss from Cigars (Churut):	24
4.4 Money channel	24
4.5 Threats to National security	25
4.6 Factors Facilitating the Illicit Trade of Tobacco	25
Chapter – V: CONTROL MEASURES FOR ILLEGAL TOBACCO TRADE	26
5.1 Policy Framework for Combating Smuggling	26
5.1.1 Anti-Smuggling Laws	26
5.1.2 Tax & Duty Structure in Bangladesh	26
5.2 Tax measures	27
5.2.1 Tax and Duties on Domestic Production	27
5.2.2 Central Intelligence Cell (CIC) and Value Added Tax (VAT) Audit Cell of the National Board of Revenue (NBR).....	27
Recommendations	27
References:	29

LIST OF BOXES, FIGURES & TABLES

Boxes

Box 1: Tk 5.5cr smuggled cigarette seized from container	16
Box 2: Leaf-rolled bidi factories emerge under lax watch.....	18

Figures

Figure 1: Retail shop in Baitul Mokarrom area selling illegal foreign-brand cigarettes	9
Figure 2: Foreign cigarette brands illegally traded in Bangladesh’s retails shops	12
Figure 2: Main land routes of Smuggling across Bangladesh’s South-eastern border	13
Figure 3: Boys smuggling cigarettes from Myanmar’s Maungdaw city to Bangladesh’s Teknaf border	14
Figure 4: Bangladeshi visitors from Myanmar alighting the boat at Teknaf.....	14
Figure 5: Cigarette packets made in Myanmar.....	15
Figure 6: Duty-free shops in Dhaka airport. The shopkeepers supply foreign-brand cigarettes to the city markets illegally	17
Figure 7: Local, hand-made beedis and cigars	19

TABLES:

Table 1: Composition of Tobacco Industry According to Tobacco Products in terms of number of establishments, gross output, employment and fixed asset, 2001-02.....	10
Table 2: Observational Estimation of patar-bidi (leaf-rolled bidi)	19
Table 3: The sale of churuts (cigar) in the illegal market.....	19
Table 4: Total amount of smuggled cigarettes sold in Bangladesh	19
Table 5: Share of Tobacco Taxes in Total Tax Revenue	20
Table 6: Rough Estimates of 'Patarbidi' tax evasion.....	21
Table 7: Cigarettes smuggled from Myanmar through Teknaf point.....	21
Table 8: Illegal cigarettes traded in RiazUddin wholesale market in Chittagong	22
Table 9: The volume of wholesale trade in Dhaka city market	22
Table 10: Sales of illegal cigar/ churut	23
Table 11: Tax and Duty Structure at Import Level	23
Table 12: Volume of tax and revenue loss due to smuggling of cigarettes	24
Table 13: Volume of tax loss from the cigar.....	24
Table 14: Tax and Duty Structure on tobacco and tobacco products.....	26
Table 15: Tax and Duty Rates of Cigarette Manufacturing.....	27

Executive Summary

Tobacco use is widely considered a cultural practice in Bangladesh. The Global Adult Tobacco Survey: Bangladesh Report 2009 found that 23% of the adult population (aged 15 years and above) in Bangladesh currently smoke tobacco.

Despite increases in tobacco taxes, tobacco use remains very high in the country. Given high demand – and disparities in duties – tobacco and tobacco products are smuggled from several different countries into Bangladesh, thereby evading taxes and causing fiscal losses for the Bangladeshi economy. This investigative research study was conducted to trace the illicit tobacco trade routes into and out of Bangladesh and to assess the implication of this illicit trade on the Bangladeshi economy and society.

Primary and secondary data sources were used. The sources of primary data included entities in the legal and illegal tobacco supply chain, as well as the National Board of Revenue (NBR), customs officials, police, non-governmental organisations, communities in border towns, and journalists. The secondary sources of information included government, non-governmental, media and tobacco industry reports.

Illegal manufacturing of patarbidis is rampant in different regions of the country. The study revealed that some 260 million sticks of ‘patarbidi’ (a leaf-rolled, hand-made cigarette) are sold without the necessary taxes, being paid to the government. Given the tax rate of 1.272 Bangladeshi Taka (BDT) per 25 sticks of ‘patarbidi’, the Bangladesh government is losing BDT13.228 million (US\$109,000) per year.

Weak border monitoring by guards working for customs and other related agencies facilitates the smuggling of tobacco products into the country. Every day, 300 to 400 people commute by boat between Teknaf (Bangladesh) and Maungdaw (a port in Myanmar) across the Teknaf River, some of whom smuggle products including alcohol and tobacco. The smugglers dodge the border guards or establish illegal bribe-based relationships with them.

It has been observed that cigars or churut are also smuggled from Myanmar. A study of the retail shops at Teknaf revealed that some 30,000 to 45,000 cigars are sold each day, as many as cigarettes.

Chittagong is an important gateway for the smugglers, who bring different brands of foreign cigarettes through the Chittagong seaport. Feeder vessels or boats usually unload containers from a mother vessel anchored in the deep sea and bring them to the port; from there they are taken to RiazUddin Bazaar, a wholesale market in the Chittagong metropolitan area, where they are sold.

Dhaka’s international airport provides another gateway for cigarette smuggling. Organized groups bring foreign brand cigarettes into the country from such places as USA, Europe, UAE, Singapore and China. They have established relationships with customs officials at the airport, who turn a blind eye to their activities. Some airline passengers carry more cigarettes than their limited quota and supply them to the city markets in Dhaka. Duty-free shops in the Dhaka airport also supply duty-free cigarettes to the Dhaka city markets illegally. In Dhaka city, the Gulshan and New Market areas are two major spots where wholesalers market their tobacco products. Many retailers from all over the city collect tobacco products – especially foreign-brand cigarettes – from these two places.

In Gulshan-1, wholesalers collect cigarettes from one of the organized smuggling groups. All wholesalers in Gulshan-1 jointly estimate their next day’s demand and place their orders with the smugglers. In Dhaka New Market, there are some 5-7 wholesale shops that sell foreign-brand cigarettes and who supply the city’s retailers.

The researcher has estimated that the smuggled cigarettes and cigars would be worth BDT684.72 million (US\$9.84 million) per year, causing the government to lose BDT2432.70 million (US\$34.03 million) in taxes. In addition, the government incurs losses worth BDT13.228 million (US\$109,000) per year for tax evasion by the illegal local ‘patarbidi’ manufacturers.

The land borders with India and Myanmar are used to smuggle tobacco products to Bangladesh’s neighbours. The study revealed that some Bangladeshi-made cigarettes are smuggled to India’s West Bengal state through the north-western border. The volume of such smuggling is unknown at this point and requires further in-depth study.

To check the illicit tobacco trade, the Bangladeshi government – and other governments – could take several measures, including:

- 1) Given that tax disparities are often manipulated by the tobacco industry to its advantage, it is pertinent that all governments in the region progressively increase tobacco taxes.
- 2) Duty-free shops in the country serve as a conduit for duty-reduced cigarettes to enter the market. These cheaper cigarettes promote consumption, by making tobacco more affordable. Therefore, governments should ban the sale of duty-free or duty-reduced cigarettes at airports.
- 3) Since tobacco smuggling is a major transnational issue for governments in the South Asian region, multilateral consultations to devise region-wide strategies to address and control underground trade are desirable.
- 4) Waterways are being used extensively by illicit tobacco traders to transport their goods. Engaging coast guards, identifying and implementing positive ways to reduce their likelihood of being bribed, and boosting their vigilance of would go a long way to checking these intrusions.
- 5) It is important for the Bangladesh government to hold multilateral meetings with Myanmar and India and to forge customs and law enforcement collaboration.
- 6) South Asian countries should liaise with South-East Asian countries to check illegal inter-regional smuggling of tobacco products.

CHAPTER – I

RESEARCH IDEA

1.1 Introduction

Bangladesh, situated in one of the world's largest deltas, is in the south-eastern part of South Asia and occupies a total area of 147,570 square kilometers. It is almost entirely surrounded by India, except for a short southeastern frontier with Myanmar and a southern coastline on the Bay of Bengal. The country has a population of about 160 million, and a population density of 979 persons per square kilometer. Bangladesh is rich in cultural heritage. Social customs are an integral part of Bengali culture and tobacco use has become one of the country's accepted social norms. This cultural legacy has resulted in average monthly cigarette expenditure among cigarette smokers of BDT378 and among *bidi* (hand-rolled cigarettes) smokers of BDT131 (1 US Dollar = 69.7 BDT).

The Global Adult Tobacco Survey: Bangladesh Report 2009 found that 23% of adult population (aged 15 years or above) in Bangladesh currently smoke tobacco. The estimated number of current adult tobacco smokers is 21.9 million (21.2 million males and 0.7 million females). About half of the smokers use bidis, and the prevalence of bidi smoking in rural areas (13.5%) is much higher than in urban areas (4.7%).

A report published in July 2009 by the International Union against Tobacco and Lung Disease estimates that one in nine cigarettes – or 657 billion cigarettes a year – is sold illicitly. According to a factsheet prepared by the Framework Convention Alliance for the FCTC Conference of the Parties in Bangkok in 2007, Phillip Morris (producer of Marlboro) and British American Tobacco (producer of Benson & Hedges and other brands) have been accused of smuggling cigarettes into Latin America.

In 1997, a large scale investigation conducted by the European Commission revealed that there are fifty or more organizations engaged in illegal tobacco trade in the European region. In countries where corruption is more frequent, the government's control over trade is more fragile and the smuggling of a variety of goods is prominent; the smuggling of cigarettes is just a piece of

the pie. A World Bank study found that among other factors, corruption itself contributes to smuggling.

In the report "Illicit Tobacco Trade: Illegal Profits and Public Perils", the US-based Campaign for Tobacco Free Kids affirmed that hundreds of billions of cigarettes are "vanishing" each year from legal trade channels into an underworld market. At the same time, the counterfeiting of cigarettes is growing steadily, all at an enormous cost to public health and nations' economies. From China to the United Kingdom and from Canada to Brazil, this outlaw trade spans the globe. According to the Tobacco-Free Kids report, cigarettes are believed to be the most illegally trafficked legal product in the world.

The FCA factsheet indicated that some 3050 billion cigarettes, constituting 9% of the total sales, had been traded on the illegal market in Asia in 2005. The Vietnam Institute of Economics estimated that smuggled cigarettes accounted for 10% of total Vietnamese consumption in 2005 and 21% of Malaysia's consumption in 2002.

1.2 Bangladesh and Tobacco Smuggling

It has been observed that there could be a huge volume of illicit tobacco trade in Bangladesh, using both tax evasion methods and cross-border smuggling. This study attempted to analyze the scale of this illicit trade, and looked at both small scale and large-scale deals.

As Bangladesh is surrounded by two countries, some small-scale tobacco smuggling activities occur within and among border communities, with the proceeds of the illegal trade providing livelihoods for those involved.

In addition, larger organized groups associated with international smuggling rings are anticipated to be active in Bangladesh. Unfortunately, there is no official data or statistics concerning tobacco smuggling in Bangladesh, but Campaign for Tobacco-Free Kids has released a report in 2001, which indicated the direct involvement of British American Tobacco (BAT) in

tobacco smuggling into Bangladesh and other countries in the region.

Smuggling from Bangladesh to India is more easy to track, and is noted in correspondence between a senior executive of British American Tobacco, Bruce Davidson and his colleague in Asia as far back as 1991.

A 2009 media report alleged that organized groups are involved with the underground tobacco trade in Bangladesh. The report said that people in the duty-free shops in the airport supply different foreign brand cigarettes to the local markets without paying taxes. It was also reported that some people bring cigarettes and other tobacco products through false declarations at customs.

In addition, the report noted that the smugglers sometimes worked directly with customs officials, freight forwarding agencies, berth operators, and pre-shipment inspection (PSI) companies to get their products out of the ports and into the market. (The Daily Nayadiganta, Feb 14, 2009).

Other media reports and research studies have reported that Bangladesh's border with India and Myanmar are the key places for the cross-border illegal tobacco trade. "Naf" river is a key route for smuggling of tobacco and other the media reports said.

1.3 Study Objectives

The objectives of this study were to trace the use of duty-free and underground sales as a conduit for illicit tobacco trade in Bangladesh, to assess the economic impact of this type of trade on the national budget, and to understand the threat it poses to the country's economic and social security.

In Bangladesh, the tobacco-control campaign has grown over the past decade through the efforts of various nongovernmental organizations, government agencies, and international organizations. A number of studies have been conducted on the health hazards caused by direct and indirect smoking or the use of other tobacco forms and the opportunity costs

of tobacco use. Initiatives have been undertaken to increase tobacco taxes to improve public health and reduce medical expenditures by reducing the consumption of tobacco. Other studies have examined the economic impact of the tobacco industry in Bangladesh.

Few studies, however, have addressed the tobacco smuggling. This study therefore attempted to elucidate the smuggling of tobacco products into and out of Bangladesh. In particular, it sought to:

- ◆ Identify entities or groups involved in the illicit tobacco trade.
- ◆ Identify the probable routes of tobacco smuggling.
- ◆ Estimate the volume of tobacco trade in Bangladesh.
- ◆ Estimate tax evasion on tobacco products.
- ◆ Assess economic loss due to smuggling.
- ◆ Estimate economic loss due to the duty-free sale of tobacco.
- ◆ Identify the purposes for which money from the illicit tobacco trade is used.

1.4 Limitations of the study

The lack of existing studies on the illicit tobacco trade in Bangladesh to validate the observations of this research and the limited time available for investigating the issue posed challenges to the researcher.

Given the sensitivities around smuggling, it was also difficult to secure information from Bangladesh's public administration. The researcher therefore depended mostly on first hand data (i.e., interviews) and publically available information.

Finally, the people involved directly in the illicit tobacco trade are mostly scattered, as very few of them are organized or visible. It was difficult to trace those groups and involved individuals, and to identify their routes and forms of illegal trade.

`In answer to your question on India: (1) There is clearly potential of 555 and B&H and also existing demand. Whilst there is some GT from neighbouring countries, it is very small relative to the size of the market...we continue to explore routes...`.

BAT memo dated May 17, 1991, from Bruce Davidson to Fred Combe.

1.5 Methodology & Data Source

Given the scarcity of existing data and information in the public domain regarding smuggling and other forms of the illegal tobacco trade, the study was designed as investigative research and used interviews and spot observations as the primary data collection methods.

1.5.1 Brainstorming and Idea Generation

An advisory research team was formed consisting of a journalist, an executive from a leading cigarette factory in Bangladesh, an NGO representative, an official from the Ministry of Finance, a merchant, and two airport officials, one customs official and an engineer from Bangladesh Biman airlines. This group discussed the current scenario of tobacco smuggling in Bangladesh, and met several times to identify different leads for the research.

1.5.2 Identifying routes and spots for research

Analyzing previous reports and media clippings, and accessing tobacco industry sources, law enforcing agencies, journalists and relevant businessmen, this researcher identified five routes for tobacco smugglings. Out of them three major routes are: Cox's Bazar,

Bangladesh's southern hilly districts, and Chittagong seaport in the south-eastern part of Bangladesh. The other two primary routes are the coastal area in Chittagong district in southern Bangladesh and the Hazrat Shahjalal International Airport in Dhaka.

The main tobacco retail outlets in the Dhaka City are found in Nilkhet, New-Market, Elephant Road, Gulshan- 1&2, Baridhara, Banani, BaitulMokarram, Shyamoli, Shahabagh, Jatrabadi, Syedabad, and Savar, Mirpur. The New-Market and RiazUddin wholesale markets in Chittagong city are the key places trading in smuggled cigarettes.

The district town of Cox's Bazar is an important tourist location and a major market for foreign-branded and smuggled cigarettes. Another notable place is the upazilla (a sub-district) town of Cox's Bazar-Teknaf. Teknaf is a very busy town full of tourists and bordering on Myanmar.

1.5.3 Building Rapport

Before visiting these locations, the researcher contacted people connected to the tobacco trade in various ways by telephone. Some of these people were very helpful and provided motor cars for transportation. As local cigarette manufacturers are also interested in banning/stopping smuggling, they were supportive of the research work. Journalists in the local areas were also contacted by telephone and were also very helpful with the investigation and collecting data.

1.5.4 Data Collection

Both primary and secondary data were used in the study. The primary sources included tobacco wholesalers, retailers, duty-free shops, National Board of Revenue (NBR) and customs officials, police, NGO representatives, local residents, journalists from different newspapers, smugglers, illegal manufacturers of cigarettes and bidis, and executives of the cigarette and bidi (hand-made cigarettes) manufacturing companies. The secondary sources included periodicals (such as from the Bangladesh Bureau of Statistics), bulletins (such as from Tobacco Economics), reports (such as from Campaign for Tobacco-free Kids), journals, newspaper articles, and the internet.

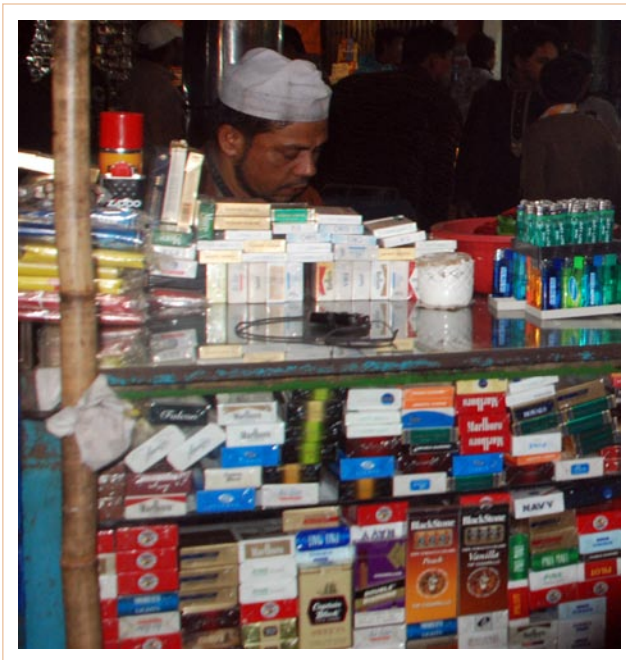


Figure 1: Retail shop in Baitul Mokarrom area selling illegal foreign-brand cigarettes

CHAPTER – II

TOBACCO INDUSTRY

2.1 Tobacco Industry in Bangladesh

2.1.1 Market Structure: Tobacco Manufacturing

The market structure of tobacco manufacturing is considered by referring to the contribution of various tobacco manufacturing activities to total manufacturing actively in respect of gross output, fixed assets, and employment.

It can be seen from Table 1 that cigarettes are the predominant product in terms of their share of gross output and fixed assets. This product accounts for about 76.0% of overall gross output of the tobacco industry. In the case of fixed assets, its contribution is overwhelming, being 87.0% of the assets of all tobacco products. However, bidi manufacture (a non-filtered smoking stick), represents the lion's share of employment in tobacco manufacturing, with over 80% of total tobacco-related employment. This labour-intensive product is manufactured through a large number of small and medium enterprises (SMEs), which account for 70% of the total number of tobacco manufacturing establishments.

Since cigarettes are the most commercially traded tobacco product and mostly cater to the needs of the

rich and middle classes, it is expected that they will likely eventually replace the non-filtered handmade bidi products. In view of its revenue generating capability of cigarettes, it is important to look at the market structure of this product.

The gross value of the products of the two largest tobacco companies adds up to more than the total amount recorded by the Census of Manufacturing Industries (CMI) of the Bangladesh Bureau of Statistics. Information gathered from the field level as well as the official level – the National Board of Revenue (NBR) – showed that 40% to 50% of the market share is held by the British American Tobacco Bangladesh (BATB), a subsidiary of UK-based BAT, and a further 20% to 30% is held by the Dhaka Tobacco Company, the second largest producing unit. Other smaller units produce about 20% to 40% of the total tobacco products. The figures published by the Bangladesh Bureau of Statistics (BBS) are based only on information supplied by the registered manufacturing units. In this light, it is important to note that the Census of Manufacturing Industries (CMI) of the BBS records the number of producing units to be 22, whereas the Economic Census 2001 & 2003: National Report of the BBS (Bangladesh Bureau of Statistics) records the number of producing units to be 61. These differences point

Table 1: Composition of Tobacco Industry According to Tobacco Products in terms of number of establishments, gross output, employment and fixed asset, 2001-02

Products	No of Establishment	Gross Output (Value "000" BDT)	Employment (No.)	Fixed Asset (Value"000" BDT)
Cigarette Manufacturing	22 (10.1)	19864929 (75.8)	8908 (16.0)	2247184 (87.4)
Bidi Manufacturing	153 (70.2)	5860986 (22.4)	45328 (81.2)	23453 (0.9)
Tobacco Stemming, Retrying	14 (6.4)	403806 (1.5)	925 (1.6)	73240 (2.8)
Zarda & Quivers	15 (6.9)	16273	210	4149
Total Tobacco Manufacturing	218 (100.0)	26177500 (100.0)	55797 (100.0)	2571033 (100.0)

Note: Figures in the parentheses indicate percentage in total.

to the existence of manufacturing and sales units that are not officially accounted for.

2.1.2 Legal Market

Different brands of cigarette, bidis, cigars, and other tobacco products such as gul (grind tobacco) are produced in Bangladesh. All cigarette manufacturers together produce nearly 65 million sticks of cigarettes and 4.22 billion sticks of bidi per month, informs tobacco industry estimates.

2.1.3 Economic Impact of Tobacco use

The Global Adult Tobacco Survey (GATS): Bangladesh Report 2009 estimated the cost of tobacco-related illnesses in Bangladesh at BDT50.9 billion (US\$732.27 million), including BDT5.8 billion (US\$83.45 million) for illnesses resulting from second-hand smoke exposure in 2004. On the other hand, the total annual contribution of the tobacco sector was estimated at BDT24.8 billion (tax revenue and wages). The cost of tobacco usage to the country thus exceeded its gain by

BDT26.1 billion (\$356.83 million) equivalent to US\$ 442 million) in 2004. It is estimated that, on average, a tobacco user spends about 4.5 % of his/her monthly expenditure on tobacco consumption.

2.1.4 Health Impact of Tobacco Use

A WHO report in 2004 said that Bangladesh is overburdened with tobacco-related illnesses; 57,000 people died in 2004 due to tobacco-related disease. One survey conducted by WHO indicated that 9% of the respondents had at least one of eight selected tobacco-related diseases (ischemic heart disease, lung cancer, stroke, oral cancer, and cancer of the larynx, chronic obstructive pulmonary disease, pulmonary tuberculosis or Buerger's disease). 41% of these cases were attributable to tobacco. Hospital data indicated that 29% of inpatients aged 30 years or above were hospitalized due to these diseases. It was also estimated that these diseases were responsible for 16% of all deaths in the country and 9% of these deaths were attributable to tobacco.

CHAPTER – III

ILLEGAL TRADE

3.1 Types of Illegal Trade in Bangladesh

The illicit tobacco trade in Bangladesh falls into five major forms in terms of the modus operandi. **Firstly**, there is domestic tax evasion, usually coupled with bribery. Legal manufacturers sometimes forge alliances with corrupt employees at the regulatory bodies and law enforcing agencies and pay one third to half of the payable taxes owing for their actual cigarette and bidi production. Some bidi manufacturers reportedly evade taxes for their entire production. According to MotiurRahmanTalukder, of ‘Manas’ (MadokDrabba O NeshaNirodhSangstha) – an organization working to eliminate drug addiction – manufacturers regularly pay taxes for 100,000bids (hand-made, local cigarettes) and sell 200,000 in the market.

Secondly, manufactures evade taxes by not pasting the Government- designated banderoles (stickers supplied by NBR to demonstrate that taxes have been paid) on cigarettes which are deliberately produced to be smuggled from Bangladesh to neighboring countries. Mr. Talukder revealed that ‘Gold Leaf’ cigarettes, produced by British American Tobacco- Bangladesh, are available in Kolkata market without the NBR stickers. Similarly, some of the locally produced tobacco products are smuggled into the “seven sisters”# in India. **Thirdly**, staff members of some diplomatic missions in Bangladesh who are allowed to bring duty-free goods into the country for personal use work in collusion with illegal suppliers to supply cigarettes to local traders. **Fourthly**, flight operators of different airlines and people working in the duty-free shops at the ports of entry bring in foreign cigarettes, which are then supplied to the local markets. **Finally**, there is cross-border smuggling between Bangladesh and its neighboring countries.

2.1.1. Illegal Manufacturing

Bangladesh bidis are largely rolled in paper; however, there is growing demand in Bangladesh for the Indian counterpart product that is rolled instead in tendu leaf.

In response to this demand, several bidi manufacturing units are emerging in remote areas of the country, where the monitoring arms of the law enforcement agencies and revenue board do not reach. These units engage children and women in hand rolling tobacco in tendu leaves. Bidi manufacturing units without requisite Government approvals or licenses were found in the remote villages in Chittagong, Greater Sylhet, and Gazipur districts.

One tendu-leaf bidi manufacturer in Bashkhaliupazila in Chittagong district explained that these illegal manufacturers collect tobacco leaves from the domestic markets and bring tendu-leaves via the underground markets in India. Then they produce bidis that are marketed in the local region. They pay bribes to the local political leaders, law enforcement personnel, and other powerful individuals to look the other way while they market their products illegally.

Similarly, counterfeit cigarettes are reportedly made and sold in Dhaka. In one day (March 23, 2005) the police Detective Branch (DB) seized 340,000 cigarette packets of fake brands worth nearly BDT280 million in Dhaka city. Tipped off, the police raided different locations in the Shantinagar and Motijheel areas of the city and seized cigarettes with counterfeit B&H branding.

3.1.2 Smuggling

Smuggling is the most complex and oldest form of illegal trade, typically avoiding taxes. Traditionally, it



Figure 2: Foreign cigarette brands illegally traded in Bangladesh's retail shops

The seven states of India situated to the east of Bangladesh.

has been categorized into small-scale smuggling – or “ant smuggling” – and “large-scale” smuggling. The distinctions between the two includes the involvement of organized groups and the huge volumes of trade in large-scale smuggling.

Small-scale smuggling is conducted by individuals or families not acting as part of an organised network. It generally involves tax-paid cigarettes being supplied across borders taking advantage of tax differentials between countries. Profits are generated from differences in retail prices between two or more countries.

3.2 Routes of Illegal Trade

Myanmar’s border with Bangladesh in the Cox’s Bazar district is a well-charted trade route between the two countries. Myanmar’s Maungdaw town and Bangladesh’s Teknaf town constitute a key land-cum-

water route for smuggling different products in this region.

Organized groups often buy foreign-brand cigarettes from the grey markets in Myanmar and bring them to Bangladesh’s port city of Chittagong and different ports in the Bay of Bengal and India Ocean. Launches carrying cigarettes unload in Chittagong’s Karnaphuli river channel. Then the cigarettes and other tobacco products are supplied to the retail and wholesale markets in the port city. Some are brought to the capital Dhaka utilizing microbus, cars, bus and pick-up trucks. Those cigarettes are marketed at different retail and wholesale shops in Dhaka city and adjacent areas.

HazratShajalal International Airport (former Zia International Airport) in Dhaka is another point through which illegal tobacco products enter the country. Bangladeshi visitors to different international cities

like Dubai, Singapore, Bangkok, and Beijing bring cigarettes in their baggage on their return to Bangladesh which are then sold to retail shops in the capital city.

The duty-free shops in the Shahjalal International Airport in Dhaka and Sylhet International Airport also form key conduits for diversion of duty-free cigarettes into the illegal market. Cigars, zorda (chewing tobacco), and tendu-leaf based bidis are smuggled from India to Bangladesh. Cigarettes in turn are smuggled from Bangladesh to India.

3.2.1 Bangladesh-Myanmar Border

One of the major routes of tobacco smuggling into Bangladesh possibly starts far from its immediate neighborhood. A senior Indone-



Figure 2: Main land routes of Smuggling across Bangladesh’s South-eastern border
Source: Nations Online Project



Figure 3: Boys smuggling cigarettes from Myanmar's Maungdaw city to Bangladesh's Teknaf border

sian journalist interviewed for this research study reported that different cigarette brands from his country were smuggled through the waterways into countries like Myanmar, Thailand, and other South-east Asian countries on the Bay of Bengal and the Indian Ocean. These cigarettes are suspected to be further supplied to other countries in the neighbourhood such as Bangladesh, India, and Sri Lanka.

Along its border with Myanmar, Bangladesh experiences small-scale smuggling that is undertaken primarily by children, young people, women, and men who live in villages and towns along the national borders and serve as carriers. Generally, this young and low-paid workforce is at the operational end of the more organised criminal networks. The product is not purchased legally, but it is bought from the "wholesale" markets in Myanmar, thus evading domestic taxes in the country. They are then transported illegally for underground sale in Bangladesh.

The people cross the "Naf" river by boat from Teknaf in Bangladesh to Maungdaw in Myanmar and bring back different brand cigarettes and cigars. There is an understanding between the Bangladesh and Myanmar governments under which the customs of both sides can issue transit passes for a day or up to a week to allow citizens to cross into each other's territory. Every day, 200-300 people cross the border with a one-day pass from the border security forces and customs of either of the countries. Under the above arrangement, people can bring some limited volume of goods for personal use under a quota system. This has been abused by people on both sides to carry illegal products like cigarettes, cigars, drugs, and other goods.

Having evaded border controls, cigarettes are stored in secret places or in the smugglers' homes in Bangladesh's Teknaf area in Cox's Bazar district prior to their subsequent distribution and retail sale in Teknaf, Chittagong, and Dhaka. The smugglers usually use pick-up vans and minibuses to transport these products.



Figure 4: Bangladeshi visitors from Myanmar alighting the boat at Teknaf

According to a smuggler in Teknaf who deals in drugs, liquor, and cigarettes from Myanmar, different brands of foreign cigarettes enter Myanmar's grey markets from Singapore, China, Korea, Thailand, Philippines, and other countries by land and water. They are then smuggled into Bangladesh. Among the foreign cigarette and cigar brands coming into Bangladesh are Peacock, W.A (made in Myanmar), Dunhill, Benson & Hedges and London 555 (United Kingdom), More, Winston and Captain Black (USA), ORIS, Pine, GudangGaram and Esse (South Korea & Indonesia), Mallboro (Switzerland), Bon, King Edward (Cigars), L&M, Salem (USA), and Lips Cherry Cigars (Netherlands).

Earlier, small-scale smugglers travelled to Myanmar crossing the Naf and bought cigarettes directly from Myanmar markets. But larger-scale operators and criminal activity along the borders made it increasingly dangerous for the smaller smugglers to travel long distances carrying money and merchandise. Small groups and families therefore tried to remain in business by becoming part of large networks. Thus, larger-scale, land-based smuggling operations crowded out smaller operators. The organized smugglers load the motor boats or launches in the Naf River beside Teknaf town.

Even though the small-scale operators transporting cigarettes across borders may be operating as

“freelancers”, they have built very trusting relationships with their vendors, retailers and wholesalers in the legal market. Some musclemen and politically powerful persons usually act as vendors and middlemen between small smugglers and the retail shops.

The larger organizations are more sophisticated in



Figure 5: Cigarette packets made in Myanmar

the purchase and transportation of the smuggled tobacco products. It has been alleged that they do this in collusion with customs officials, border security forces, and the police to prevent confiscation. Some musclemen and politically powerful persons in the Teknaf areas are reportedly involved in large smuggling. They “manage” the border security forces in both countries at the Teknaf-Maungdaw crossing to facilitate the illegal trade.

The large-scale illegal traders usually hide products coming from third party countries in South-East Asia along the Maungdaw border. They then carry either false documentation or circumvent controls by bribing officials. Some groups from Bangladesh have illegal business relationship with similar groups in Myanmar. The groups working in border areas have highly-organized and sophisticated means of communication and, operate using a wide variety of transport to smuggle their tobacco products. Sometimes they transport cigarettes, at other times consumer electronics, medicines, or prohibited products such as liquor, blankets or illegal drugs like yaba (a sex-stimulant tablet) and heroin.

There is a similar flow of goods illegally smuggled from Bangladesh to Myanmar across the “Naf” river. Some people from Bangladesh smuggle live-saving

drugs, essential food, and consumer durables from Bangladesh to Myanmar and return with cigarettes, churuts, cigars, drugs, and liquor.

3.2.2 Bangladesh-India Border

Some residents living in border areas with India are involved in the illegal trade of different products like cigarettes, churuts, cigars, gul, and zorda. As the prices of cigarettes in India are higher than in Bangladesh, there are some cases of cigarette smuggling from Bangladesh into India. A marketing manager of a major tobacco company in Bangladesh reported that huge volumes of Bangladeshi cigarettes like Goldleaf and Benson & Hedges are smuggled to the Indian state of West Bengal. There exists no data to determine the volume of this illegal trade. An in depth study will be required to find out the actual quantities of cigarettes being smuggled into India.

On the other hand, Indian tendu-leaf, bidi and cigars are entering Bangladesh market illegally. The people in bordering areas are the main consumers of the bidi and cigar. Some border areas including the hill tract districts of Khagrachori, Rangamati, and Bandarban are major routes through which cigars, cheroots (a form of Asian cigars), and tendu-leaf bidis (hand-rolled cigarettes) from India enter Bangladesh.

3.3 Diversions from Ports of Entry

3.3.1 Sea Ports

The Port of Chittagong is the largest seaport in Bangladesh, handling most of the country’s imports and exports. It is dominated by trade in containerized manufactured products. The Chittagong Port Authority reports that 2008, this port handled over 28 million tons of cargo and over a million containers.

Chittagong port is an important gateway for the smugglers. From the mother vessel, anchored in the deep sea, feeder vessels usually unload the containers and bring them to the port. Many of these feeder vessels engage in the smuggling of tobacco products, and pass the illegal cigarettes to motor boats that then take them to the coastal areas in Chittagong city.

The port does not regularly open the containers for customs inspections. According to a customs official at the Chittagong port, there are limited resources to follow this customs procedure. Furthermore,

container inspections imply delays and higher port costs for the shipping companies which are strongly resisted by private operators such as importers and freight forwarders. Scanners that check the content of containers would be perceived as a feasible solution to the scenario. Nonetheless, such means are overlooked in the face of corruption promoted by importers and smugglers. "Adequate documentation is necessary for international cargo movements through the port but there are a variety of ways of hiding contraband cigarettes", the customs official revealed.

In August 2004, customs officials seized a huge amount of foreign cigarettes inside a 40-foot container, which was officially declared to contain electric-touch-lamps, at the Inland Container Depot (ICD) at Kamlapur in Dhaka. Shipped from the Chinese port of ShenZhen, the container arrived at the Kamlapur ICD from the Chittagong port. The estimated street value of that consignment would be around BDT550 million (US\$7.91 million), customs sources said.

Box 1: News on smuggled cigarettes seized at Kamlapur Inland Container terminal in Dhaka

The Daily Star

Vol. 5 Num 778

Fri. August 04, 2006

Tk 5.5cr smuggled cigarette seized from container

Special Correspondent

After a tip-off by a clearing agent, customs officials yesterday confiscated a huge amount of foreign cigarettes inside a 40-foot container, which was officially declared to contain electric-touch-lamps, at the Inland Container Depot (ICD) at Kamlapur.

Shipped from the Chinese port of Shen Zen, the container arrived at the Kamlapur ICD from Chittagong port on July 25. The estimated street value of the cigarettes would be around Tk 5.5 crore, customs sources said.

The Commissioner of Customs at the ICD, AlmasUzzaman said they could not trace the importer, who apparently used false letterhead of the company.

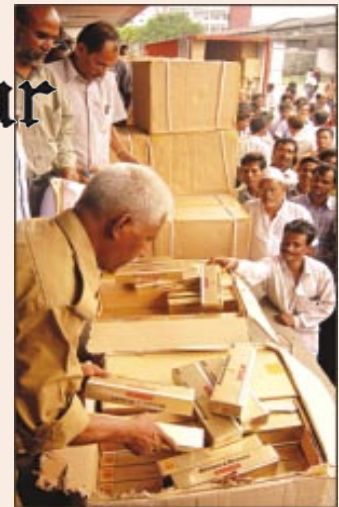
One Mofizul Islam of Messrs Surovi Enterprise, 30 MokimBatara, Dhaka imported the contraband with official clearance for importing 6,000 pieces of electric-touch-lamps. The customs officials who opened the container yesterday found several boxes containing lamps used as camouflage. Inside they discovered hundreds of cartons containing Benson and Hedges cigarettes.

"As soon as the Clearing and Forwarding agent SSAF Global told us that they were unwilling to process paperwork for clearing the merchandise because they suspected foul play, we immediately involved several law enforcement agencies to trap the importer, but he could not be found," said AlmasUzzaman.

The Kamlapur ICD accommodates over 2,000 containers coming from Chittagong port by train for customs clearance. The haul was first of its kind in three months, said the customs commissioner.

Customs officials said a departmental case would be started to investigate the matter.

Anti Corruption Commission's Deputy Assistant Director AkhterHamid said they would investigate the matter and decided whether to file a case.



In large-scale smuggling, organized rackets bring cigarettes along with other products from different countries, giving fake declarations to the port authority and customs at the Chittagong seaport. They then transport those products by microbus, pickup truck, and other modes of transport to supply the markets in Chittagong, Dhaka, and other parts of the country, described a Customs Commissioner and freight and forwarding agent at the port. On reaching Dhaka, they are sent to the wholesale markets in Gulshan, Newmarket and old Dhaka city.

3.3.2 Airports

The duty-free shops in Dhaka and Sylhet international airports import foreign brand cigarettes including London 555, Marlboro, Winston, Captain Black, Pine, and Benson & Hedges from other countries apparently to sell them at cheaper prices to airline passengers. They reportedly use airport employees to avoid customs and security personnel and illegally carry cigarettes from the airport. They are met by members of the organized racket who wait outside the airport and collect those cigarettes, which are then supplied to the retail shops in Gulshan, Banani, New Market, Baridhara, and Uttarasarea in the city. This information was confirmed by an aircraft engineer, a customs official working in Dhaka airport, and a journalist from a national Bengali daily who had investigated the matter.

“Luggage parties” (Bangladeshis involved in illegal trade abroad who smuggle in different goods like electronic equipment and mobile phones in their luggage) bring foreign brand cigarettes in their baggage from countries like United Arab Emirates (UAE), Singapore, and China and supply them to retailers in Dhaka. An assistant inspector of the customs department, a flight engineer at the Zia International airport, a Bengali daily newspaper reporter, and some retail shopkeepers in the Dhaka city revealed this information during the study.

In addition, some staff working with foreign diplomatic missions in Bangladesh are apparently involved in the illegal trade of cigarettes and cigars. They bring in tobacco products permitted with the diplomatic baggage which is fully tax-free and sell them to different retail shops in Dhaka city.



Figure 6: Duty-free shops in Dhaka airport. The shopkeepers supply foreign-brand cigarettes to the city markets illegally

3.4 Illicit Manufacturing of Bidis

There are informal markets for illegally manufactured tobacco products in different parts of Bangladesh. The ‘patarbidi’ (leaf-rolled, hand-made cigarettes) manufacturers market their products rampantly throughout the country. The manufacturers do not pay taxes to the government or paste tax banderole before marketing their products. Their factories have no legal license. A national English daily “the Daily Star” reported on May 31, 2009 that “Though the bidi factories have been operating without trade license, the authorities are seemingly reluctant to take any step against the illegal business”. The bidi producers pay bribes to the police station, local political leaders, and other powerful persons so that they do not pose any impediments to the illegal business. The customs department lacks the necessary manpower to monitor these illegal establishments in remote areas.

Bidis are also smuggled from neighboring India and are sold in the Dhaka metropolitan area, Chittagong metropolitan area, and some tourist places like Teknaf, Cox’s Bazar, and other bordering areas.

The demand for the tobacco products was roughly estimated based on the supply of the products. There could be gaps between demand and supply, with the demand seemingly higher than the supply for the products discussed below.

The bidi brands vary from place to place. The researcher did a convenient sampling of the patarbidi to gauge the

Box 2: News on illegal bidi manufacturing in Bangladesh

The Daily Star

Sunday, May 31, 2009

Front Page

Leaf-rolled bidi factories emerge under lax watch



AmenaKhatun

A good number of unauthorised 'patarbidi' (leaf-rolled tobacco) factories are operating on the outskirts of the capital and elsewhere in the country taking advantage of lax monitoring by the authorities concerned and poor enforcement of Tobacco Control Act, 2005.

The Bidi Manufacture (Prohibition) Ordinance 1975 doesn't allow bidi manufactures using 'khumbi leaf', 'tendu leaf' or leaf of any other plants. Whoever contravenes any provisions of this ordinance shall be punishable with imprisonment for a term which may extend to two years or with fine which may extend to one thousand taka or both, the ordinance reads.

A few sample products of unauthorised tobacco companies that are thriving due to poor government monitoring. Photo: STAR

Violating the ordinance, the bidi factories are manufacturing such 'patarbidi' rampantly in various parts of the country,

including Gazipur, Chittagong, Sylhet and Cox's Bazar.

Though the bidi factories have been operating without trade licence, the authorities are seemingly reluctant to take any step against the illegal business. But the factories are selling their bidi packets with photos of proprietors keeping cautions like 'NakolHaiteSabdhan' (be aware of duplication) or 'Photo DekhiaLoiben' (buy after seeing the photo) on the packets to earn smokers' trust.

While visiting Phulbaria area in Kaliakoirupazila of Gazipur district, The Daily Star correspondent found some unauthorised bidi factories named HossainBidi, MannanBidi, AlimBidi, Lucky Bidi and DewanBidi.

Asked about the bidi factories operating illegally, Superintendent of Police (SP) of Gazipur Abdul Baten told this correspondent over phone that he was not aware of such factories rather he said "It is the duty of journalists to inform police about the illegal business after collecting information properly."

Tajul Islam, owner of HossainBidi factory at NabirBahar village in Kaliakoirupazila, left the factory to avoid this correspondent. Wishing anonymity a worker of this factory said such 'patarbidi' can be produced investing a small amount of money using 'Gazila' leaves collected from forests without any cost.

A bidi distributor of this area said HossainBidi produces 25 lakh sticks of 'patarbidi' every month while AlimBidi 15 lakh sticks, Lucky 15 lakh sticks and Dewan 10 lakh sticks (10 lakh = 1 million).

volume of the illegal bidis in the Bangladesh market. The led to following tentative estimation. The demand for smuggled tobacco products, especially cigarettes

and churuts, are higher in tourist spots like Chittagong, Cox's Bazaar and Teknaf. Dhaka metropolitan city also has a large market of smuggled cigarettes and cigars.

The demand for churuts (cigars) is also high in the market of Teknaf, Cox’s Bazar, Chittagong, and other tourist places. All churuts (cigars) are smuggled from neighboring countries.

Among the foreign cigarettes and cigars, Dunhill, Benson & Hedges, and London 555 (United Kingdom), More, Winston and Captain Black (USA), ORIS, Pine and Gudang Garam and Esse (S Korea and Indonesia), Mallboro (Switzerland), Bon, King Edward (Cigar), L&M, Salem (USA), Lips Cherry Cigars (Netherlands);



Figure 7: Local, hand-made beedis and cigars

Peacock and W&A (Myanmar) etc are being sold illegally in different parts of Bangladesh.

Table 2: Observational Estimation of patar-bidi (leaf-rolled bidi)

Name of the bidi	Monthly production/ sales	Areas where the bidi popular
Nasirbidi smuggled from India	250 million Sticks	Bishwanath, Kulaura, Nabiganj, Yadabpur, Jagatnath, Jaintapur, Kanaighat, and Jokiganj of greater Sylhet district
Other leaf-rolled bidis	10 million sticks	Chittagong and other areas of Bangladesh

Table 3: The sale of churuts (cigar) in the illegal market

Spots/ Places	Smuggled Products	Sales Per Day
Teknaf, Cox’s Bazaar	Churuts (Cigars)	30,000 – 45,000 sticks
Chittagong	Churuts (Cigars)	30,000 sticks
Total	Churuts (Cigars)	60,000 – 75,000 sticks

Table 4: Total amount of smuggled cigarettes sold in Bangladesh

SL	Spots / Places	Smuggled Products	Sales per day
1	Teknaf, Cox’s Bazar	Cigarettes	10,000–15,000 sticks
2	Chittagong	Cigarettes	1,05,000– 1,40,000 sticks
3	Dhaka	Cigarettes	52,000 sticks
4	Total	Cigarettes	1,67,000– 2,07,000 sticks

CHAPTER – IV

ECONOMIC IMPACT

4.1 Impact of Illicit Tobacco Trade on Bangladesh Economy

The illegal tobacco trade has affected Bangladesh's economy significantly. While a few people thrive on this illicit trade for their livelihood, it causes grave financial losses for the economy in several ways.

A senior police official in Cox's Bazar district said that he suspected some anti-Bangladeshi groups active in hill tracts areas were involved in smuggling and utilized that money for their terrorism activities.

The illegal trade and underground economy may also be involved in money laundering. The tax and duty evasion that occurs through smuggling causes serious losses for the economy. It is difficult to estimate the losses due to the lack of official data on the illegal tobacco trade.

4.1.1 Revenue from Tobacco

Tobacco has long been a source of money for the government in Bangladesh. This income comes from

taxes on tobacco leaf and the manufactured tobacco products. Excise taxes also come from tobacco that is imported from other countries. Tobacco manufacturers maintain that Bangladesh government earns a significant amount of tax revenue from their products at different stages of production. Value-added tax, customs duty, and supplementary taxes and duties are levied on domestically produced tobacco products as well as on imported ones. According to Table 5, revenue from tax and duty of tobacco manufacturing exhibits an increasing trend except in 1998-99. Tax revenue from tobacco was about BDT3,351 million (US\$48.22 million) in fiscal year 2005-06, which was 9.26% of the total tax collection that year. Overall tobacco industry contributes around 9% of the total tax revenue.

4.2 Fiscal Loss

The illegal tobacco trade inflicts fiscal losses on Bangladesh's economy in two ways: a) tax evasion and b) smuggling.

Table 5: Share of Tobacco Taxes in Total Tax Revenue

Financial Year	Tax Revenue (in mill. BDT)		Tobacco tax plus duty as % of total tax revenue
	Total national tax	Tobacco tax & duty	
1995-1996	12,124	1,140	9.40
1996-1997	14,261	1,290	9.04
1997-1998	15,390	1,423	9.24
1998-1999	16,167	1,370	8.47
1999-2000	16,079	1,401	8.71
2000-2001	19,778	1,689	8.53
2001-2002	21,332	2,029	9.50
2002-2003	24,950	2,487	9.96
2003-2004	28,300	2,630	9.29
2004-2005	31,950	2,882	9.01
2005-2006	36,175	3,351	9.26

Source: Total tax from Bangladesh Economic Review 2006, Financial Division, NBR&BBS (Figure based on revised budget)

4.2.1 Tax Evasion

Tax evasion is mainly reported from the illegal manufacturing of bidis in different parts of the country. A senior executive of Akij Tobacco Ltd and a senior official of the AbulKhair Tobacco Ltd, in separate interviews, revealed that all the manufacturers of 'patarbidi' (leaf-rolled cigarette) are evading taxes. The senior executive said that they have submitted a study report to the management of Akij Tobacco and the National Board of Revenue (NBR) showing how the leaf-rolled bidi manufacturers are evading taxes.

According to the executive, every year there are 260 million sticks of 'patarbidi' marketed without tax being paid to the government. For every 25 sticks of 'patarbidi' the manufacturer is required to pay tax of BDT1.272 (\$0.0183). At this rate of tax, the NBR (National Board of Revenue) is losing BDT13.228 million (\$190,000) per year.

"At least 30 percent of the commuters across Naf are involved in smuggling of tobacco products."

- says a smuggler in Teknaf, Cox's Bazaar.

4.2.2 Economic Loss from Smuggling of Cigarettes

4.2.2.1 Teknaf Point

In the Teknafupzila of Cox's Bazaar district, many people are involved in smuggling as it is a lucrative business. Every day, 300 to 400 people commute from Teknaf to Maungdaw (a port in Myanmar) through engine boats. Among these 400 people, at least 100

persons are involved in smuggling. They usually smuggle different products including alcohol and tobacco products. One of the smugglers in Teknaf was very enthusiastic to help the interviewer, as he knew the ins and outs of the smuggling business. During the interview, the smuggler said that

30% of the commuters across Naf are involved in the smuggling of tobacco products. As is evident from Table 7, smuggling of cigarettes across Teknaf Point could be causing an economic loss no less than BDT216 million (US\$ 3.10 million) per year.

Table 6: Rough Estimates of 'Patarbidi' tax evasion.

No. of sticks evaded Tax per year (Patar Bidi)	Tax rate per 25 sticks (patarbidi)	Loss of Revenue per year	Loss in percentage to the tobacco tax & duty*
260 Million	BDT1.272	BDT13.228 Million (US\$190,000)	0.39 %

(Tobacco Tax & Duties of the year 2005/06 has been taken as the base line figure).

Table 7: Cigarettes smuggled from Myanmar through Teknaf point

No of persons involved in smuggling	No of cartoons smuggled (per day)	No of sticks smuggled	Average price (BDT per sticks)	Total Revenue Loss / Year
100 persons	1000 Cartons (10 cartons per person per day)	200,000 sticks (200 sticks per carton)	BDT3.00/ sticks	BDT216 million (US\$3.10 million) (BDT600,000 per day; *360 days in a year)

*Note: The illegal trading stops at least five days within a year which has been considered in the calculation of annual business volume.

4.2.2.2 Chittagong Port

Chittagong port is an important gateway for the smugglers. RiazUddin Bazaar is a wholesale market in the Chittagong metropolitan area. In this market, there are 22 shops that sell cigarettes to dealers. Of these, about 20 shops deal in foreign brand cigarettes.

Given the higher taxes on imported cigarettes, most of the foreign cigarettes are smuggled. A shopkeeper in RiazUddin Bazaar said that some people supply smuggled foreign-brand cigarettes brought from the Chittagong port.

The wholesale shops in the RiazUddinBazar daily sell 35 to 40 cartons[#] each to the dealers and retailers in

different areas of Chittagong city. It can be assumed with fair certainty that all the supply in the city is channeled from RiazUddin Bazaar because it is the only the wholesale market for these products. Based on the supply from this market, the total demand or total market size of smuggled cigarettes from Chittagong alone can be estimated, as is given below.

4.2.2.3 Dhaka City

In Dhaka city, Gulshan and Dhaka New Market are the two major wholesale markets where tobacco products are traded. Retailers from all over the city collect the tobacco products, especially foreign cigarettes, from these two markets.

Table 8: Illegal cigarettes traded in RiazUddin wholesale market in Chittagong

No of Shops Selling foreign cigarettes	Daily Sales (in Cartons)	Daily Total Sales (in sticks)	Price in BDT (per stick)	Total amount of annual sales (in US dollar)
20 Shops	600 – 700 cartons (30 – 35 cartons in each shop)	120,000 to 140,000 sticks (each carton contains 200 sticks)	BDT6.00/- per stick (\$0.086)	BDT302.40 million (US\$4.35 million) (*360 days in a year)

*Note: The illegal trading stops at least five days within a year which has been considered in the calculation of annual business volume.

Table 9: The volume of wholesale trade in Dhaka city market

Name of the Spot	Cartons Supplied Daily	Daily Total Sales (in sticks)	Average price in BDT (per stick)	Total Volume in BDT per Year (in Million)
Gulshan – 1 Market	200 cartons on average. (4 cases – 50 cartons in each case)	40,000 sticks (200 sticks in each carton)	BDT6.00/- per stick	BDT86.40 million (US\$1.24 million) (365 days a year)
Dhaka New Market	60 cartons on average	12,000 sticks	BDT6.00/- per stick	BDT25.92 million (\$0.372 million)
Total	260 cartons	62,000 sticks		BDT112.32 million (\$1.616 million)

* One carton carries 10 packs of 20 cigarettes each; one case carries 50 cartons.

In Gulshan – 1, wholesalers collect the cigarettes from an organized group. The cigarettes are supplied based on the demand by the wholesalers. All the wholesalers in Gulshan – 1 jointly estimate their next day's demand and collectively order through the supplier.

In Dhaka New Market, there are 5-7 wholesale shops of foreign cigarettes. The volume of sales in New Market is less than that of Gulshan –1 Market.

4.2.3 Smuggling of Cigars

There is a very large demand for cigars (*churuts*) in Teknaf and Chittagong. It has been observed that cigars or *churuts* are smuggled from Myanmar to Bangladesh.

According to a retailer at Teknaf, there is a per day sale of 30,000 to 45,000 sticks of cigar.

The smuggling of *churut* (cigars) is as lucrative and organized as the smuggling of cigarettes. Everyday people visit Myanmar and bring *churuts* into the country. The smuggling of *churuts* also involves loss of revenue earnings for the government.

“Our sale of churut (cigar) is also very good.”

-says Mr. Shajib, a retailer at the Teknaf Market.

This researcher visited different spots in Chittagong city and its suburb areas. According to local businessmen, the daily sales of *churuts* (cigars) in some shops have been estimated at some 30,000 sticks.

The smuggling of *churuts* (cigars) results in a revenue of BDT54.00 million (US\$0.776 million) every year. (Table 10)

Table 10: Sales of illegal cigar/ churut

Name of the Spot	Per day sale of churut (in sticks)	Price of churut per stick	Total Volume in Taka per year (in US dollar)
Teknaf	30,000 – 45,000	BDT2.00/-	BDT32.40 Million (US\$0.44 million)
Chittagong	30,000	BDT2.00/-	BDT21.60 Million (\$0.31 million)
Total			BDT54.00 Million (\$0.776 million)

4.3 Estimated revenue losses across tobacco products

The tax structure of Bangladesh regarding tobacco and tobacco related products is given in the table below.

4.3.1 Revenue Loss from Cigarettes

The government is losing a significant amount of import revenue and taxes every year due to the smuggling of foreign-brand cigarettes. This study found that the

Table 11: Tax and Duty Structure at Import Level

HS code	Description	FY: 2006-2007			FY : 2007-2008		
		CD	SD	VAT	CD	SD	VAT
2401.10.00	Tobacco, Not Stemmed/Striped	25.00	25.00	15.00	25.00	20.00	15.00
2401.20.00	Tobacco, Partly or Wholly Stemmed/Striped	25.00	25.00	15.00	25.00	20.00	15.00
2401.30.00	Tobacco Refuse	25.00	25.00	15.00	25.00	20.00	15.00
2401.10.00	Cigars, Cheroots and Cigarillos Containing Tobacco	25.00	100.00	15.00	25.00	100.00	15.00
2401.20.00	Cigarettes Containing Tobacco	25.00	350.00	15.00	25.00	350.00	15.00
2402.90.10	Hand or manually made cigarettes containing tobacco(BIDI)	25.00	100.00	15.00	25.00	100.00	15.00
2402.90.90	Cigarettes, excl. hand or manually made cigarettes containing	25.00	100.00	15.00	25.00	100.00	15.00

Note: CD= Customs duty; SD= Supplementary duty; VAT= Value added tax

Table 12: Volume of tax and revenue loss due to smuggling of cigarettes

Name of the spots	Total Volume of smuggling per Year (in Million BDT)	Loss of Custom Duty per year (25%)	Loss of Supplementary Duty per year (350%)	Total Loss of Revenue
Teknaf, Cox's Bazaar	BDT216.00 million	BDT54.00 million	BDT756.00 million	BDT810.00 million
Chittagong	BDT302.40 million	BDT75.60 million	BDT1,058.40 million	BDT1,134.00 million
Dhaka	BDT112.32 million	BDT28.08 million	BDT393.12 million	BDT421.20 million
Total				BDT2365.20 million (\$34.03 million)

authorities are losing BDT2365.20 million (US\$34.03 million) per year. (Table 12)

4.3.2 Revenue Loss from Cigars (Churut):

The government is also losing a significant amount of revenue due to the underground trade in cigars. It was estimated that the authorities have been losing BDT67.50 million (USD 970, 000) in taxes per year due to cigar smuggling.

4.4 Money channel

Most of the illicit trade along the borders is undertaken by individual carriers and small groups of people. They have taken up the work as a means of livelihood. The people and families who are involved with the underground trade bring small amounts of cigarettes

or other tobacco products from bordering countries in exchange for different products. People from Bangladesh carry some Bangladeshi essential drugs and other products like onions, garlic, ready-made garments, and consumer items for sale in Myanmar and bring back cigarettes, churuts and blankets, shoes, drugs, and liquor to be sold in Bangladesh.

The smugglers convert Taka with Myanmar's currency (Kyats) in Bangladesh's grey market along the border to buy products from Maungdaw. Similarly, people visiting Bangladesh from Myanmar convert their currency to Taka in Myanmar's grey market and bring those to Teknaf in Cox's Bazar. Organized groups working here supply currency through "hundi"[#] (illegal money transaction) to the people commuting between these two countries.

Table 13: Volume of tax loss from the cigar

Name of the spots	Total Volume of smuggling per Year (in Million BDT)	Loss of Custom Duty per year (25%)	Loss of Supplementary Duty per year (100%)	Total Loss of Revenue
Teknaf, Cox's Bazaar	BDT32.40 million	BDT8.10 million	BDT32.40 million	BDT40.50 million
Chittagong	BDT21.60 million	BDT5.40 million	BDT21.60 million	BDT27.00 million
Total				BDT67.5 million (US\$0.97 mill)

"Hundi" is a form of transferring money to one state to another illegally as the involved businessmen never pay taxes to the government.

4.5 Threats to National security

Illegal trade in Bangladesh often involves organized groups and activities that are a threat to the country's security, as illegal trade develops and sustains a workforce that engages in illegal activities. The investigation did not lead to any organized large groups who benefit from the illegal trade or channel money to operate subversive activities in the country or bordering states. But these types of underground trade create room for channeling money to any criminal group.

4.6 Factors Facilitating the Illicit Trade of Tobacco

Lack of stringent policy measures and poor monitoring by law enforcement agencies, border guards, security personnel, and tax and customs officials facilitate the illicit tobacco trade. The influence of clearing and forwarding (C&F) agencies, businesses, and smugglers often lead to customs officials willing to overlook illegal trade in exchange for financial and other benefits. Similar is the case with local police and enforcement agencies in many places.

The Bangladesh Rifles (BDR) who guard the country's borders, often allow the entry of illegal products in

exchange for certain benefits. The researcher witnessed the BDR taking bribes and allowing the entrance of small-scale smugglers with illegal products at Teknaf (Bangladesh-Myanmar) border. Those engaged in such illegal activities said that Myanmar's border security force –NASKA – also helps the people in the same way.

The price disparities of tobacco products between countries in the South and Southeast Asian countries are often exploited by smugglers to peddle their products across the borders. The price of cigarettes in Myanmar is less than it is in Bangladesh. Smugglers take advantage of the poor border controls between the countries bring smuggled cigarettes and churuts from Myanmar to Bangladesh.

Bangladesh signed the Framework Convention on Tobacco Control (FCTC) in 2003 and became a Party in 2004. Article 15 in the treaty obligates parties to take several measures to combat illicit trade in tobacco. Government of Bangladesh subsequently enacted a law titled "Smoking and Tobacco Product Use (Control) Act 2005" which made provisions to ban smoking in public places and public transports. However, the law does not include any measures to control illicit tobacco trade.

CHAPTER – V

CONTROL MEASURES FOR ILLEGAL TOBACCO TRADE

5.1 Policy Framework for Combating Smuggling

5.1.1 Anti-Smuggling Laws

Bangladesh has a tobacco control law that has banned cigarette promotions, smoking in public places, and introduced text warnings on cigarette packs.

The country has strict laws against smuggling and any illegal trade (in general). The border security personnel, law enforcement agencies, customs officials, and the port authority are the major players responsible for enforcing the laws and keeping a check such illegal activities.

Bangladesh also has the Value Added Tax (VAT) Act 1991, Foreign Exchange Regulation Act, Anti-money Laundering Act, and Customs and immigration laws to check illegal trade, including in tobacco products.

The Customs Department has a well-equipped setup at the land ports, seaports, and other transit points to monitor cross-border trade. The seaports have scanners for screening imported goods. But they are yet to be

engaged effectively in customs inspections of containers at ports. Due to inadequate tools and technology, the government has appointed four international Pre-Shipment Inspection (PSI) firms to certify imported goods from different foreign countries through the land and sea ports before they enter Bangladesh territory.

5.1.2 Tax & Duty Structure in Bangladesh

The Bangladesh government has progressively increased taxes and other regulatory measures to discourage tobacco use. The government is obliged to further increase the taxes under the Article 6 (Price and tax measures) of the Framework Convention on Tobacco Control (FCTC) in order to reduce the demand for tobacco.

Bangladesh has a segmented tax structure for different tobacco products. The taxes imposed on local tobacco products, on imported tobacco products, and on raw materials vary. The tax for various categories of imported tobacco are as below:

Cigarettes, the predominantly traded tobacco product in Bangladesh, have higher import tariffs, with 25%

Table 14: Tax and Duty Structure on tobacco and tobacco products

HS code	Description	FY: 2006-2007			FY : 2007-2008		
		CD	SD	VAT	CD	SD	VAT
2401.10.00	Tobacco, Not Stemmed/Striped	25.00	25.00	15.00	25.00	20.00	15.00
2401.20.00	Tobacco, Partly or Wholly Stemmed/Striped	25.00	25.00	15.00	25.00	20.00	15.00
2401.30.00	Tobacco Refuse	25.00	25.00	15.00	25.00	20.00	15.00
2401.10.00	Cigars, Cheroots and Cigarillos Containing Tobacco	25.00	100.00	15.00	25.00	100.00	15.00
2401.20.00	Cigarettes Containing Tobacco	25.00	350.00	15.00	25.00	350.00	15.00
2402.90.10	Hand or manually made cigarettes containing tobacco(BIDI)	25.00	100.00	15.00	25.00	100.00	15.00
2402.90.90	Cigarettes, excl. hand or manually made cigarettes containing	25.00	100.00	15.00	25.00	100.00	15.00

Note: CD= Customs duty; SD= Supplementary duty; VAT= Value added tax

customs/import duty and 350% supplementary duty (SD). Value added tax (VAT) for cigarettes remains the same as that of other tobacco products at 15%. Besides these important tariff elements, there are two additional minor taxes—advance income tax (AIT) and advance trade value (ATV) at the rates of 3 and 1.5% respectively.

5.2 Tax measures

5.2.1 Tax and Duties on Domestic Production

Table 14 contains information about the tax and duty rates on the domestic manufacturing of tobacco products for three periods—FY 2001-02, FY 2003-04 and FY 2006-07.

The tax level has been reflected here because there are lots of illegal bidi manufacturers in Bangladesh who evade taxes every year. This tax structure has helped us to substantiate the data in the findings.

5.2.2 Central Intelligence Cell (CIC) and Value Added Tax (VAT) Audit Cell of the National Board of Revenue (NBR)

The Bangladesh's revenue department NBR has set up a CIC and a VAT Audit Cell to monitor and detect illegal imports like misdeclarations, over-invoicing, under-invoicing and any type of illegal trade.

5.3 Recommendations

The findings of this study can guide the government and other stakeholders to take the necessary measures to check the trade of illegal tobacco products and their negative consequences on public health and the economy and security of the country. Firm policy and tax measures and related programming could be very helpful for checking the illicit tobacco trade in Bangladesh and surrounding countries in the region. These include:

- i. License all manufacturers, importers, exporters, wholesalers, retailers, suppliers, and warehouses of tobacco products.
- ii. Effective pictorial health warnings on all tobacco products would enable the easier identification of legal products.

- iii. Given that tax disparities are often manipulated by the tobacco industry to its advantage, it is pertinent that all governments in the region progressively increase tobacco taxes.
- iv. Tax increases have been proven to be effective in reducing tobacco consumption particularly among the poor. Taxes on "Patarbidi" (leaf-rolled hand-made cigarette) need to be raised keeping this in mind.
- v. Policy makers should ensure that tax increases are not absorbed by the industry but result in corresponding price increases that would discourage consumption and illegal trade.
- vi. Duty-free shops serve as a conduit for duty-reduced cigarettes entering the market. These cheaper cigarettes promote consumption. Therefore, governments should ban the sale of duty-free or duty-reduced cigarettes at airports.
- vii. The national Tobacco Control Act needs to be amended to include measures that curb illegal tobacco trade and effective penalties for offenders.
- viii. Require tobacco packs to carry unique, non-removable markings and develop a full fledged tracking and tracing system to control illicit tobacco trade.
- ix. Since tobacco smuggling is a major transnational issue for governments in the region, multilateral consultations are needed to devise strategies to control underground trade.
- x. Waterways are being used extensively by illicit tobacco traders to transport their goods. Engaging coast guards, identifying and implementing positive ways to reduce their likelihood of being bribed, and boosting their vigilance would go a long way to checking these intrusions.
- xi. It is important for the Bangladesh government to hold multilateral meetings with Myanmar and India and forge customs and law enforcement collaboration. However, multi-lateral agreements ratified by all the parties concerned across the borders are also important among others tools.
- xii. South Asian countries should liaise with South-East Asian countries to check the illegal, inter-regional smuggling of tobacco products.

- xiii. Penalties for smuggling and its abetment should be enhanced to match their consequences.
- xiv. The government should create an independent counter-intelligence cell to monitor and screen the work of the container handling staff, PSI companies, clearing and forwarding agencies, berth operators, and customs officials at ports.
- xv. A cross-functional, multi-disciplinary taskforce and collaborative culture where knowledge, experience, and evidence-based best practices can effectively be shared within and across national boundaries is crucial for combating illicit trade.
- xvi. A portion of the tobacco tax may be earmarked for anti-smuggling activities.
- xvii. Electronic and printed media should be engaged to inform people about the implications of illicit tobacco trade.
- xviii. Initiate liability action against companies that are abetting illicit tobacco trade.
- xix. Introduce rules for the immediate destruction of illegally imported cigarettes and other tobacco products using environment friendly methods.
- xx. Create new specialized means for public prosecutors and judicial courts to deal with organized crime and large-scale smuggling, devoting attention to the illicit cigarette trade.
- xxi. Enhance the capacity of law enforcement agencies to track down and deal with illegal tobacco trafficking and money laundering.
- xxii. Prohibit the manufacture and processing of tobacco and tobacco products in free trade zones and connected free ports.
- xxiii. Finally, this study has attempted to arrive at some tentative figures for smuggling and illegal tobacco trade in the country. However, a robust monitoring and surveillance system that gathers smuggling data on a regular basis is required to guide decisive action against illicit tobacco trade.

REFERENCES

1. AbulBarkat M M, Mahiyuddin G, Rahman M, Munir AKM, Ananda Kumar P K & Khan M S. Contract Farming in Bangladesh: Political Economy of Tobacco Cultivation and Processing, The Human Development Research Centre and NijeraKori. 2008.
2. AbulBarkat, M M. Impact of Globalization on Health: A New Framework for Analysis, presented as Keynote Paper to the National Seminar "Globalization and Health" organized by Health Reporter's Forum Bangladesh, Dhaka. 2006.
3. Acharya A, Zaman M M, Quasem I, Huq S M, Nargis N, Kibria G & Begum T. "Impact of Tobacco-related Illnesses in Bangladesh," World Health Organization, South East Asian Regional Office, Delhi, 2007.
4. Ali Z, Rahman A, Rahman T. "An appetite for nicotine: an epidemiological analysis of tobacco control in Bangladesh," Economics of tobacco control paper number 16, HNP discussion paper, World Health Organization, 2004.
5. Bangladesh Bureau of Statistics (1996): Prevalence of Smoking in Bangladesh, November 1995, Statistics Division, Ministry of Planning, Dhaka.
6. Bangladesh Bureau of Statistics (1999): Report of Survey on Prevalence of Morbidity Treatment Status, Treatment expenditures, Fertility, Immunization and Smoking, July 1997, Statistics Division, Ministry of Planning, Dhaka.
7. Bangladesh Bureau of Statistics. Statistical Pocketbook Bangladesh, 2008. Ministry of Planning, Planning Division, Government of Bangladesh, Dhaka 2008.
8. Bangladesh Bureau of Statistics (2005): Report of the Household Income & Expenditure Survey 2005, Statistics Division, Ministry of Planning, Government of the People's Republic of Bangladesh.
9. Bangladesh Bureau of Statistics. Statistical Year Book of Bangladesh (1986, 1996, 2004, and 2006).
10. BAT File No. FJ0962 Guildford Depository Report in Details of Tobacco Smuggling in India has Global Implications. The Indian Express. Tuesday, December 19, 2000.
11. Building Momentum for Tobacco Control: The Case of Bangladesh, Debra Efroymsen and Saifuddin Ahmed.
12. Campaign For Tobacco-Free Kids. Illegal Pathway to Illegal Profit-The Big Cigarette Companies And International Smuggling. Washington DC: 1995.
13. Campaign For Tobacco-Free Kids. Illicit Tobacco Trade-Illegal Profit and Public Peril. Washington DC: October 2008.
14. Data from Bangladesh Bank's Annual Publication: "Export Payment" & "Import Payment".
15. Efroymsen D, Ahmed S, Townsend J, Alam S M, Dey A R, Saha R; Dhar, B, Sujon A I, Ahmed K and Rahman O. "Hungry for tobacco: An analysis of the economic impact of tobacco on the poor in Bangladesh," Tobacco Control, 10:212-217. 2001.
16. Framework Convention Alliance. How big was the global illicit tobacco trade problem in 2006? (Factsheet). Washington, DC: FCA; 2008. Available from: <http://www.ftct.org/dmdocuments/fca-2007-cop-illicit-trade-how-big-in-2006-en>.
17. Global Adult Tobacco Survey- Bangladesh Report 2009: Ministry of Health and Family -Welfare, Government of Bangladesh and World Health Organisation (WHO), <http://www.whoban.org/pdf/Global>.
18. Government of Bangladesh. Population and Development Issues in Bangladesh – National Plan Action Based on ICPD'94 Recommendations, AbulBarkat and SR Howlader (ed), Ministry of Health and Family Welfare. 1997.
19. Government of Bangladesh. Population and Census 2001 – National Report (Provisional), Bangladesh Bureau of Statistics, Planning Division, Ministry of Finance and Planning. 2003.
20. Joossens L, Merriman D, Ross H, Raw M. How eliminating the global illicit cigarette trade would increase tax revenue and save lives. Paris: International Union Against Tuberculosis and Lung Disease; 2009.
21. Merriman, D. Understand, Measure, and Combat Tobacco Smuggling. Economics of Tobacco Toolkit 7: Smuggling. Washington DC: World Bank. (no date)
22. Nargis N (forthcoming): Poverty and Development Impact in Chaloupka F J., Yurekli A A & Fong, G T (eds) Tobacco Control in Developing Countries, NCI Monograph 21, Chapter 20.
23. Rahman M M. Health Hazards And Quality Of Life Of The Workers In Tobacco Industries: Study From Three Selected Tobacco Industries At Gangachara Thana In Rangpur District Of Bangladesh . The Internet Journal of Epidemiology. 2009 Volume 6 Number 2.
24. Tobacco Economics. Issue 02, Year 01, July 2008. Bangladesh: Unnayan Samunnay.
25. Tobacco Economics. Issue 02, Year 02, October 2009. Bangladesh: UnnayanSamunnay.

26. The Daily Nayadiganta, Feb 14, 2009 on tobacco smuggling.
27. The Daily Star newspaper, May 31, 2009 issue. <http://www.thedailystar.net/newDesign/news-details.php?nid=90556>
28. The Daily Star newspaper in Dhaka, Bangladesh, August 04, 2006 issue. <http://www.thedailystar.net/2006/08/04/d60804012113.htm>
29. Smoking and Tobacco Products Usage (Control) Act, 2005. In: National Strategic Plan of Action for Tobacco Control, 2007-2010. Ministry of Health and Family Welfare, Dhaka, Bangladesh.
30. Tobacco Farming: Potential Alternative Crop Cultivation: Work For Better Bangladesh (WBB) Trust, Dhaka, Bangladesh.
31. World Health Organization. WHO Framework Convention on Tobacco Control. Geneva: WHO, 2003. http://www.who.int/fctc/text_download/en/index.html
32. World Health Organization South East Asia Region. Impact of Tobacco related Illness in Bangladesh. 2006.

About the Researcher

FHM Humayan Kabir is a senior reporter with The Financial Express, Bangladesh's largest financial daily. He reports in the business, finance and economic sectors.

Mr. Kabir has 10 years of work experience in the field of development and investigative journalism and has done several investigative and in-depth reports, published in different English language dailies in Dhaka, Bangladesh.

A post-graduate in Mass Communication and Journalism, he has also completed an advance course in journalism from the International Institute for Journalism in Germany.

SECTION 2
SMOKE ALARM:
ILLICIT TOBACCO AND ALLIED
TRADE ACROSS INDIAN BORDERS

DAYA SHANKER SHUKLA SAGAR

CONTENTS

Preface	35
Illicit Tobacco Trade in India	36
Illicit Tobacco Trade Fuelling Terror	38
Chapter – I: METHODOLOGY	
1.1 Data Collection and Analysis	40
1.2 Geographical Scope of the Investigation	40
1.3 Limitations of the Research	40
Chapter – II: BORDER 1: SMUGGLING BETWEEN INDIA AND NEPAL	41
2.1 Smuggling is child’s play at sunauli	41
2.2 A tell tale of Government apathy towards cigarette smuggling along Indo-Nepal Border...	43
2.3 The Rupaidiha namesake.....	45
2.4 The Marlboro Cocktail.....	46
2.5 The Trade Secret.....	46
2.6 Trespassing the Indian Border.....	47
2.7 The Maze Called Badhni	48
2.8 Informal borders and formal routes to smuggling.....	49
2.9 A hard nut to crack.....	50
2.10 Nuts all the way	52
2.11 Terrorism & tobacco: new entrants to Siliguri’s “T-zone” ⁵⁴	54
2.12 The Hong Kong House of Smoke.....	55
Chapter – III: BORDER 2: SMUGGLING BETWEEN INDIA AND CHINA	57
3.1 Smuggling in the guise of trade.....	57
Chapter – IV: BORDER 3: SMUGGLING BETWEEN INDIA AND BANGLADESH	60
4.1 The swing door of smuggling.....	60
Chapter – V: BORDER 4: SMUGGLING BETWEEN INDIA AND BHUTAN	63
5.1 Blanket butt ban: Mission Impossible.....	63
References.....	65

LIST OF BOXES, FIGURES & TABLES

Boxes

Box1: Indo-Nepal- UK joint venture	45
Box 2: Betel nut: A key input for smokeless tobacco preparations?	51
Box 3: Bloody Stains of Gutkha	51

Figures

Figure 1: Next door neighbour Nepal at Sunauli Border.....	41
Figure 2: Girl engaged in “ant-smuggling” at Sunauli	41
Figure 3: A truck goes unchecked from Indian checkpoint in Sunauli towards Nepal	43
Figure 4: Illegal foreign brand cigarettes being sold adjacent to the Indian Customs Department checkpoint in Sunauli	43
Figure 5 : SSB Inventory of seized cigarettes at Sunauli	43
Figure 6: Customs Jottings reversing the seizure back to SSB	44
Figure 7: Tobacco free school along rupaidiha border.....	45
Figure 8 : A teenager ferrying Nepal made cigarettes to India.....	45
Figure 9: A Nepali liquor store owner who is an agent for Marlboro cigarettes.	46
Figure 10: A wholesaler of illicit tobacco	46
Figure 11: Boy ferrying cases of smuggled Marlboro	47
Figure 12: Nepalese carrier enjoying a puff of a foreign cigarette	47
Figure 13: An Indian woman smuggling cigarettes from Nepal to India.	47
Figure 14: Excise check post at badhni border	48
Figure 15: Short-range CCTV cameras installed by SSB to compensate for the shortage of men.	49
Figure 16: A Nepalese woman selling raw betel nuts at the mechi bridge.....	50
Figure 17: Betel nuts being sold along the mechi bridge.	52
Figure 18: A supari carrier who operates for a local retailer.	52
Figure 19: Women in a bus transporting Illicit cigarettes to Siliguri’s Hong Kong Market	54
Figure 20: The shopkeeper in hongkong market of siliguri who sells smuggled foreign cigarettes	56
Figure 21: The Nathula Pass.	57
Figure 22: Nathala Trade Route	57
Figure 23: Fencing along the Changrabandha area of India along the Bangladesh border.....	60
Figure 24: A bamboo sling locally known as jhoola which is used to smuggle things from India to Bangladesh and vice-versa.	61
Figure 25: Bangladeshi native preparing to transfer an item to an Indian counterpart using the sling	61
Figure 26: A gap in the fencing along the Indo-Bangladesh border	62

Figure 27: A Bhutanese native puffing cigarette in Phuentsholing 63

Figure 28: A truck goes unchecked to bhutanese territory from the Jaigaon entry point..... 64

Figure 29: A kiosk selling cigarettes in Phuentsholing..... 63

Tables

Table 1: Popular foreign cigarette brands available illegally in Indian markets36

Table 2 : Market Indicators (India illicit trade Estimate 2003-2008)39

Preface

Serious concerns about the magnitude and pervasiveness of the illicit trade in tobacco products, and its impact on public health and economies, led Parties to the Framework Convention on Tobacco Control to initiate negotiation of a protocol to curb smuggling.

As India is one of the largest tobacco producers, and home to broad range of tobacco products, smuggling in and through the country is a matter of grave concern for national and regional welfare in South East Asia. Genuine and contraband cigarettes are smuggled to India via air, water and land routes. The porous land borders that India shares with countries such as Bangladesh, Bhutan and Nepal are among the preferred routes for smugglers operating in the region. Smuggling across these borders is relatively easy and the risks involved are comparatively lower than other modes. Notably, the border between India and Nepal is 1,868 kilometers long while the length of the border between India and Bhutan is 699 kilometers. Longest of all is the Indo-Bangladesh border, extending to 4,095 kilometers.

A 2009 Euro monitor report estimated the size of the smuggled cigarette market in India to be nearly 28 billion sticks a year. Officials are of the view that the magnitude has increased many times in the last few years. Smuggled cigarettes reportedly account for more than 20 per cent of the domestic market. Between 2000 and 2008, the trade has gone up from around 12 per cent to 23 per cent. Prior to this, estimates by the Tobacco Institute of India (TII), the organisation that represents India's cigarette industry, (1) illustrate only the tip of the iceberg of tobacco smuggling.

A report published by TII in 2004 reported that the contraband cigarette market drains around Rs 20,000 crore (\$43.45 billion) from the Indian economy every year. This excludes other forms of illicit tobacco trade. According to the Ministry of Health & Family Welfare's Report on Tobacco Control in India (2004), the current size of the Indian market for smuggled cigarettes is estimated at 4.5 billion sticks. (2) Similarly, smuggling of bidis and chewing tobacco products from India to Nepal and Bangladesh is also rampant and require close scrutiny.

Officials believe there has been a many fold increase during the last six years. Despite this, the agencies responsible for controlling smuggling along the borders have yet to give priority to tobacco. This is a clear conclusion from field visits undertaken by this reporter to the borders mentioned above. Field visits revealed that the Sashastra Seema Bal (SSB), which guards the Indo-Nepal border, was too busy checking on smuggling of sugar, rice, urea fertilizers and other products. Cattle smuggling and fencing were the chief concerns of the Border Security Force, posted on the indo-Bangladesh border.

There is a lack of co-ordination between security forces and officials of the customs and excise department. Besides tobacco products, smuggling of narcotics, arms, explosives and fake currency also take place at these borders. The nexus of smugglers and terrorist organisations is a matter of grave concern to India's security agencies. All the same, India is a Party to the FCTC. The specific point of reference in the treaty (Article 15) reads, "The Parties recognize, inter alia, that elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacture and counterfeiting, is an essential component of tobacco control". (3)

Illicit Tobacco Trade In India

It is widely recognized that cigarettes are the world’s most widely smuggled consumer product. The three largest multinational cigarette corporations (MNCs) are Philip Morris, British American Tobacco (BAT) and R J Reynolds (known as Japan Tobacco International, or JTI, outside the US). Huge quantities of cigarettes manufactured abroad by these companies are smuggled into India across its borders.

A joint study by Indian Media Research Bureau (IMRB) and Indian Tobacco Company (ITC), assuming an average volume of 100 million smuggled sticks enter India every month, calculated the resulting

“conservative” potential net loss in foreign exchange to amount to nearly Rs 400 crore per year, (US\$ 87 Million). (4, 5) ITC sources told this reporter that such large-scale smuggling leads to losses in excise duty, foreign exchange and local tax revenue. Foreign brands of tobacco arrive into India directly across international borders, through underground sales of duty-free stocks, stocks brought in by passengers in customs-cleared accompanied baggage.

Smuggled cigarettes reportedly account for 5-7 per cent of the domestic market. Foreign Direct Investment in India, Policy & Procedures Manual (2003), allowed up

Table 1: Popular foreign cigarette brands available illegally in Indian markets

Companies	Company’s Base Country	Brands
Philip Morris	USA	Marlboro L&M Chesterfield Bond Street Philip Morris Parliament A Mild Lark Morven Gold Next Diana Optima Virginia Slims Merit Red & White Apollo-Soyuz Delicados Boston
British American Tobacco	United Kingdom	555 Benson & Hedges Kool Kent Dunhill Rothmans
	Indonesia	Dji Sam Soe Sampoerna Hijau Muratti Gudang Garam Kediri Indonesia Ruli river Djarum Black Just Black

to 100% foreign direct investment for all manufacturing activities in Special Economic Zones (SEZs) except for cigarettes/cigars and manufactured tobacco substitutes. (6) The exemption has since been reviewed by the Ministry of Finance, debated by the Ministries of Health, Finance and Industry and revoked. Further to these deliberations, the Government of India has now prohibited Foreign Direct Investment in manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes. (7) The irony is that MNCs are attempting to legally import their premium brands into India even as their smuggled versions are enjoying a free reign in the market. During a visit by this reporter to the Indo-Nepal border, a SSB official stated that MNCs are not interested in the legal trade of cigarettes reaching India.

In a comment posted in the Financial Express, a former vice chairman of the Tobacco Board of India says that smuggled cigarettes are significantly cheaper because cigarettes which are legally manufactured and sold attract duties and taxes. He said that MNCs use traders,

who are actually agents of these MNCs, to export cigarettes to zero-duty ports, such as Dubai, from where they are smuggled to a number of developing countries including India. (8)

The potential for selling smuggled cigarettes in large markets is an irresistible attraction for these MNCs as they derive huge cost advantages. By evading taxes, they are able to pay retailers in developing countries three to four times their normal trade margins for selling smuggled cigarettes. Countries with weak border controls and high levels of corruption tend to be the target of cigarette multinationals.

The Tobacco Board's former vice chairman recommended zero percent contribution of FDI in tobacco trade in India. This should be supported by a strict policy to monitor trade in international tobacco brands. He thinks that the sale of these international brands should be banned as it contributes less revenue and encourages illegal trade in cigarettes via smuggling. (9)

Illicit Tobacco Trade Fuelling Terror

Foreign-brand cigarettes available at the neighborhood tobacco retailer) are not only injurious to individual health, but may pose a serious threat to the country's health too. The reason is that the profits from genuine as well as fake smuggled cigarettes of popular foreign brands are suspected of funding terrorism in India. American security agencies issued a warning to this effect last year. "Profits from cigarette smuggling in the USA are funding terrorist entities abroad such as Hezbollah, Hamas, and Al-Qaeda," says a Fox News report dated on April 29, 2008 citing American security agencies. (10) It is believed that terrorist groups are actively seeking means to generate funds to support their operations or expand their cadre. Indian intelligence officials told this reporter that terrorist organisations are not directly active in illicit trade.

However, they provide protection to smugglers and levy a kind of 'protection premium'. Allegedly, those who refuse to accept this umbrella protection face the severest of sanctions. The Mumbai terror attack of 2008 shook Indian intelligence agencies to the core. Learning lessons from this atrocity, Indian spying and counter-terrorism agencies have started investigating the resource channels exploited by terrorists and their supporters. As a result, foreign cigarette smuggling has arrived on their radar. "There are sporadic cues from various parts in north eastern states that hint at links between smugglers and terrorists," an intelligence department officer told The Tribune's roving editor Man Mohan, according to a report published on December 28, 2008. (11) "We are trying to calculate how much money generated through this smuggling network is finding its way to terrorism activities in India," he added.

An officer within India's Directorate of Revenue Intelligence stated that although narcotics remain the leading means for mobilising funds for terrorist activities, in the recent times trade in foreign cigarettes has become an instrument for terrorism. "The ease in smuggling cigarettes is drawing them perhaps," he said. Citing the report from the Republican staff of the House Homeland Security Committee, released in April, an officer stated that federal and state governments must do more to combat cigarette smuggling because the profits fund terrorist entities abroad. The report said

that recent law enforcement investigations (specific references being to Arab-Americans who have cornered the cigarette smuggling market in New York) have directly linked those involved in illicit tobacco trade to infamous terrorist organisations such as Hezbollah, Hamas, and Al-Qaeda. "Through the global terrorism channels, we are sure a good percentage of black money from cigarette smuggling is definitely being pumped into India too," he said (12)

Indian intelligence agencies confirm that terrorist organisations thrive on smuggling of tobacco and narcotic products. They are also engaged in counterfeit currency and arms deals. Many of these terrorist organisations have strong political backing. The most recent example is that of the son of a former minister in the Nepalese government. In January, he was arrested with his men for possessing fake Indian currency notes worth Rs 2 million (\$0.04 million). Political support and lack of evidence have saved him from arrest up to now.

Citing two Nepalese smugglers who are facing trial, Central Bureau of Intelligence (CBI) officials say that he was the main dealer in fake currency in Nepal. He and his aides were also linked with smuggling foreign cigarettes and narcotics. The Nepal police also seized four kilograms of heroin at the time of their arrest. CBI sources suspect that the individual in question has links to the underworld don Dawood Ibrahim.

Leaving aside these recent developments, the links between smugglers, drug traffickers and terrorists is now well recognised. In 2006, the head of WHO's Tobacco Free Initiative warned that India could be affected by this new kind of alliance between a new breed of tobacco smugglers and terrorist outfits. "We know that international drug cartels have some links with terrorists but now proof is emerging of illegal tobacco smugglers' links with terrorist outfits. Security agencies in the European Union (EU) have made considerable progress in investigating such cases," the Director told media in Delhi.

But India is not the only country affected by smuggling. Authorities and police sources in Nepal claim that Indian borders are used for smuggling of goods to Nepal. In fact in the first week of September 2010,

gold worth over Rs 10 million was seized and two persons were arrested by the Nepal Armed Police Force in Kathmandu. As per reports, the import of gold in Nepal had risen to over 190 percent, making the authorities suspect foul play. Subsequently, their apex bank tightened control on imports and sale. Banks were asked to sell only 10 kg of gold a day against the recorded demand of 25 kg in the domestic market. The regulation caused acute scarcity of gold in the market

leaving gold merchants complaining. (Source: IANS, September 2, 2010).

There is a bigger cause of concern than gold. Army intelligence says that the Maoists in Nepal are smuggling in explosives and arms from the Indian States. The weapons are reportedly routed from Indian States of Uttar Pradesh and Uttarakhand to western Nepal while on the eastern side, weapons are smuggled in from Bihar.

Table 2 : Market Indicators (India illicit trade Estimate 2003-2008)

MARKET INDICATORS INDIA Illicit Trade Estimate 2003-2008						
	2003	2004	2005	2006	2007	2008
Legal sales	94,493.9	96,494.0	96,885.2	97,215.2	95,946.8	93,062.7
Illicit trade	14,040.0	16,146.0	18,406.4	20,905.5	23,832.3	27,883.8
% penetration of illicit trade	12.9	14.3	16.0	17.7	19.9	23.1
Actual consumption	108,533.9	112,640.0	115,291.6	118,120.7	119,779.0	120,946.5

Source: Official statistics, trade associations, trade press, trade interviews, Euromonitor International estimates
In Million Sticks

CHAPTER – I

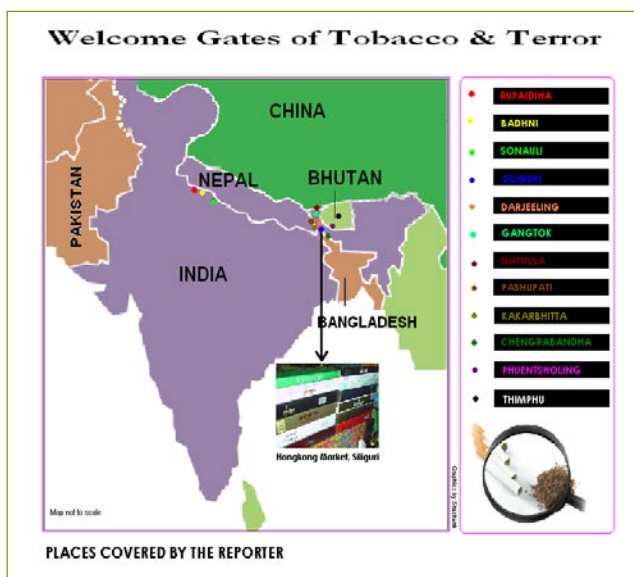
METHODOLOGY

1.1 Data Collection and Analysis

Existing researches, news reports and available economic data were analysed. Given the sensitive nature of the research, the researcher adopted snowballing technique to identify and interview key entities and stakeholders in the illicit supply of tobacco in India. Based on preliminary leads received, the researcher mapped out the geographical locations that form part of the illicit trade routes with Bangladesh, Bhutan, China and Nepal. Once the routes were identified, the investigator followed each of the trails interviewing people who are directly involved in or are in the know of the illicit supply chain. This included retailers, wholesalers, distributors and manufacturers of tobacco products, transporters, Government, police and military officials, trade associations, leaders of border communities, illicit tobacco peddlers, mafia and media personnel.

The data thus gathered was analysed and collated. Information from different sources was verified and reconciled in the final research report.

1.2 Geographical Scope of the Investigation



This researcher explored the illicit tobacco trade across India's borders with Bangladesh, Bhutan, China and

Nepal. Sunauli, Rupaidha, Badhni, Karuliya, Pani Ki Tanki, Siliguri, in India, and Bhairawan, Krishnanagar, Jumanaha and Kankadbitta, in Nepal, were among the border towns that formed the basis of investigations into smuggling between India and Nepal. Nathu La Pass, the ancient Silk Route connecting India with China, formed the focus of investigations into Indo-China tobacco smuggling. Changrabandha in the West Bengal State of India borders Bangladesh. The area was investigated for insights into the Indo-Bangladesh smuggling of tobacco products. In Bhutan, the reporter began his investigation for Phuentsholing along Jaigaon area of the state of West Bengal and then proceeded to Bhutan's capital Thimphu. The research attempted to explore illicit tobacco trade through India's North and North Eastern borders.

1.3 Limitations of the Research

The study aimed at investigating tobacco smuggling into India from other countries. Nevertheless, smuggling is a cross border phenomenon and it happens into and out of any given country. This study makes limited references to tobacco smuggling originating from or transiting through India to other countries in its neighborhood and beyond. Complementary investigations looking at smuggling from India to its neighboring countries such as Nepal, Bangladesh, Bhutan and China would provide a comprehensive understanding of the smuggling in South Asia.

Given the time constraints of the study, the large scale smuggling across Indian borders could not be pursued in great detail. There is need to pursue the leads emerging from this study to further identify the entities involved in such smuggling and the potential role of the tobacco industry in facilitating it.

India has extensive borders of land and water, air and seaports, many of which are suspected to be used for tobacco smuggling. Nonetheless, this research has limited its focus to India's land borders on its North and North East.

CHAPTER – II

BORDER 1: SMUGGLING BETWEEN INDIA AND NEPAL

The border between India and Nepal is 1,868 kilometers long. It extends across the Indian states of Uttarakhand, Uttar Pradesh, Bihar and West Bengal. India and Nepal share an open border policy. The key cross-over points between the two countries are Bambasa, Dhangadhi, Nepalganj, Bhairahaw, Birhang, Pashupatinath and Kankarbhatta. There is a total ban on bringing third country goods into India from Nepal across the borders. The borders in India are guarded by SSB while the Indian custom’s department is deputed to keep an eye on import and export of goods.

2.1 Smuggling is child’s play at sunauli



Figure 1: Next door neighbour Nepal at Sunauli Border.

SUNAU LI: Standing in Sunauli, a small suburb in the sleepy town of Maharajganj, Nepal is literally India’s next door neighbor. Welcome boards hang at the gate between the two nations. International borders between India and Nepal are non-existent; it is no man’s land. India and Nepal share an open border policy. Calm and serene at night, Sunauli wakes up every morning to the hustle and bustle of everyday life, as does cross border smuggling. Journalists describe smuggling across the Sunauli border as child’s play. A journalist contacted for this research promised to quit the profession if proved wrong. So this reporter decided to verify the claim. It is 9 am but the December sun refuses to start the day. But the hands of the clock send

everyone to “business” here. By now, the no-man’s land is a taxi-cum-public-conveyance stand with drivers loudly calling to tourists and visitors. In the midst of the cacophony, children holding something in a black polythene caught the eye.

This reporter traced one of them named Ragini. “What’s in this packet?” asked this reporter. At nine years old, Ragini appeared older and knew it was best to avoid strangers. But the girl succumbed to the lure of chocolate. “It is sugar,” replied the girl. She was stopped by a SSB soldier on her return from Nepal. The reply to “how much?” was five kilograms. The girl also said that she was taking the sugar to a local grocer in a village located in the district of Nepal along the Sunauli border. And why?,” quizzed the reporter. “Here a kilo of sugar sells at a price of \$ 0.76 but across the border it fetches twice the price” explained Ragini. Interestingly, Ragini was also carrying a number of gutkha (chewing tobacco) sachets with her but was in too much of a hurry to divulge the details. After all, she makes 8-10 transits a day buying sugar from India and selling it in Nepal.

She added that ferrying gutkha added to her earnings. Cut to teenager Manne, an Indian polio sufferer, who stopped near the checkpoint to catch his breath. He shared a few details in exchange for a bottle of mineral water. He said that owing to his disability, he



Figure 2: Girl engaged in “ant-smuggling” at Sunauli

could only carry and being lightweight commodities. Gutkha is a commercial preparation containing areca nut, slaked lime, catechu and condiments powdered with tobacco. Paan masala is another variant of gutkha. Chewing tobacco accounts for over 35% of India's tobacco use. Their popularity may be gauged from commercial estimates showing that the Indian market for paan masala and gutkha is worth several hundred million dollars. Asked what he earns in the process, Manne said that by passing on a pack of 100 gutkha sachets, he earns US\$0.65. This is not the only source of Manne's income. On the return journey, the teenager brings several packs of "bideshi" (foreign) cigarettes. And why? "They are in high demand in India," confided Manne. A single packet of cigarettes fetches Rs. 30-40 (\$ 0.65-0.87) as profit.

Ragini's mother Kanta is her mentor in this business. Now a veteran in the trade, she was attempting a 40 kilogram transit of sugar with a stock of beedi, the most popular form of tobacco used in India, as well as being popular in Nepal. Over 34% of tobacco produced in India is used in making beedi. They are made by rolling a dried rectangular piece of tendu leaf containing sun-dried flaked tobacco (13).

A Sashastra Seema Bal soldier stopped Kanta. "What are you taking along in this gunny bag?" he enquired. Wearing a fake smile, Kanta said, "Sir, there is sugar inside it...there is a wedding in the family and that's why I am taking it.

The soldier appears convinced that Kanta is lying but was prevented from intervening as another carrier caught his attention. The cyclist was ferrying something in a big bag. But before the soldier could catch hold of the cyclist, he pedaled away. These instances are tiny drops in the ocean of large-scale smuggling that are usually overlooked both by the Sashastra Seema Bal and Indian customs that guards the Indian border at Sunauli. Taken together, these small-scale kinds of smuggling (known as "ant smuggling") add up to a major blow to India's excise department. Based on official estimates, the worth of goods seized by the forces in a single day across this border is valued at least a lakh of rupees (nearly US\$2,200).

The activities of Ragini, Manne and Kanta are not the major challenge country's forces are facing. Truckers crossing the border pose a more worrying threat to the

sovereignty of both India and Nepal. Ferrying staples including milk, green vegetables and food grains hundreds of trucks cross the Indo-Nepal border every day. Nonetheless, there have been instances that prove that the truck trade is fuelling terror outfits under the guise of transporting everyday commodities. In the beginning of 2009, a truck carrying coal was stopped by Nepal police. Smelling a rat, the police undertook an extensive scan of the material. "This truck from Nepal carried around 50 AK-47 rifles along with coal. That is not all. Large amount of hand grenades and explosives were also recovered in the same truck," stated a media report which added that the consignment was meant for Maoists.

Indian police also seized weapons including AK-47s in separate incidents between 2007 and 2009. What comes as a shock is that these guns passed the hawk-eyed SSB. As pointed out by additional director general of police, UP: "I admit that maximum numbers of weapons coming to India come from this route and this is a very serious problem. Unfortunately a system to check this menace is yet to be developed." It is not that these borders are check-free zones. There is a proper drill for truckers by which a truck first stops at the customs department checkpoint where extensive inspection can be expected. Once cleared at this stage, the truck is stopped at the SSB checkpoint before being allowed across the border.

The two-level screening is marred by slack personnel and lack of co-ordination between the two agencies. Consider the following eye witness account. truck stops at the customs department checkpoint. "What are you taking?," asks the man on duty. "Sir, vegetables and fruits", replied the truck driver. "Show me the papers", demands the officer. And the trucker willingly obliges. The official scans the documents for a minute or so and then goes towards the rear end of the truck where he lifts a plastic sheet covering the goods. He takes a sneak peek (of around 30 seconds) and returns to the driver. "OK, go," he tells the trucker. The two men shake hands and the trucker drives on.

But wait for a second.... the handshake brought a smile to the face of the guard who folded a hundred rupees note and stuffed it in his pocket. There was no close examination of the cargo. On the face of it, the driver was ferrying vegetables but who knows if he was hiding anything else. Referring specifically to the approach

of the custom department, Customs officer Arvind Kumar said, “We have no means to unload a truck.... And if we start doing it, the result will be traffic jams stretching kilometers.” But the truckers may be carrying anything in the name of vegetables and fruit. Replying



Figure 3: A truck goes unchecked from Indian checkpoint in Sunauli towards Nepal

to a question about this, Kumar said: “The possibility cannot be ruled out.” Stepping out of Arvind’s office, one comes across a temporary structure made of red asbestos tin, with a jittery wooden door. The makeshift house is usually closed. Next to this is a tree in whose shade is a humble office table and chair. This is where SSB sub-inspector Lal Bahadur Singh Rathore, in charge of the Sunauli border, operates.

Arvind’s claim that they have limited resources is true. Talking to this reporter, Singh said: “Only a single battalion (battalion number 43) of SSB is posted here.... and for this handful of soldiers, extensive screening of each and every truck is impossible.” But is thorough checking really a tough proposition? Every single truck entering Nepal from India was unloaded and scanned at the Nepalese customs department checkpoint. “It is on account of the same that custom go down number three was full of illegal stuff including gutkha and pan masala smuggled from India,” said an officer on duty. A clash between the two border control agencies (SSB and the custom’s department of India) is responsible for the lack of co-ordination in conducting similar inspections on the Indian side of the border.

The bone of contention involves integrity and mistrust. The custom’s department clears a truck and allows it to go. But the same truck is stopped by the SSB post as well. While the custom’s department maintains that SSB should not conduct a further check once the papers have been cleared at their end, SSB officials

counters by saying that checking transport crime is part of its charter of duties and that the customs department cannot stand in its way. The result is that when SSB seizes goods smuggled from Nepal, including foreign cigarettes, the custom’s department turns a blind eye. This reporter had one such experience. The documents in the Figures 5 & 6 show how the two agencies pass the buck to each other. The document in Figure 5 is the inventory prepared by the SSB listing seizures made by their team on a given day.

It shows that more than 200 packets of Surya, Shikhar, Sahara and Khukhri cigarette brands (all made in Nepal) were seized. Figure 6 shows the note made by the customs checkpoint stating that cigarettes were not a part of the third country goods list. Thus, the customs officer referred the seized material back to the SSB asking them to take appropriate action.



Figure 4: Illegal foreign brand cigarettes being sold adjacent to the Indian Customs Department checkpoint in Sunauli

2.2 A tell tale of Government apathy towards cigarette smuggling along Indo-Nepal Border

आ-उपनिवेशीय संसद के अधीन

नेपाल सरकार

संज्ञा संख्या: ०११००

०११००

(१) सुर्या ०११०० @ ११००

(२) शिखर ०११०० १५ PKT

(३) सशर ०११०० ५५ PKT

(४) ... शिखर ०११०० २० PKT

(५) ... शिखर (को ५) २० PKT

(६) ... शिखर ०११०० २० PKT

(७) ... शिखर (को ५) २० PKT

Name of Seizure Party

(१) SI (GD) L. B. S. Rathore

(२) NCC (GD) Gyamcho Bhukha

(३) SI T. P. P. Rao

(४) SI G. N. N. N.

(५) SI J. K. K. K.

(६) SI B. P. P. P.

(७) SI Chandan Kumar

(८) SI Babu Rao

०११००

Figure 5 : SSB Inventory of seized cigarettes at Sunauli

SEIZURE MEMO

(58)

POINTS TO BE COVERED	DETAILS
1. Name of BOP PS/Dist.	:- Sonauli/Sonauli/Maharaj Gany
2. Date and time of Seizure	:- 4/1/09 at 0830.
3. Border pillar No.	:- Main Gate Near B.P.No. 23.
4. From where the items were being smuggled and whether from Nepal to India or India to Nepal	:- Nepal to India.
5. The planning part i.e. on whose intelligence input, the seizure has taken place.	:- Coy Comdr.
6. Was cooperation of any other Police force/ Government agencies sought in whole process?	:- No.
7. How exactly the process was implemented i.e., Raid/Search/ Patrolling/Naka chance encounter?	:- Searching/Checking.
8. Nature, description, Quantity and worth of the material seized. Whether it has already been identified for testing or waiting report.	<p>1) Surya Luxury King Cigarettes (Made in Nepal) 51PKH @ 46.87 T.R. 2390.00</p> <p>2) Shikhar Luxury King Cigarettes (Made in Nepal) 10PKH @ 20.00 T.R. 200.00</p> <p>3) Lunil (hand) with ribbon - 20 Nos. @ 125.00 T.R. 2500.00</p> <p>4) - (hand) - 31 Nos @ 100.00 T.R. 3100.00</p> <p>5) Leather Coat - 1 Nos @ 2500.00 T.R. 2500.00</p> <p style="text-align: right;">G. TOTAL Rs. 9100.00</p>
9. To whom the seizure items have been handed over.	:- LAND. CUSTOM OFFICE, SONAULI.
10. Whether any criminal case has been registered, if yes, by which agency and under what section.	:- No.
11. Any people arrested (interrogated regarding the seizure. Culprits escaped if any how? Information received in preliminary interrogation.	<p>(1) Person. Namely -</p> <p>Baba K. Age - 33 years, Son. Malo</p> <p>510 - Kalsang, ...</p> <p>Vill - Echank. Ward No. 3, Dist - Sindhur</p> <p>- Pa. Gehank. 1. Nepal</p>
12. The name of SSB personnel involved in the process	<p>i) 51/02. L. B. S. Rathore</p> <p>ii) NK/02. Rajendra Ad.</p> <p>iii) 07/02 Ravi Kumar</p> <p>iv) 07/02 Radheshyam Prasad</p> <p>v) 11/02. Chandra K. Das.</p> <p>vi) 07/02. Akhil R. S.</p> <p>Subintendent</p> <p>L. O. S. SONAULI</p>

Handwritten notes:

1) No this of Country goods, coming through border route -

2) Proper return

3) Person to be returned to their own country for proper action

4) 04/1/09

Customs jottings: "No third country goods coming through border route; consignment recovered return to the designated person for proper action."

Figure 6 : Customs Jottings reversing the seizure back to SSB

Key Observations

-International borders between India and Nepal are practically non-existent; a no-man’s land exists in between.

-Small-scale cross border smuggling is rife. Women, children and the disabled are involved as carriers in

smuggling third country goods from Nepal to India and evading security controls.

-The range of goods smuggled into India includes groceries, cosmetics, daily goods and foreign-made cigarettes. The smugglers take advantage of the carriers’ social and economic vulnerability and their willingness to work for very small incentives.

-The border has a recent history of being used by anti-national groups to transport arms under the guise of other commodities in trucks, indicating its potential use for smuggling cigarettes and its potential links with terrorist groups.

-The Sashastra Seema Bal and Indian Customs may feel they can ignore individual carriers. But truckers are a major cause of concern.

-There have been instances that prove the trucking trade is fuelling anti-national outfits on both sides of the Indo-Nepal border under the guise of transporting innocuous commodities.

-Lack of co-ordination between the two border control agencies, and corruption, allow the truckers to go unchecked. Truckers may be taking advantage of weak controls to smuggle anything from India to Nepal and vice versa.

2.3 The Rupaidiha namesake



Figure 7: tobacco free school along rupaidiha border



Figure 8 : A teenager ferrying Nepal made cigarettes to India

Rupaidiha: Infamous for tobacco smuggling, this link between India and Nepal is a story of strange coincidence. Situated between the two borders is a tobacco-free and smoke-free school called the Assembly of God Church School. Bearing anti-tobacco slogans on its outside walls, the school runs a campaign to discourage tobacco use, especially among children and young people. On account of its location, the anti-tobacco hoardings of the school catch the attention of every visitor to the area. Smugglers prefer to overlook them. This border is the workplace of more than hundred children who not only deal in foreign brands of cigarettes but also smuggle into India those brands which are manufactured in Nepal.

For instance, Surya Classic, which is manufactured by Surya Nepal, is a popular Nepalese brand that makes its way to India's smokers via a chain that passes through this border. The SSB soldiers appear to be weary of combating the children's efforts. SSB Sub-inspector Ritesh Kumar posted here said: "These children are a real pain... all day long our soldiers are busy tackling them at the time when they should be eyeing those

Box1: Indo-Nepal- UK joint venture

Surya Nepal claims to be Nepal's largest private enterprise and the market leader in all cigarette segments in the country. It is a subsidiary of Indian Tobacco Company (ITC), India's largest cigarette major, in which British American Tobacco holds the remainder of the shares. Surya, Kukri, Bijili and Chautari are among the Surya Nepal brands that are widely available illegally across India's borders. This begs the question as to why ITC, headquartered in nearby Kolkata, in India, or Surya Nepal, in Kathamandu, show no sign of acting against illegal trade that can be assumed to negatively affect their legal operations. Notably, show cause notices have been slapped over Surya Nepal by Nepal's revenue, tax and VAT authorities for under payment of taxes, presumably based on under-reporting of production. Besides, several cases are pending against the company.

involved in smuggling of arms or fake currency notes. The result: taking advantage of this engagement, real nasty minds escape and cross the border." Other cases come to light as one moves towards Nepal and the volumes involved get larger.

2.4 The Marlboro Cocktail



Figure 9: A Nepali liquor store owner who is an agent for Marlboro cigarettes.

Bhairawan: Eight kilometers from Sunauli is Bhairawan, a small town in Nepal. At first sight, it appears to be an ordinary hill town but for a local liquor shop. The unique selling point of this store is that it offers classy Marlboro as well as liquor. It drew this reporter's attention. There, Mantej Khatri said that although he displays Marlboro and Dunhill, they were not particularly popular among local inhabitants. "But these cigarettes sell like hot cakes in India... I sell some ten cartons of the brand in a month," he confided. A single carton of Marlboro contains 50 packets. In this way, he sells 500 packets of the brand in a month. He earns Rs 10 (US\$0.22) per pack, earning around Rs 60,000 (US\$1,300) a year. The supply to Tej Khatri comes from a factory in Seti Churat, the place in Nepal where Marlboro has an agency. A sub-regional office in Malaysia feeds this agency. In order to save tax, the agency sends raw materials to Seti Churat where the cigarettes are formally packed.

The Nepalese government's statutory health advisory is printed on each pack and tax is levied at Seti Churat. Despite the tax, cigarettes are cheaper in Nepal than in India, and therefore entice smugglers. Khatri volunteered that the best part about selling this brand was that the company takes back any damaged product. He also sells a variety of other brands such as L&M. "There are 2-3 people from India who regularly come

to pick up their consignments of cigarettes," confided Khatri. He was however quick to add that he does not know how Indians smuggled these across the border.. However, his servant was willing to divulge the information for a minor consideration.

Along the Sunauli border is a Nepalese village called Karauliya. The consignment is first taken and stored in Karauliya and, on a pre-determined date, it is sent to India across the unmanned border. The servant also outlined that Indian citizens buy a packet for Rs 86 (US\$2) and sell it to retailers at a profit of about Rs 20 (US\$0.44) who add their margin before selling it on to consumers.

2.5 The Trade Secret



Figure 10: A wholesaler of illicit tobacco

Krishnanagar: The next stop was Krishnanagar, in Nepal, where this reporter met a wholesaler who understood the dynamics of the trade better than Khatri. "The profit to Indians smugglers is worth the risk involved," he said. The trader refused to provide his name but was willing to outline the business secrets behind the smuggling operation. Asked to explain the economics of the trade, he said: "The first reason is the value of money. A 500 rupees note from India is worth Rs 850 in Nepal. That is worth 60% right at the start. It means that a packet of cigarettes that costs about Nepalese Rs 86 in Nepal is worth around Rs. 54 in Indian currency. Most of the middlemen who sell cigarettes hide this gain from exchange rates and pass on the products to the retailers in India at around Rs. 90 (US\$2) in Indian currency.

The retailers sell these packets at a price which is about 10-15 bucks less than the price at which the genuine

foreign brand would be sold.” Another wholesaler in Traven confided that he sells about 20 cartons a month. He provided information about some of the local terminology used by smugglers. “Danda”, or case, denotes ten packets of foreign cigarettes. “Carton” or “peti” describes a collection of 50 cases. The man, however, rued poor sales: “I used to sell about 40 cartons a month when United Nations and its human rights staff worked in Nepal...most of them smoked and preferred foreign brands,” he said.

Posing as an Indian trader, this reporter said that he wanted 50 cartons. However, restraining his excitement over the deal, the man said, “We will send the material only till the Jamuniha border... thereafter the responsibility will be yours.” But this reporter negotiated with him and urged him to make an arrangement for the safe transportation of the material. His response was, “Contact Dharmendra paanwala in Jamuniha and he will help you out.”

2.6 Trespassing the Indian Border



Figure 11: Boy ferrying cases of smuggled Marlboro

Jamuniha: Dharmendra agreed to execute the contract in exchange for Rs 100 (US\$2.17) per carton. Asked how he would manage this, he said, “That should not be your concern?” A small pause and he added, “Every business has some trade secrets.” The next stop was Jamuniha border. An eight year-old was hopping his way towards the Indian border. Named Karan, this confident Nepalese boy was unaware that he was involved in smuggling. Karan said that he was taking the “dandas” for someone in India. When asked if that was the only purpose of his visit to India, he said: “No, I will take some rice as well.” The modus operandi involves hiding cigarette packets in rice or sugar. The

boy confided that he would earn Rs 5 (US\$0.11) per case and that he transports some 50 cases in a day. If he was lucky, he would receive a tip as well. The cases of cigarettes transported by Karan would be kept safe by the grocer in India.

On a pre- determined date the smuggler collects the consignment. Women also participate. Meet Kanti who also uses the same trick. Her rates are slightly higher as she is quicker in completing the job. Her tip is in the form of her daily ‘dose’ of cigarettes, for which she developed taste during her trips to India.



Figure 12: Nepalese carrier enjoying a puff of a foreign cigarette

Kanti’s Indian counterparts have an advantage if they are Muslims. Take the instance of Summi begum who was stopped by a SSB female soldier at the Rupaidiha border. Summi was carrying several cigarette packets which did not appear normal. It invited a series of questions from the soldier. Summi claimed that what she was carrying was for her personal use. The reality, however, was known to both the women (See figure



Figure 13: An Indian woman smuggling cigarettes from Nepal to India.

13). Prior to the advent of the SSB's women contingent, male SSB soldiers feared stopping women. "There have been instances where women have alleged baseless charges of sexual harassment and molestation," confided an officer on duty.

Key Observations

- Rupaidiha border is the workplace for more than a hundred children and women who not only deal in foreign cigarette brands but also smuggle cigarettes manufactured in Nepal, both of which are readily available across the border in India.
- Anyone can smuggle cigarettes from Nepal to India by contacting a member of the chain of dealers who will arrange delivery upon payment.
- Traders in Nepal feel that their Indian counterparts earn more in the bargain.
- All this happens right under the nose of the security agencies. The SSB's women contingent has become a deterrent for many female carriers in recent times.

2.7 The Maze Called Badhni

Badhni (India): India merges into Nepal at Badhni. It is hard to know where India ends and Nepal begins. So much so that India did not feel the need to erect a welcome gate here. The no-man's land here is Chamanganj market which remains buzzing with activity through-out the day. The place is sensitive from the national security point of view. But the place is a real challenge for those who guard the border. Local trader Naresh Verma explains the reason behind this: "The labyrinth-like structure of the market is home to smugglers who use every means to get their work done," he said. He added that the main business in Chamanganj was cigarettes, in addition to everyday goods from third countries. "Around 4-5 cartons of cigarettes are passed on to India every day," he said. Naresh added that middlemen generally adopt a low profile until there is an order to be fulfilled .

This reporter spoke with one of the middlemen, named Rana, and asked if he could pass on ten cartons of foreign cigarettes to India. He agreed saying, "Sir, anything can be sent across the border, all you need to do is pay the price". Rana's confidence speaks

volumes about how rampant smuggling is in Badhni, and Chamanganj market in particular. Rana is known in the market for dealing mainly in cigarettes, beer, electronic goods, watches and cosmetics. He runs a 15-member gang that is allegedly involved in smuggling fertilizer from India. Locals claimed that he also had links to Maoists. The officer-on-duty at the Customs department checkpoint on the Indian side of the border feels that the checkpoint serves little or no purpose. The checkpoint is located roughly 200 meters a way from the main Chamanganj market. By way of explanation he said, "We are like mute spectators here. We know what happens inside the market but we are not prepared to tackle the menace. There are few men and resources."



Figure 14: Excise check post at badhni border.

A quick glance around was sufficient to comprehend his plight. The small room at the checkpoint, with only a handful of men, seemed insufficient to guard a market swarming with people. The vacant appearance of the post served to underline the point. A subordinate added that there are perhaps two options for those posted at this border station. The first is to join the smugglers; the second is to turn a blind eye towards the problem," he said. (What will we do? Every second person is bringing things from the market illegally.... Amidst lack of resources we choose to focus on big things rather than smaller insignificant items).SSB also suffers from scarcities of resources. Round-the- clock border protection is the imperative on the list of duties assigned to the soldiers. But in the absence of sufficient numbers of men, the task was being undertaken by closed circuit cameras. While these digital eyes are

linked to a main computer placed inside a control room, the field of view of the four cameras employed to cover a range of about 500 meters is less than ideal.



Figure 15: Short-range CCTV cameras installed by SSB to compensate for the shortage of men.

“This is definitely not enough,” was the spontaneous reply of a SSB officer. “Still we try our best,” he added quickly. The officer remained silent when he was asked whether they were able to check on the smuggling of smaller items. Leaving the room, he allowed this reporter to stay and form his own opinion. Five minutes of observation revealed the state of helplessness. “There is nothing that can beat the alertness of the human mind... cameras can record events but they are more useful in follow-ups than in averting crime,” summed up one of the technical staff on duty. The point is that ammunition, pistols and bombs are also small in size and may easily be transported. A few kilometers further along the border is the village of Khunwa. Running parallel to Khunwa is Marzampur, in Nepal. Though this is the official border between India and Nepal, it is not considered to be as important as other locations. Not a single SSB soldier was sighted here. For customs department, the place is a punishment posting. The no-man’s land adjacent to Khunwa is just a local Tonga-stand (a horse-cart stand) with just a handful of drivers who earn a living by

transporting Indians to the remote areas of Nepal, and vice versa. The customs officer at this post lamented that there was no work to do. “Seniors in our department believe that a transfer to Khunwa is a punishment,” he said.

2.8 Informal borders and formal routes to smuggling

Karauliya, Maharajganj (India): Badhni and Khunwa are two locations on a long list of unguarded informal posts along the long stretch of the Indo-Nepal border. The informal borders between the two countries seem to offer a formal invitation to the intent of breaking the law. With no one checking credentials, it appears to be an easy route for smugglers and even terrorists. Kotiya, Sohratgarh, Pakdiva and Dhanura are only a few of the informal border crossings that serve as formal routes of illicit trade. The serenity of these informal routes drew this reporter to explore one such less traveled path that was picked randomly. A milestone revealed that the place was the village of Karauliya. A local revealed that it fell under the Maharajganj area of Uttar Pradesh, India. As green farmlands soothed the eyes, the taxi’s odometer showed that this researcher had traveled about seven kilometers before entering Nepal. A proper road welcomed the traveler but there was no sign of any security forces or checkpoints. The car drove on for a further 10 kilometers. Finally the driver became irritated and asked for the destination.

The conclusion drawn from this hour-long tour is that anyone can devise a route into Nepal that may involve smuggling virtually any commodity. In addition to Uttar Pradesh, the Indian states of Bihar and West Bengal also share a border with Nepal. Pashupatinath border of West Bengal is situated about 30 kilometers from the town of Darjeeling. Anyone can enter Nepal from this area with relative ease. The market in Pashupatinath is a draw for many tourists due to the availability of foreign goods, especially those manufactured in Hong Kong, Malaysia and China. Interestingly, this market has flourished right under the nose of the custom department’s checkpoint where a sign announces “Bringing Third Country Goods from Nepal is a Crime”. Every tourist and Indian inhabitant who is lured by the dazzling products available at almost throwaway prices make a mockery of the warning.

Youngsters from west Bengal throng the market in search of beer and cigarettes which they flaunt in their colleges and addas (hang outs). Traveling here was by means of a shared taxi. A group of friends drew attention because they carried along with them a crate of beer and some 20 packets of foreign cigarettes. They

asked the driver to keep their goods in the boot of the car. As the taxi stopped at the custom's department checkpoint, the boys became a little nervous. But no one checked the taxi. The boys heaved a sigh of relief saying, "They (customs department personnel) get their share from the traders and even the taxiwallahs...so we need not worry."

Key Observations:

- Badhni is sensitive from the security point of view. Local Indian Intelligence Bureau sources say that ISI agents are quite active along the border.
- The officials cannot conduct raids or searches in certain areas suspected of sheltering terrorist sleeper cells because they fall under the jurisdiction of Nepal.
- The place is also a challenge for those guarding the border. The labyrinth-like structure of the market is a home to smugglers who use every means to ply their trade.

2.9 A hard nut to crack

Panikitanki (West Bengal state): Wedged between Nepal and Bangladesh, this narrow strip of land in India is a concern for both Sashastra Seema Bal (SSB) and the Border Security Force (BSF) which guard India's borders. This area of north Bengal has links with Kanpur district of UP and other areas across the two countries where tobacco products are produced. It is a gateway for inferior quality and inedible betel nuts that are smuggled from Nepal and other South East Asian countries like Indonesia and Thailand. Chinese betel nuts also enter India using this route. China produces red betel nut of high quality which involves less time and investment for cultivation. The media and non-governmental organisations believe that 90% of the supply of betel nut arrives via this route.

Figures show that the Indian customs department seized betel nuts worth Rs 40 million (US\$0.87 million) in 2008-2009. (14)The amount seized seems to be just the tip of the iceberg. "Traders smuggle large quantities of betel nuts used for 'pan masala' and 'gutkha' manufacturing every year, bypassing excise duties, trade and entry taxes, whereby the revenue department is estimated to incur a loss of over Rs 3,000 crore (US\$65.17 million) every year," says a senior



Figure 16: A Nepalese woman selling raw betel nuts at the mechi bridge

officer in India's Directorate of Revenue Intelligence (DRI). DRI believes that, based on the volume of trade in the paan masala industry, the government should generate an average annual revenue of Rs 3,500 crore (US\$76.04 million) rather than the current Rs 800 crore (US\$17.38 million). (15) "Revenue is affected because there is 100 percent duty on betel nuts if they are imported through regular channels," said R Manga Babu, Additional Commissioner of Customs, North Bengal and Sikkim. Sources in the intelligence agencies of the Uttar Pradesh government consider that Nepal has strategically maintained a low import duty on betel nut. "This skewed equation of 100% duty in India and low duty in Nepal encourages smuggling. The Nepalese exchequer also benefits from the business," sources said.

When betel nuts grown in Indonesia are imported into Nepal, the tax collected by the Nepalese authorities is around Rs 10 (US\$0.11) per kilo. Authorities evaded answering questions from this reporter as to how many paan masala or gutkha manufacturing facilities there are in Nepal.. Locals claim that paan masala and gutkha are not consumed in Nepal and that there are no factories

which manufacture them. The obvious interpretation is that traders in Nepal procure betel nut because of high demand in India. What has further fuelled the demand for betel nut from Nepal is the Indian Government's decision to allow import of betel nut only through Mangalore.

It is important to note that an Indian trader has to pay an import duty to bring in betel nut whereas procuring it illegally through Nepal, the cost dips by 60 percent. A report by the Ministry of Health and Family Welfare says that the actual prevalence of smokeless tobacco and its consumption practices are not known. However, their popularity can be gauged by commercial estimates. For instance, American estimates say that the Indian market for paan masala is now worth several hundred million US dollars. (16) Another composition that contains shavings of betel nut with tobacco and slaked lime is called Mawa, and is quite popular in the West Indian states of Gujarat and Maharashtra. Besides this, raw betel nut is also taken with betel leaf – an indispensable part of Indian tradition. There are certain localized tobacco preparations which also use betel nut. Mainpuri tobacco, which is popular in the central part of Uttar Pradesh especially around the areas of Mainpuri and Kanpur Dehat, contains mainly tobacco with slaked lime, finely cut areca nut, camphor and cloves. A World Health Organization study involving 35,000 natives of Mainpuri revealed

Box 2: Betel nut: A key input for smokeless tobacco preparations?

Betel nuts or areca nuts, known locally as *Supari*, constitute the base material for chewing tobacco products like gutkha, paan masala, mawa and Mainpuri tobacco, which together are estimated to constitute nearly 36% of tobacco consumption in India. Paan masala is a commercial preparation containing betel nut, slaked lime, catechu and condiments, with or without powdered tobacco. The version containing tobacco is called gutkha. Both these tobacco products come in attractive and similar-looking sachets and tins, which can be stored and carried conveniently.

that 7% of the villagers used this product. It is produced by illicit manufacturing facilities across the country. Uttar Pradesh alone has some 400 paan masala and gutkha factories of various sizes and the State shares its border with Nepal.

Kanpur and Varanasi in Uttar Pradesh are two big centers of chewing tobacco production accounting for more than 30% of the state's paan masala output. Department of Revenue Intelligence (DRI) figures reveal that Kanpur accounts for a revenue shortfall of Rs 900 crore, (US\$19.55 million), due to the large consumption of smuggled betel nuts in paan masala and gutkha in production operations sited there. Official estimates made by the department of customs and excise say that 100 tonnes of betel nuts (worth Rs 40 lakh (US\$0.09 million)) are traded into

Box 3: Bloody Stains of Gutkha

On August 23, Narvardeshwar Singh, the Assistant Commissioner of India's Central Customs and Excise Department, was shot dead by contract killers in broad daylight. The police solved the case in a record time of two weeks and arrested three individuals along with the contract killers. Police officials told the media that the three Pramod, Srikant and Vinod Chaurasia -- were owners of a local gutkha brand named Arzoo. Singh was on their hit list as he had been actively involved in drives to check tax evasion.

As part of this initiative, he raided several gutkha production units in the region in April 2009 and seized material worth Rs 70 lakhs (US\$0.15 million). The unit belonging to the Chaurasiyas was among them. Singh had also had a spat with Pramod Chaurasia in May 2009. Irked over the financial and social losses, the three hired a contract killer to eliminate Singh. The killers trapped Singh by luring him to a site where gutkha was being manufactured illegally. Singh was shot four times by the contract killers. (17)

Kanpur alone. The value of gutkha produced by this city alone is put at over Rs 4 crore (US\$0.86) million per day. Industry sources reveal that betel nut worth Rs 2 lakhs (US\$43.45) provides the raw material for gutkha and paan masala, whose price could be 100 times higher, or Rs 2 crore (US\$0.43 million). A large proportion of this production goes unrecorded. Most of the gutkha production facilities function without a license as a cottage industry and little is known about their location. The few attempts at investigating tax evasion arising from smuggled betel nuts have led to assaults and retaliatory killings, such as one reported in Varanasi, India.

2.10 Nuts all the way

Panikitanki (India)/Kankadbitta (Nepal): At Panikitanki, India is separated from Nepal by the River Mechi. Kankadbhitta is the adjoining area in Nepal. The places are like two sides of the same coin when it comes to betel nut smuggling. R Manga Babu, Additional Commissioner of Customs, North Bengal and Sikkim, revealed that the bridge connecting Panitanki with Kankadbitta is being used to smuggle sacks of betel nuts. “These Indonesian-origin betel nuts are imported by Nepal to be used for local consumption. But a significant amount of this makes its way to India because of better margins,” he said. Locals say that the larger manufacturers of paan masala and gutkha buy smuggled betel nut with the help of middlemen who reportedly have links and aides in Nepal and beyond.

They add that the smaller manufacturers bargain for supplies with supari carriers, who operate along the

Mechi river bridge. Panitanki is effectively the hub of betel nut smuggling, which remains entirely a behind-the-scenes activity. Kankadbitta is the real nucleus of the illicit trade. This reporter drove across Mechi bridge. As Kankadbitta began, women with sacks of betel nut sitting on both sides of the bridge offered a welcome. A distinct smell wafted through the air in this Nepal border town. Later locals said that it was the smell of betel nut. Young boys were seen ferrying items in a sack, rushing towards the Indian side. Some of them used canvas bags. Truckers were loading sacks full of betel nut. The activities could make one easily assume that Kankadbitta was a market where illegal buying and selling of betel nut was the sole business. Thinking where to start, this reporter went to a group of women selling betel nut. A couple of women in the group were ready for business, while the others were getting ready. “Will you sell five kilos of supari to me?”



Figure 18: A supari carrier who operates for a local retailer.



Figure 17: Betel nuts being sold along the mechi bridge.

asked this reporter. The women refused, saying, “The material has already been sold.” When asked as to where the buyer was, the women replied that he had gone to buy other things in the nearby market.

The reporter waited there for a while and started filming them. Seeing this, the women became agitated and started looking for corners. None of them were ready to utter a single word on camera. “If you want to interview someone, go and interview the Marwari (i.e. Indian businessman) for whom we work. But this reporter’s driver, a native of Bengal who frequently traverses

between India and Nepal through this border said, “Sir, this woman is lying...She is scared of the SSB women’s brigade which is posted along the Indian border. They go off duty at 5:00 pm after which these women will proceed to India to deliver the consignment.”

Embarrassed on being exposed, the woman tried to get away by laughing. But on being coerced a little she said, “We can easily tackle the male soldiers but these women are.....” All these women were betel nut carriers. Each of their activities are like drops of water that together add up to an ocean of tax evasion worth crores of rupees. Officials claim that women comprise more than 90% of the carriers although young boys, men and truckers also work to complete the supply chain. A boy who was ferrying a sack to India confided that the job fetches him something between Rs 500-1000 (US\$11-22) per month.

Rickshaws (tricycles pedaled by a driver) are also used to transport betel nut to India. The fight between SSB and the Customs department in India facilitates the trade. Very cleverly, the carriers cross the border and surpass the SSB check post.

“The carriers have to plot sometimes to pass the SSB checkpoint especially when it is being guarded by women soldiers. But the Custom’s department is surely hand in glove. They look the other way when the carriers come in,” said a local journalist. A woman carrier revealed that they bring in raw (kacha) betel nut. Asked how much she spends to get it past the border controls and into India, she said, “I pay Rs 20 (US\$0.50) to the checkpoint in Nepal but no money is given to the Indian custom’s checkpoint.” As to the reason for this, the woman added, “Probably the middlemen manage them.” A male carrier who operates on his bicycle for a local retailer revealed that he (like most carriers) was paid on a per kilogram basis. Carriers report to the hideouts of middlemen in Panitanki where the nuts are stored. These agents then ferry sacks of betel nut to Siliguri.

Shop keepers at the local bus station witness betel nuts being transported.. In fact, it is a common sight for anyone arriving at the bus stop at around 8:00 in the morning. From Siliguri, the goods pass on to Mainaguri which houses the biggest illegal betel nut market in the region. Consignments are then sent to manufacturers in Kanpur, Collate, Delhi and other major cities in

India. Additional commissioner Babu claims that there is a racket involved in the smuggling and is not just confined to ‘carriers’. “Not only these normal ‘carriers’, we want to go deeper and break the racket involving those who are actually investing money into this business and trying to smuggle these goods into India,” he added. But when this reporter approached senior figures in the West Bengal government, each preferred to remain silent. This link between Nepal and India cannot be sealed as it is a free border.

Closing the border would affect the lives of people in both India and Nepal who for decades have moved freely in and out of each other’s territory for personal and trade reasons. At the same time, free public movement is what makes Panitanki a cause for concern from the security point of view. “Heavy influx of people and commodities makes it difficult for border guards to prevent smuggling, particularly of arms,” said an officer holding the rank of Inspector general in the Bengal police department. For this reason, the Indian government stepped up security in November to keep a check on arms smuggling. The SSB and BSF were placed on high alert. Of the 1,850 kilometer border which India shares with Nepal, over 1,000 kilometers falls under the North Bengal region.

Key Observations

- Wedged between Nepal and Bangladesh, this narrow strip of land at Paanikitanki is a concern for both Sashastra Seema Bal (SSB) and the Border Security Force (BSF) which guard India’s borders.
- It serves as an informal gateway to inferior quality and inedible betel nuts that are smuggled from Nepal and other south east Asian countries like Indonesia and Thailand.
- Intelligence agencies suspect the involvement of money laundering rackets that invest time and money into efforts to smuggle a variety of kinds of goods into India.
- The link between Nepal and India cannot be sealed as it is a free border. Closing the border would affect the lives of people in both India and Nepal who move freely in and out of each other’s territory for personal and trade reasons.

2.11 Terrorism & tobacco: new entrants to Siliguri's "T-zone"

Siliguri: A part of Malda district in the Indian state of West Bengal, Siliguri can be regarded as the "T junction" whose reputation has been built on tea, timber, tourism, table tennis and its transport system. Of late, a new "T" has joined this group and it is terrorism. Between January and December 2009, four noteworthy incidents related to terrorism rocked this nerve centre that connects mainland India to its north eastern limb. They

Arrests were made in all cases. Three individuals were active members of Lashkar-e-Toiba (LeT) while one was identified as a Harkat-ul-Jehad-al-Islami (HuJI-B) militant from Bangladesh. On January 12 2009, a LeT terrorist, identified as Safique Iliyas, alias Deepak, was arrested by India's Criminal Investigation Department (CID) from Malda District.

A resident of Rajshahi in Bangladesh, Shafique was a spy directed by his bosses to keep an eye on the movement of Army personnel in Siliguri. (18) Safique had plans to set up a shop near the Army establishment in Siliguri to execute his task, a CID official told local media. During police interrogation, Safique confessed that he helped two LeT men to cross over to India via Bengal in 2008. One of them, Sikandar-e-Azaam, was later arrested by the Jammu and Kashmir Police in June. The Delhi Police had reportedly arrested him in 1998 on the charge of transporting RDX from Bangladesh to Uttar Pradesh during 1997-98. He was held in Tihar jail till 2003, before being granted bail and escaping to Bangladesh. Nine pre-activated SIM cards, counterfeit Indian currency worth INR 50,000 (US\$1,086) and a forged voter identity card were recovered from him.

Two months later, on March 6, The Kolkata Police arrested a suspected LeT explosives expert, identified as Abu Taher alias Mohammad Zakaria, at Sealdah railway station when he was stepping out of Lalgola passenger train. Taher confessed that he had fled to Rajshahi in Bangladesh in 1997 after carrying out low-intensity blasts in Delhi, Ludhiana in Punjab and Rohtak in Haryana. Taher is reportedly close to LeT's Bangladesh chief, Abdul Karim Tunda, who had sent him to the LeT headquarters in Muridke near Lahore in Pakistan to be trained in handling explosives. (19) A month later, on April 5, another LeT militant identified as Shahanawaz

alias Chandan, was arrested by the Special Task Force from Lalgola in the Murshidabad District.

Shahanawaz was also an explosives expert who reportedly belongs to Raghunathganj in Mushidabad. Police records show that he was also earlier involved in human trafficking. (20) On the night of April 12 and 13, the West Bengal Police arrested a HuJI-B militant from an apartment at Ashbin Nagar in Bagehot of North 24 Pagans District. Identified as Mufti Ibrahim, the man was reportedly the mastermind in the grenade attack on Bangladesh Prime Minister Sheikh Hsian, in Bangladesh in 1999, and is the nephew of HuJI-B commander Mufti Abdul Hannan. (21) These few examples serve to highlight the sensitivity of the region including India's north eastern limb. Siliguri is a commercial nerve center that draws more than 500,000 domestic and 15,000 foreign visitors annually. It is also the gateway to north east India. The strategic location of the town makes it a base for essential supplies destined for the north eastern region. Siliguri has gradually developed as a profitable centre for a variety of businesses.

Many national companies and organisations have set



figure 19: Women in a bus transporting Illicit cigarettes to Siliguri's Hong Kong Market

up their offices here in this central hub. An official of the Bengal government home department says, "Wedged between Nepal on one side and Bangladesh on the other, the 'chicken neck area' is a real cause of concern. While Maoists pose a threat from one side, Islamist militants in Bangladesh give a tough time to the security agencies." He added that it is probably due to the strategic location of the Siliguri corridor that four different forces guard the area from various

quarters. The area, varying in width from 21 to 40 kilometers, is patrolled by the Assam Rifles, the West Bengal Police, the Indian Army and the Border Security Force. Unfortunately, since terrorism is a bigger cause of concern here, smuggling of goods and cigarettes is not on the priority list of the security forces.

2.12 The Hong Kong House of Smoke

Panikitanki/Siliguri: Night was falling fast when this reporter boarded a bus for Siliguri. During the bumpy ride to this link between mainland and northeast India, the rickety bus paused occasionally to board and leave passengers.. There was hardly any light inside the bus but loud conversation between a group of women near the conductor's seat drew everyone's attention. A ray of street light revealed them to be locals. Most of the passengers vacated the bus at the second last stop. Moments later, the group of women got into action. They sat on the floor of the bus and started removing blue coloured cartons hidden under the seats. They quickly packed the boxes neatly in a plastic sack. Tourists in the bus were interested as to what was happening. The women's local dialect added to the curiosity. Noticing their suspicious activity, this reporter switched on his camcorder to film them.

A local sitting next to this reporter translated the conversation. "The women have smuggled these things from Nepal," said the man. And where are they taking the stuff? The man replied, "Hong Kong market". The women bring in goods from over the Panikitanki border which they hide below the bus seats in connivance with a group member who guards the smuggled goods. On reaching Siliguri, the material is taken to Hong Kong market where it is sold to retailers and consumers. "This is a daily affair," added the conductor. "Women like them smuggle goods like cosmetics, electronics, cigarettes and garments from Nepal. One of their members sits in the bus to collect the material bit by bit en route.

"They even hide it below the seats so that in case they are caught by some official they do not lose their entire earnings," revealed the conductor. The women's perfection and promptness in executing their task proved the conductor's words. Ten minutes before the final stop the women were ready to get off. Seeing this reporter, the women were initially scared. But their fear vanished when they realised he was not a government

official who would either send them to jail or ask them to grease his palm. Winning over their confidence, the reporter started talking to them. "What are you taking along with you", asked the reporter. "Clothes, and some household stuff", answered a woman. "What is there in the blue boxes", asked the reporter, hopeful of getting closer to the details.

But the woman was experienced: "I am carrying cream, powder etc.", she answered. Asked for whom they were taking the materials, the women said that there was a wedding in the family. The native sitting next to this reporter said that the women were lying. "They are taking all this to Hong Kong market," he said. This reporter asked them again what was in the blue cartons. One of the women answered but only in sign language. "Cigarettes," she indicated by acting like a smoker, before disappearing into the darkness. The women hired a rickshaw puller and went straight to Hong Kong market. This reporter also trailed behind them. Their destination was about five kilometers from the bus station. Hong Kong market is a maze with shops of all sizes located on both sides of a zigzag pathway. Shops sold everything from kitchen appliances of Chinese origin to watches, toys, perfumes, gift articles and foreign cigarettes in packs of ten packets. Salesmen outside each shop tried to lure visitors. Signs reading "no guarantee – no claim" hung in every shop.

This reporter took out his camera to photograph the interesting Hong Kong house of smoke sticks. The first stop neatly displayed Marlboros, Paris, Golden Elephant, Dunhill Classic, Rudi River, 555, Benson & Hedges brands at the welcome counter. The moment he saw the camera, the salesman's welcoming smile disappeared. He turned into a frowning individual: "Go from here... do not take pictures....why are you taking pictures.... Get out of my shop," he shouted. The reporter made another attempt but to no avail. The outcome was the same at the next shop. In an open space inside the market, the camera's flash drew a number of shop keepers who started questioning the reporter. "Why are you taking pictures?" asked one of them. "I am a tourist and taking pictures for no reason," replied this reporter. "No one is supposed to be taking pictures here. If you are a tourist go and buy things of your choice but with your camera inside your bag," warned the leader of the shopkeepers. He added that if the camera was seen again, it would be confiscated.



figure 20: The shopkeeper in hongkong market of siliguri who sells smuggled foreign cigarettes.

“But why is taking pictures banned here?” asked the reporter. “Cameras are banned in any grey market.

There are no papers for anything here...am I clear,” underlined the leader. Meanwhile, the women from the bus had waded through the heavy rush of people. I found them bargaining with a man (probably an agent). Hong Kong market is not the only destination of foreign and contraband cigarettes smuggled through Nepal. They are widely available in the entire ‘chicken neck’ corridor and are even sent to far flung places like Darjeeling and Kolkata. This reporter bought a pack

of Dunhill for just Rs 50 US(\$1.08) at a paan shop in Darjeeling. The shopkeeper revealed that these cigarettes come to India, via Nepal, from Malaysia, Indonesia and China. He said that anyone can try at the chowk bazaar of Darjeeling for a first hand experience.

Key Observations

- The chicken neck corridor of Siliguri is a strategic link between mainland India and its north-eastern states, making it a favoured ground for terror outfits.
- Since terrorism is a bigger cause of concern here, smuggling of goods and cigarettes are not on the priority list of security forces.
- This gives free reign to smugglers bringing in listed and non-listed third country goods. Foreign cigarettes and electronic goods top the list of products brought into Indian territory from here.
- Siliguri’s Hong Kong market is an open grey market selling goods from China, Hong Kong, Indonesia and Thailand. The market is the area’s largest supplier of grey goods. Top foreign cigarette brands like Benson&Hedges and Dunhill are readily available here.

CHAPTER – III

BORDER 2: SMUGGLING BETWEEN INDIA AND CHINA

Trade relations between China and India, two of the world’s oldest civilisations, date back to ancient times when the Silk Route acted as the economic link between the two countries. Since the early 1950s, however, their relationship has been marred by border disputes, resulting in military conflicts including the Sino-Indian War of 1962, the Chola incident in 1967, and the 1987 Sino-Indian skirmish. Ties were renewed in 2005 with the revival of the Nathula Pass. Currently, this once-hectic trade route is open for free trade between the Indian state of Sikkim and China and the extent of trade via this route is likely to expand in the future. A huge grey area of illicit trade is already taking advantage of this legal route.



Figure 21: The Nathula pass.

3.1 Smuggling in the guise of trade

Sherathang (Gangtok): Traders at Sherathang trade mart, in India, and Rinchengong mart, on the Chinese side, marked the re- opening of Nathula Pass around four and a half years ago by offering each other khada (silk scarf) and sweets. Revival of this offshoot of the ancient silk trade route was seen as a friendship bond between the two giants of south east Asia. Nathula was closed following the Sino-Indian war in 1962. Bilateral agreements led to its formal reopening in 2006. The two countries agreed that trade across the pass would be limited to 29 types of goods from India and 15 types from China.(18) The six- month long business of

bartering, that begins May and ends in November, has worked out amicably since then.

The pass remains closed during winter months. However, during the rest of the year, the route is the gateway for counterfeit foreign cigarettes made in China. Locals claim that Nathula is the entry point for an abundance of third country goods from China to India and in the reverse direction. Chinese counterfeit cigarettes fuel a multi-million dollar black market, yet the industry is little known. From New York delis to London store fronts, Chinese brands of cigarettes are now sold in cities around the world.(19)

Production of counterfeit cigarettes in China has soared over the past ten years, increasing eight-fold since 1997. Official estimates are that Chinese factories now churn out an unprecedented 400 billion counterfeit cigarettes a year. Efforts by the Chinese government to stamp out the trade have been unsuccessful. Wherever government squads went, they were welcomed by street riots, machete-armed manufacturers and retaliation killings. (20) The long porous border and the increasing demand for cheap cigarettes has made India a valued market and a destination for cigarette

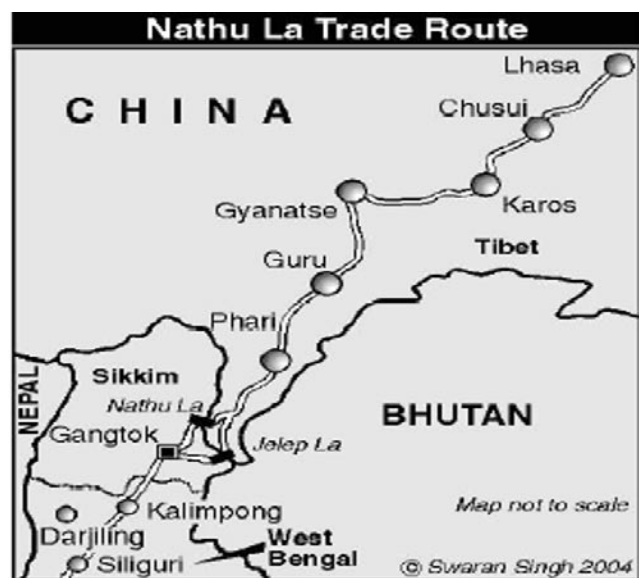


Figure 22: The Nathula trade route (not to scale)

manufacturers. Nathula and two other passes in the Himanchal Pradesh and Uttarakhand states of India are easy routes for smugglers. (Refer map in Figure 22)

The chief reason for the growth of illegal trade appears to be that legal trade at all three passes, including Nathula, has not delivered the progress that was anticipated. "The merchandise listed by both governments in the 1990s has become obsolete now," said a local businessman. "Only one item, silk yarn, is doing well in Sikkim and the rest of India," he added. Traders in the Indian state of Sikkim and the Tibet area of China are permitted to trade with each other, according to the terms and conditions applying to Nathula. The agreement also states that after 2011 the two countries may consider lifting restrictions in this area. Such restrictions, however, only exist on paper. No such ban exists at 'ground zero'.

Chinese silk turns up in the Uttar Pradesh cities of Varanasi, Lucknow and Kanpur thanks to the Indo-Tibet border police looking the other way when loaded trucks continue all the way to Kolkata instead of stopping at Sikkim. Speaking on condition of anonymity, a member of the Indo-Tibetan Merchant Association confided that this blind-eye policy applies only to listed goods. "Token payment is the way out in this situation," he said. It is worth noting that beneath the spools of silk, unchecked trucks may carry anything from cigarettes to mobile phones and even arms. The worst aspect is that the 60-kilometre stretch between Nathula and Sikkim is manned by the Indian Army, which is not authorised to check the trucks. "This is perhaps the height of helplessness.

There have been instances when we were aware that the trucks were carrying cigarettes and electronic items but we could do nothing except tip off the government authorities. This oversight is costing India dearly," believe law enforcing agencies which believe that border trade pints have now become dens for international smugglers. "While legal trade in Sikkim last year amounted to Rs 96 lakh, (US\$0.21 million), smuggled Chinese electronic items saw a hefty business of Rs 15 crore (US\$3.26 million) at this border.

These figures are a clear indicator of the heavy influx of unlisted items entering Indian Territory. This is impossible without the connivance of officials in

central agencies responsible for supervising border trade," says an army officer. In response to this influx, the Indian government suspended a number of custom department officials who had been assigned to monitor border trade, and transferred out other officials who were under suspicion.

In addition, the central intelligence wing told the Indian home ministry that smuggled Chinese mobile phones have created havoc in the Indian market. (21) "These Chinese handsets are a pain in the neck for security agencies," says a senior officer in the anti-terrorist squad of Uttar Pradesh police. There were reports that Chinese mobiles had been used to trigger blasts in the Mumbai terrorist strike. "A large number of Chinese handsets do not have an authentic IMEI (international mobile equipment identity) and for this reason the Indian telecommunications department last year banned handsets without a valid IMEI number," said a senior officer in the intelligence wing of the telecom department.

Despite the ban, there is no sign of improvement. Citing officials, a journalist with a national daily based in Gangtok says, "They (the customs officials) say their job is to check whether or not a certain product falls into a listed category...They also say that indo-Tibet border police are required to monitor the products entering India." Consumer products and spools of silk pose no serious threat to the country's existence. The real threat comes from counterfeit cigarettes and terrorist weapons. "Traders from Kolkata and Bihar buy large consignments of Chinese cigarettes via the Nathula route with the help of businessmen (i.e. middlemen)," added another member of the Indo-Tibetan Merchant Association. SK Sarda, the President of the Sikkim Chamber of Commerce (SCC), sees great business potential for Nathula. "With business possibilities, comes the threat of smuggling and the grey market. The peril has already made its presence felt in the recent years. So care needs to be taken now," he said. The SCC regularly organises events to sensitise and alert its members to smuggling, and also from time to time informs security agencies. But the authorities are yet to take these words seriously.

Reverse illegal flow of goods from India to China is to be expected and needs to be explored closely. This has been beyond the scope of this research.

Key Observations:

- Revival of trade through the ancient silk trade route of Nathula, between India and China, has developed as a conduit for illicit trade.
- Nathula is an access point for third country goods, manufactured in abundance in China. Large volumes of counterfeit cigarettes produced in industrial facilities in China are as popular as trendy electronic consumer products.
- Traders from Kolkata and Bihar buy large consignments of Chinese cigarettes via the Nathula route with the help of businessmen (i.e. middlemen) who are active in the market.
- The Sikkim Chamber of Commerce regularly organises events to sensitise and alert its members to smuggling, and also from time to time informs security agencies. But the authorities are yet to take these words seriously.

CHAPTER – IV

BORDER 3: SMUGGLING BETWEEN INDIA AND BANGLADESH

Bangladesh and India have had a long common cultural, economic and political history. The cultures of the two countries are similar; in particular, Bangladesh and the Indian states of West Bengal and Tripura are all Bengali-speaking. The Indo-Bangladesh border extends a total length of 4,095 kilometers, across the states of West Bengal, Tripura, Meghalaya, Mizoram and Assam. The close relationship between India and Bangladesh makes for fertile ground for terrorist activities carried out by outfits based in both countries, like Bangla Sena and Harkat-ul-Jihad-al-Islami. Although the two countries have agreed to join in fighting terrorism, they are finding it hard to curb the menace. Since terrorism is a bigger cause of concern, smuggling takes a back seat. It is time that the two governments realised that the issues of terrorism and smuggling are intimately linked.



Figure 23: Fencing along the Changrabandha area of India along the Bangladesh border

4.1 The swing door of smuggling

Changrabandha (West Bengal, India): Changrabandha is a place in India very close to the Bangladesh border. Lush green fields welcome visitors setting out from Mainaguri for Changrabandha. The nearby Bhot Patti area is famous for tobacco production. Tendu leaves

grown here find buyers throughout Bengal and the neighbouring state of Bihar. Processed leaves of the Bhot Patti tendu are used in bidis and even consumed raw with slaked lime. But there is a constant shortage of supply of Bhot Patti tobacco in India. This is said to be due to its high levels of demand in Bangladesh. Indian farmers prefer to deal with Bangladesh where they can earn more than in the domestic market. Dealers in Bangladesh use this tobacco for manufacturing low-quality bidis.

Border controls and eradication of infiltration across Indo-Bangladesh borders is a mission impossible, given the enormous length of the border shared by Bangladesh and India, which is perhaps the longest border that India shares with any of its neighbours. A few meters from the main square of Changrabandha is a massive fence separating India from Bangladesh. An eight-foot broad concrete strip has been constructed by India on its side. The strip is meant to facilitate patrols by Border security force soldiers. This partition serves little purpose as far as countering smuggling is concerned as each soldier, operating on foot, is supposed to guard a stretch of fence roughly two kilometers in length. The soldiers lack basic equipment such as torches (flashlights). Cattle smuggling is the biggest cause of concern for BSF soldiers. Bangladesh has some of the largest slaughter houses in south east Asia, which acts as an incentive to cattle smuggling in the area. There is an undeclared pact between smugglers in both countries. There is no shortage of cattle in India but selling cattle there fetches almost nothing compared to the prices offered by traders in Bangladesh, according to an inhabitant of a border village. He claimed that an animal sold for Rs 5000-6000 (US\$110-130) delivers a profit worth the same amount to the smuggler when he sells it to the slaughter house. Cattle smugglers usually operate at night.

They have developed a special technique for conducting the operation. It involves a giant sling made of old tyres tied together and is known locally

known as a Jhoola. Goods, including animals, are placed in the centre of the rubber sling and are sent across the border in a matter of seconds. According to a BSF officer, the jhoola is used for many purposes other than cattle smuggling. Sacks containing Bhot Patti tobacco are smuggled in this way. Bangladeshi cigarettes find a ready market in India. The popularity of foreign cigarettes in the urban areas of west Bengal also attracts smugglers who operate along the borders. There have been instances where cartons of cigarettes and arms have arrived in India from Bangladesh. The fence poses other problems for soldiers posted at the borders. Costs of damage to the fencing (pieces of fencing are commonly stolen) are recovered from soldier's salaries and the soldier on duty receives an adverse entry in their service record. As a result, soldiers focus on the security of the fencing instead of devoting attention to infiltration or trespassing. "We are here to ensure the safety of the fences and we do not deviate from the orders," one soldier clarified. He said they have no choice but to spend all their energy in guarding the fencing.



Figure 24: A bamboo sling locally known as jhoola which is used to smuggle things from India to Bangladesh and vice-versa.

"Local inhabitants are aware of this order and sometimes pilfer the wire used for fencing", he said. BSF soldiers face greater challenges where there is no fencing. The porous Indo-Bangladesh border facilitates terrorist infiltration. Consider the case of a border village of Haripukur which exemplifies the problem. A narrow strip of land in the middle of a pond marks the Zero Line. The border pillar is hard to identify, being submerged in the pond. People from this particular border village walk across from Bangladesh into India and back. The chaotic setting of villages makes it impossible for outsiders to even guess when they left

the Indian side and entered Bangladesh. The people live in such close proximity that it becomes difficult for the BSF to distinguish between Bangladeshis and Indians. "In such a situation, it is a cake walk for a terrorists to move deftly across the orders. He can easily enter any of the border villages and stay with any of the villagers for several years, get relevant papers made and go anywhere in the country," said a local police officer. Infiltrators may secure a safe house, stay long enough to gain the country identity (such as ration cards or voter cards) and move to the heart of the country.



Figure 25: Bangladeshi native preparing to transfer an item to an Indian counterpart using the sling

This reporter met Mohd Alam, in Bangladeshi territory, who claimed his first cousins live in Haripukur village. "I spend most of my day with my relatives," he said. There are at least a hundred villages like Haripukur where it is virtually impossible for forces to check on infiltration or trespassing across the fence. Senior officials in BSF admit that close proximity of villages was making their job extremely difficult. Locals echo the fact. "International borders exist only on paper, in many border villages smuggling is the main source of livelihood. Unfortunately, forces prefer to look the other way. Villagers unite against the forces if they try to curb smuggling," claimed a village leader. Taking note of observations from the field, the higher-ups at India's home department have proposed to relocate the inhabitants of border villages. "It has been proposed to shift such border villages further inside (India) and form a multi-layered partition which comprises a separation zone and a buffer zone between the Zero Line and the BSF border outpost," said a BSF officer in the area. Residents of the area are against the move. "How can they do this to us? Our relatives live there and then some of us have work visas as well. Relocation



Figure 26: A gap in the fencing along the Indo-Bangladesh border

involves money. Who will bear the cost?" questioned a villager. Is there a way out? "We should form a human chain of soldiers if there can not be a separation zone,"

said a BSF officer when asked to suggest a solution. The question is whether the authorities are ready to take such a step.

Key Observations

- Eradicating infiltration from Bangladesh is a mission impossible. One of the major reasons is the length of the border between Bangladesh and India (around 4,095 kilometers).
- People live in such close proximity to each other that it becomes difficult for the BSF to distinguish between Bangladeshis and Indians.
- Fence and cattle smuggling are the biggest cause of concern for the BSF soldiers but smuggling of other goods, including cigarettes is also present.

CHAPTER – V

BORDER 4: SMUGGLING BETWEEN INDIA AND BHUTAN

The Himalayan Kingdom of Bhutan and the Republic of India have traditionally enjoyed close bilateral relations. On August 8, 1949 Bhutan and India signed the Treaty of Friendship, calling for peace between the two nations and non-interference in each other's internal affairs. In 2007, the treaty was renegotiated and a new treaty of friendship was signed. This overt friendship is betrayed by smugglers in India who use entry and exit points to supply smokers in Bhutan. The border between India and Bhutan stretches for 699 kilometers, spanning the Indian states of Sikkim, West Bengal, Assam and Arunachal Pradesh.

5.1 Blanket butt ban: Mission Impossible

Phuntsholing: Igniting a bonfire of cigarette cartons in Bhutan's capital, Thimphu, heralded an open campaign against tobacco. Bhutan became world's first non-smoking nation in December 2004. Six years on, the country is struggling hard to implement the ban effectively. In the words of a Bhutan government official, "No law can live up to its letter and spirit without public participation which is missing in the country especially among the youth." He added that smokes fill the air of a large number of discotheques, bars, pool rooms, restaurants and other entertainment centers. At some places, people openly smoke cigarettes as if they want to show their disagreement with the law.

"Less rebellious ones go to the toilets or smoke secretly," said the Bhutanese official. A survey conducted by the Bhutan government in 2007 showed that the overall prevalence of smokers was 6.8 percent. In comparison, the prevalence of tobacco use in 2001 was under 5 percent, according to a baseline survey. (22) The clear indication is that the number of smokers has increased. The most disturbing statistics is that close to one-fourth of all smokers are students and the trend is on the rise. The global youth tobacco survey, of 2004, found that 24.6% of students had ever smoked cigarettes. (23) This had risen to 25.4% according to the 2006 version of the survey. (24)



Figure 27: A Bhutanese native puffing cigarette in Phuentsholing

Estimates by officials in Bhutan show that the country is struggling hard to enforce the ban. Officials in Bhutan's department of trade confirmed that from 2004 to 2008 a total of 40 licenses were cancelled and an amount of Nu 0.43 million (about US\$2,000) had been collected from the illegal sale of tobacco products. Most of the licenses cancelled were in Thimphu. (23) Between 2006 and 2009, the Royal Bhutan Police arrested and charged 46 persons in connection with tobacco-related cases. (24) The 'ban on butts' in Bhutan is intended to prevent the manufacture, sale or use of tobacco or tobacco products in the country. Regarding the source of cigarettes finding their way into Bhutan, a government official said, "Thanks to our next door neighbour – India".

"He revealed that premium cigarettes manufactured by Indian tobacco giant ITC are very much in demand in Bhutan. Officials blame carriers who move freely between India and Bhutan. Information from the Royal Bhutan Police shows that carriers were the biggest suppliers of cigarettes in the country. A comparative chart showing seizure in relation to mode of transport attributed over 54% of smuggling to carriers. This was followed by use of small cars which accounted for 26% of the illegal supply. Truckers also contributed significantly to smuggling. Figures show that 21% of seizures made by police were from trucks and



Figure 28: A truck goes unchecked to bhutanesse territory from the Jaigaon entry point

minivans. Figures show that Phuentsholing has been the nerve centre of cigarette smuggling into Bhutan.

In 2008, cigarettes worth Nu 1,240,000 (US\$26,895) were seized by the Royal Bhutan Police. Seizures in other centers, like Jhongkar, Paro and Gelephu, are dwarfed by those in Phuentsholing. The value of seizures from the latter three points amounted to Nu 147,000 (US\$3,188). Jaigaon is on the Indian side of Pheuntsholing. In the absence of the welcome gate constructed by Bhutan, it would be impossible to identify where India's jurisdiction ends and Bhutan's begins. There is little or no difference in people's lifestyles on either side of the border. Many Indians have shops along the Bhutanese side and vice versa. With the sale of cigarettes being banned in Bhutan, Bhutanese smokers walk across towards the Indian side of the border to satisfy their craving.



Figure 31: A kiosk selling cigarettes in Phuentsholing

Shopkeepers on the Indian side capitalise on this and shops towards Jaigaon offer the best brands of cigarettes. A local shopkeeper told this reporter that 80% of his sales were to Bhutanese customers. "Most of the buyers are youngsters. Some of them come to me on a daily basis," he said. Another shopkeeper added that Indian brands of cigarettes are more popular with the Bhutanese than foreign makes. "Premium brands like Wills Filter and Gold Flake manufactured by Indian cigarette giant ITC are what the smokers look for. There is no specific reason for the trend but somehow limited sales mark the foreign brands," he said. It is not that the ban on cigarettes is effectively implemented in Bhutan. The border area has shops selling foreign cigarettes smuggled from India.

Chinese cigarettes also find a place at the counters here. Officials in Bhutan's capital admit that the ban is violated in a large number of places but they expressed themselves to be helpless. "In the absence of public will the police fail to implement the ban," they say. An official document shows there was a decline in seizures by the police in 2006-2007, their value being put at Nu 62,761 (US\$1,361) compared to Nu 0.13 million (US\$2,820) during the year before. "Such a decline in the seizure value may be due to various kinds of smuggling methods which were not detected by our customs officials," says a government note. A committee set up by the Bhutanese government suggested amending the law banning tobacco. Under this, section-c of the Act would be amended to allow the sale of tobacco in the country and control its use through pricing. Authorities are yet to take a final decision on this.

Key Observations

- Bhutan was the first country in the world to impose a blanket ban on the sale and use of cigarettes but it is finding it hard to implement the ban due to influx of illegal cigarettes across its porous border with India.
- Phuentsholing is the nerve centre of cigarette smuggling into Bhutan.
- Law enforcement agencies need to strengthen their efforts as the ban is openly flouted.

REFERENCES

1. Tobacco Institute of India Report 2004. Tobacco Institute of India. Tobacco Institute of India report 2004.
2. K. Srinath Reddy, Prakash C. Gupta, Report on Tobacco Control in India. Ministry of Health & Family Welfare, Government of India, Centres for Disease Control and Prevention, USA and World Health Organization, 2004.
3. Article 15. WHO Framework Convention on Tobacco Control.
4. Soutik Biswas Smuggled Smokes. Outlook India June 15, 1998.
5. Soutik Biswas Smuggled Smokes. Outlook India June 15, 1998.
6. Foreign Direct Investment in India, Policy and Procedures Manual. p 17. www.nic.in/manual/manual_0403.pdf, last accessed on 26 September 2010.
7. Review of the policy on foreign direct investment in the manufacture of Cigarettes etc. Press Note No. 2 (2010 Series). Government of India. Ministry of Commerce & Industry. Department of Industrial Policy & Promotion (FC Section). D/o IPP F. No. 5(10)/2008-FC Dated 10.05.2010.
8. Cigarette MNCs inviting The Devil to Supper. Financial Express March 11, 2004 posted online.
9. Cigarette MNCs inviting The Devil to Supper. Financial Express March 11, 2004 posted online.
10. Catherine Herridge Cigarette Smugglers Funnel Money to Terror Groups, report finds. Fox News April 29, 2008.
11. Man Mohan, Foreign Soota fuelling Terror. The Tribune, December 28, 2008.
12. Catherine Herridge Cigarette Smugglers Funnel Money to Terror Groups, report finds. Fox News April 29, 2008.
13. K. Srinath Reddy, Prakash C. Gupta, Report on Tobacco Control in India. Ministry of Health & Family Welfare, Government of India, Centres for Disease Control and Prevention, USA and World Health Organization, 2004.
14. Directorate of revenue Intelligence. Government of India, Ministry of Finance, Department of revenue central board of excise and customs.
15. Directorate of revenue Intelligence. Government of India, Ministry of Finance, Department of revenue central board of excise and customs. Please note that the figures are an average estimate. There are different figures for different fiscals.
16. K. Srinath Reddy, Prakash C. Gupta, Report on Tobacco Control in India. Ministry of Health & Family Welfare, Government of India, Centres for Disease Control and Prevention, USA and World Health Organization, 2004.
17. Gutkha Traders God Excise officers Killed. Hindustan Times, September 07, 2009.
18. Swaran Singh, China India Economic Engagement Building Mutual Confidence. Publication of the French Research Institutes in India 2005.
19. Te Ping Chen. China's Marlboro Country. Tobacco Under Ground. June 28, 2009
20. Te Ping Chen. China's Marlboro Country. Tobacco Under Ground. June 28, 2009
21. Amalendu Kundu, Indo-China border trade in 4th yr, smuggling still prickly issue. Economic Times May 4, 2009
22. Government of Bhutan
23. Government of Bhutan http://www.searo.who.int/LinkFiles/GYTS_Bhutan2004.pdf, last accessed on 26 September 2010.
24. Global Youth Tobacco Survey Fact Sheet, 2006. Bhutan. http://www.searo.who.int/LinkFiles/GYTS_Bhutan-2006.pdf, last accessed on 26 September 2010.

About the Researcher

Mr. Daya Shankar Shukla Sagar has an experience of 20 years in reporting and writing research-based articles. Presently, Mr. Shukla is a Special Correspondent of National Hindi daily "Hindustan". He has also worked as Honorary Lecturer for Mass Communication at the 'Institute of Professional Studies', Lucknow. Mr. Shukla has been honoured with "Univarta Award" for the Best Trainee Journalist' in the year 1992-93 and with "K C Kulish International Award For Journalism 08" for the story "Is Atankwadi Ki Khata Kaya Thi" in the year 2009-2010. He has also written a book titled "Mahatma Gandhi : Brahmcharya ke Prayog", published by Vani Prakashan, Delhi and released at International Book fair held at Pragati Maidan, New Delhi.



SECTION 3

**ILLICIT CIGARETTE TRADE IN
&
THROUGH PAKISTAN**

NADEEM IQBAL

CONTENTS

Summary	70
1. Project Rationale.....	71
2. Purpose.□	71
3. A Cigarette Smugglers’ Den	71
4. Unintended Consequences of a well-intended Transit Trade Agreement	74
5. Porous Borders with Afghanistan	75
6. Kharkhano Market in Peshawar.....	76
7. Smuggling Routes	76
8. Counterfeit Cigarettes.....	78
9. Transportation of Cigarettes from up country to down country	79
10. Illicit Tobacco Nurturing Black Economy	79
11. Role of Tobacco Industry	79
12. Implications of this Study for the proposed Protocol to curb Illicit Tobacco Trade	80
References.....	81

LIST OF BOXES, FIGURES & TABLES

Boxes

Box 1: Cartons, master cases and sticks	76
Box 2: Case of Zaman Khan (name changed) Age: 45	77
Box 3: Case of Umar Gul (name changed) Age: 25	78
Box 4: American brand via Dubai to Pakistan	78

Figures

Figure 1. Customs Frontiers.....	74
Figure 2. Shop dealing in smuggled cigarettes.....	75
Figure 3. Cigarette Smuggling Routes	76
Figure 4. Cheap cigarettes being sold on street carts.....	78
Figure 5. A moneychanger who also deals in money laundering.....	79

Tables

Table 1: List of popular smuggled cigarette brands available in Pakistan.....	72
Table 2. List of cigarette packs costing under a Dollar in Pakistan	73
Table 3 Major smuggling routes from Afghanistan to Pakistan	77

Abbreviations

ATT	Afghan Transit Trade
BAT	British American Tobacco
FBR	Federal Board of Revenue
FATA	Federally Administered Tribal Areas
GATT	General Agreement on Tariffs & Trade
GDP	Gross Domestic Product
GOP	Government of Pakistan
LTC	Lakson Tobacco Company
KP	Khyber Pakhtunkhawa (previously North West Frontier Province)
PMI	Phillip Morris International
PTB	Pakistan Tobacco Board
PKR	Pakistan Rupee
PTC	Pakistan Tobacco Company

Summary

The illicit tobacco trade in Pakistan is reportedly 20% of the total cigarette market¹. Officials at the Federal Board of Revenue (FBR) estimate that in terms of revenue, Pakistan suffers an annual loss of around Pakistani Rupees # 7.4 billion (around US\$85 million) as a consequence of the illicit tobacco trade. FBR records show that in the year 2007-08, the total cigarette market was 78 billion sticks, of which 63 billion cigarettes were local legitimate brands while the remaining 15 billion cigarettes were smuggled.¹

Tobacco companies claim that the tax-paying players comprised about 82% of the market and contributed nearly PKR 46 billion (US\$550 million) to the national exchequer during the last fiscal year 2008-09². The Pakistani tobacco giants Pakistan Tobacco Company (PTC) and Lakson Tobacco Company (LTC) say that there are three forms of illicit tobacco trade in the country - smuggled, counterfeited and duty evaded. However, the tobacco industry tends to underestimate the impact of smuggling. The FBR also seems to share this view of the illicit tobacco scene. A senior official from the Ministry of Health says that according to information gathered from Federal Bureau of Revenue (FBR) sources, 18% of the illicit sector in Pakistan is comprised of local duty-not-paid cigarettes and the market share of smuggled duty-not-paid cigarettes is just 2%.³

The source for and the veracity of these claims are doubtful, as government officials in parliamentary committee meetings have said that the government does not have accurate statistics on smuggling.⁴ This absence of statistics concerning smuggling indirectly helps the PTC and LTC to keep government attention focused on counterfeiting rather than smuggling. Incidentally, the latter involves brands of their respective international collaborators - British American Tobacco (BAT) and Phillip Morris (PMI). Although these companies publicly lament the loss of revenue to the government, neither have released any studies that indicate the loss incurred to their business on account of counterfeiting or smuggling. Nor have they launched any mass awareness campaign to warn consumers against illicitly traded products.

Statistics or no statistics, the fact remains that Pakistan is a haven for the illicit tobacco trade. The markets are flooded with contraband cigarettes ranging from substandard counterfeit cigarettes to smuggled world famous exotic brands costing between less than one dollar to 2 US dollars. (Presently, 85 Pakistani rupees are equivalent to 1 US dollar).

The main source of cigarette smuggling into Pakistan is the Afghan Transit Trade facility⁵, which Pakistan has extended to neighbouring land-locked Afghanistan since 1965. Afghanistan has been importing goods for its use through the port of Karachi, in Pakistan.

Although the Government of Pakistan has banned the import of cigarettes under Afghan transit trade since 1992,⁶ evidence points to the lack of effective implementation of the order. The customs department reports that, as per international practice, customs officials do not scrutinise containers destined for Afghanistan in order to determine the authenticity of declared goods.⁷ Officials do not rule out pilfering of goods on their way to Afghanistan from designated ports in Pakistan. Goods reaching Afghanistan often return to Pakistan through the mountainous and porous border between the countries.

Afghanistan has similar transit agreements with other neighbouring countries. Cigarettes also enter Afghanistan from the Iranian seaport of Bandar Abbas, and via its airports. The ultimate destination of most of these cigarettes is Pakistan. According to the World Bank's Watching Brief Strategy, during 1997 cigarettes worth PKR 2,970 million (around US\$50 million) were re-exported to Pakistan.⁸ These cigarettes were imported by Afghanistan through routes other than Pakistan.

Cigarette smuggling generally is not taken seriously by the law enforcement authorities in Pakistan. Although FBR officials maintain that in the past the FBR was not pro-actively making seizures of smuggled cigarettes, Customs, which is a wing of the FBR, has initiated seizures.⁹ However, these officials did not provide any data concerning seizures.

Pakistan has introduced a tobacco control law, (*Prohibition of smoking in Enclosed places and*

Presently, 85 Pakistani rupees are equivalent to 1 US dollar

Protection of Non smokers Ordinance 2002), which among other measures bans smoking in public places. The taxes on tobacco products have been on the increase as in the annual budget 2010-11. Federal Excise Duty incidence on all categories of cigarettes has been enhanced and an FED levy of Rs1 per filtered cigarette has been imposed. But it seems that these measures are yet to bring forth desired results.

Estimates by the tobacco industry indicate that cigarette demand exceeds current levels of production. The tobacco industry continues to view Pakistan as a profitable market. In 2007, Phillip Morris, which previously had a 50% share in the local Lakson Tobacco Company (LTC) nearly doubled its involvement to 98%.¹⁰ Phillip Morris's press release says, "PMI will acquire an additional 50.21% stake in Lakson Tobacco from major shareholders in a transaction valued at PKR 20.62 billion". (US\$338.9 million).

BAT's local face, Pakistan Tobacco Company (PTC), has as its non-working directors a powerful retired army general and a retired top bureaucrat who previously managed the country's financial system.¹¹ Similarly, there are reports that another influential bureaucrat who once oversaw the nation's internal security has been lobbying for the group. This has created an environment where laws can be overlooked in favour of tobacco interests.

Pakistan's undocumented black economy is estimated to be equivalent to 50% of GDP¹², with smuggling accounting for a significant proportion of this. *Hawala* or *hundi*, an informal channel for transferring money to and from abroad, is conducted unabated on every corner of *bara* (markets selling smuggled goods) across the country.

Counterfeit cigarettes are another illegal activity prevalent in Pakistan. This also occurs due to the apparent collusion of the tobacco industry and the Pakistan Tobacco Board, which regulates affairs between growers and producers. The board is accused of playing into the hands of the industry, which leads to surplus growth of tobacco beyond quantities required by the legal industry.¹³ Surplus tobacco ends up in the hands of counterfeiters, who are mainly running a household industry. Over the years the GOP's effort to increase the tobacco crop yield is bearing fruit. According to an official economic survey, coverage

of the tobacco crop increased from 44,000 hectares in 1991 to 52,000 hectares in 2008.¹⁴

The federal government itself is addicted to tobacco revenue. The FBR considers excise duty on cigarettes as one of the top five revenue-generating sources. The Khyber Pakhtunkhawa (KP), where most of the tobacco crop is grown also sees this activity as a substantial means of revenue generation. It is currently estimated that the federal government is incurring a total of loss of PKR 7.46 billion due to tax evasion worth PKR 5.92 billion, PKR 0.24 from counterfeiting and PKR 1.30 billion due to smuggling.

The question is whether the Pakistan government will be able to rein in the illicit trade in cigarettes. The prospects for this appear bleak as, in addition to the absence of political will, the government regards smuggling as the major source of livelihood for the war-torn economy of at least two provinces of the KP and Balochistan that border Afghanistan.

1. Project Rationale

Illicit trade has diluted the impact of tobacco taxes in reducing smoking because the smuggled and counterfeit brands are cheaply available to low-income groups in society, and smokers who might otherwise have quit tobacco in response to price increases. Lax border controls and corruption in the system feed the illicit trade rackets. There is no political will on the part of the government to curb the menace of smuggling as this is justified as providing a source of livelihood for people in the war-torn North West Frontier Province and Balochistan province bordering Afghanistan.

2. Purpose

The aim of the study is to investigate the routes by which cigarettes are smuggled into and through Pakistan and its implications for the economy. The study also intends to identify effective preventive and control measures to contain the illicit tobacco trade.

3. A Cigarette Smugglers' Den

According to Customs laws, cigarette smuggling is a crime but weak enforcement has resulted in the unabated smuggling of contraband. Over the years, there has been no media reporting of tobacco seizures.

Table 1: List of popular smuggled cigarette brands available in Pakistan

Brand	Manufacturer	Price in PKR (1 US Dollar = 85 Pakistani rupees)	Noteworthy text on the pack
Camel	JT International Made in the EU	62	Il fumo ostruisce le arterie e provocr infarti e ictus
More International	JT International	90	US Surgeon General's Warning
Benson & Hedges		130	For Duty Free Sale Only Health warning in English
Dunhill	Manufactured under authority of Dunhill Tobacco of London LTD British American Tobacco Group	130	For Duty Free Sale Only Tobacco serious damages health - EC Council Directive 89/622/EEC
Marlboro—	Made under control of Phillip Morris Products S.A Quai Jeanrenaud 3 2000 Neuchatel Switzerland	80	Health warning in Persian/Darri
Marlboro Lights	Made under control of Phillip Morris Products S.A Quai Jeanrenaud 3 2000 Neuchatel Switzerland	80	Health warning in Persian/Darri
555 State Express London	555 Mandarin For Duty Free Sale Only	120	Tobacco serious damages health h- EC Council Directive 89/622/EEC
555 Gold	For Duty Free Sale Only	112	Tobacco serious damages health - EC Council Directive 89/622/EEC
Von Eicken TRADITION	Made in Germany	27	Tobacco serious damages health - EC Council Directive 89/622/EEC
Davidoff	Made in Germany by Reemtsma under license of Davidoff & Cie SA, Geneva	95	Smokers die Younger EU Directive (2001/37/EC)
Gurleen Lights		24	Warning in English
Business Club	Made under authority of European Tobacco PLC London England	20	Tobacco serious damages health - EC Council Directive 89/622/EEC
Paran Lights	Made under authority of Woon Tobacco Corp-Korea Made in Korea	16	Health warning in English

Say Lights	Made under Authority of Korea Tobacco Manufacturing Company Korea	12	Health warning in English
Texas 5	Texas USA	12	Warning in English
Texas 5	Texas USA	12	Warning in Arabic and English
Pine Lights	Manufactured under authority of KT&G established 1909	30	
hi-lite Special Mild	A trade mark of Japan Tobacco Inc Tokyo, Japan	30	US Surgeon General's Warning

Table 2. List of cigarette packs costing under a Dollar in Pakistan
(Some of these brands are suspected to be counterfeit products)

Brand	Manufacturer Information	Any other important writing on the pack
Red & White King Size Filter	Made in Pakistan Manufactured under license	Health warnings are written in Urdu and English
Morven Gold	Lakson Tobacco Company Limited Made in Pakistan	Health warnings are written in Urdu and English
Capstan Pall Mall	Made in Pakistan under the authority of British American Tobacco	Health warnings are written in Urdu and English
Gold Leaf	Made in Pakistan	Health warnings are written in Urdu and English
Preston	Afghan Government Monopoly	No health warning
Maiwand	Prod-2007 Maiwand (UK) LTD England	Warning in English
Rally American Blend	Made under authority of Papastratos International B.V.	No health warning
MM	Made under authority of Parkford Tobacco Inc USA	Health warning in English
555	Made in England under authority of Ardath Tobacco Co. LTD	Tobacco serious damages health – EC Council Directive 89/622/EEC
Benson & Hedges	Made in England by arrangements with successors to Benson & Hedges Old Bond Street Landon	Tobacco serious damages health – EC Council Directive 89/622/EEC
Mehr Gold American Blend	Made under authority of A.W.G.T.C	
Winston Filter-Cigarettes	R.J. Reynolds Tobacco Co. Winston Salem, N C. USA	

Leader	Karelia Tobacco Company INC. MADE IN GREECE	
Carnival Full Flavour	Made in Korea	
Gala Society Lights	Johann Wilhelm Von Elcken Made in Germany	Health warning in Arabic and English
89 Eighty Nine Lights	Manufactured under Authority of AT & C	No health warning
Steel Filter King Size	Pyxis International Limited Blend of U.S.	Health warning for children which also says that this is not for sale to minors
Modern Cigarettes American Blend	Modern USA	Health warning in English
Corolla Deluxe American Taste	American Greek International Tobacco Switzerland Made in Korea	No Health Warning
Fisher Full Flavour American Blend	Export Only Made under Authority of Fisher Tobacco Ltd Winston Salem, USA	US Surgeon General's Warning

Officials from the Federal Board of Revenue estimate that Pakistan suffers an annual loss of around Rs7.4 billion in terms of revenues from continued smuggling and illicit trade. FBR records show that in the year 2007-08, the total cigarette market was 78 billion sticks, of which 63 billion were local legitimate brands while the remaining 15 billion cigarettes were smuggled.

At present more than 30 foreign brands including Afghani, American, British, European, German, Greek, Korean and Middle Eastern cigarettes are available in most retail cigarette shops across the country.

4. Unintended Consequences of a well-intended Transit Trade Agreement

The tobacco smuggling network operates around the Afghan Transit Trade (ATT) agreement, which was signed between the landlocked country of Afghanistan and Pakistan in 1965 with a view to provide Afghanistan with port access. According to Pakistan's Federal Commerce Minister Amin Fahim, "Afghanistan is a landlocked country. Under Article - V of GATT 1947 which is about the freedom of transit available to landlocked countries, Pakistan is obliged to grant the transit facility to Afghanistan".¹⁵

As per the agreement, goods intended for Afghanistan

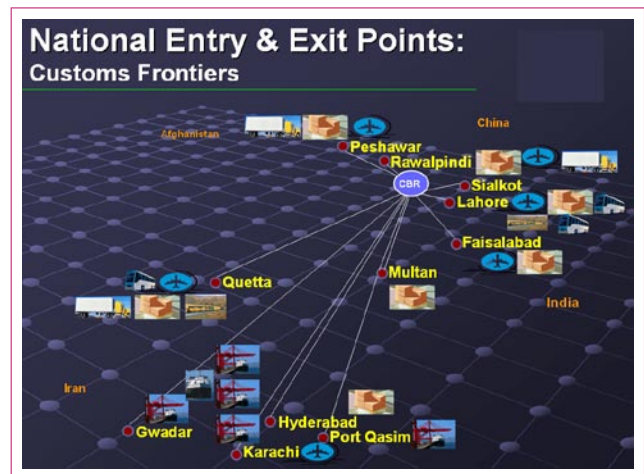


Figure 1. Customs Frontiers

are allowed to be transported from the ports of Karachi and Bin Qasim, in south Pakistan, to Afghanistan via the northern border towns of Torkham in the Khyber Pakhtunkhwa (KP) and Chaman in Balochistan. These goods may also be airlifted to Kabul via Karachi airport. The distance by road along the Karachi-Peshawar-Torkham route is 1,819 km while that of Karachi-Quetta-Chaman is 813 km.

The agreement was supposed to be reviewed every year by both governments. However, civil war ensued in Afghanistan following the Soviet Union's invasion

of that country in 1979. Despite the absence of there being a government in Kabul that was recognised by Pakistan, the transit facility was retained. During 1980s, the same routes were used in transporting American and Saudi supplies to the Afghan Mujahideen to fight Russian troops in Afghanistan. Even now, NATO forces fighting the Taliban in Afghanistan rely on the same supply lines.

After the departure of Soviet troops from Afghanistan in 1989, the government of Pakistan began to realise that the Afghan facility was being misused and that goods destined for Afghanistan were either being pilfered inside Pakistan while on their way to the border or were being smuggled back into the country after reaching Torkham or Spin Baldak in Afghanistan. In 1996, realising that the ATT facility was beginning to damage Pakistan's industry, the GOP banned seventeen items from being imported via the transit facility.¹⁶ Tobacco was one of them.

However, as per agreed customs procedures under the 1965 agreement, goods declared by an Afghan importer as being for transit to Afghanistan, are not checked or verified at the port of Karachi, in Pakistan. The sealed goods are transported by train or trucks to Afghanistan. Once goods are received by Afghan customs, it confirms receipt to its Pakistan counterparts. A customs chief, Javed Ghani, says that under international obligations the custom authorities are not obliged to check the containers.¹⁷ A further reason is that the port in Karachi does not have a scanning facility that can thoroughly check large containers carrying billions of rupees worth of transit goods.

There are reports of goods being transported under the ATT agreement being pilfered before they cross into Afghanistan. Customs officials in Pakistan are of the view that measures taken by them such as comprehensive field paper work, sealing of consigned goods, shipment of transit goods in special railway wagons and checking shipment invoices at several points eliminate chances for en route diversions. But it is a fact that despite elaborate procedures, en route smuggling from the ATT is not inconsequential. Traders involved in the cigarette business bear witness to the fact that cigarettes are also being transported under the guise of the transit facility.

The GOP does not have records of smuggling or its seizures. Federal commerce secretary Zafar Mehmood,



Figure 2. Shop dealing in smuggled cigarettes

and additional secretary, told a parliamentary committee investigating the misuse of the ATT that there was only circumstantial evidence of smuggling but there is nothing that could be presented to the Afghan authorities to halt the misuse. Most of the information the commerce ministry has, they said, is based on inputs from private sector and media reports.¹⁸

5. Porous Borders with Afghanistan

The misuse of the ATT is not the only source of smuggling into Pakistan. Consignments of smuggled cigarettes often originate from the port of Bandar Abbas, in Iran, from Kabul and Jalalabad and Qandhar airports, in Afghanistan, and turn up in Pakistani markets¹⁹. Pakistan and Afghanistan share a porous border which extends for 2,400 kilometres having 141 natural mountain passes and more than twice that number of crossings into each other's territory.

The Federal Board of Revenue (FBR) has estimated the total volume of ATT trade at US\$500 million. FBR's Tanvir Qureshi concedes that unbridled smuggling has been going on under the guise of ATT. But he says that the solution lies not in strict enforcement but rather at the policy level. "We should be allowing only the exact quantity as required by Afghanistan to be imported under ATT".²⁰

With regard to cigarettes, he said that despite putting tobacco on the negative list, smuggling continues unabated. He claims that in the past, customs authorities were soft on cigarette smuggling but now have started making seizures.

The contraband supply line which starts from Bandar Abbas, in Iran, divides at Herat in Afghanistan. One route goes to Kabul, Jalalabad to Tokham in Pakistan and other goes to Kandhar, Spin Baldak to Chaman in Pakistan. The smugglers have built huge warehouses (or godowns) at key locations along the border.

6. Karkhano Market in Peshawar

Karkhano, the main bara market (markets known for selling smuggled goods) and the nerve centre of contraband trade, is situated in the western outskirts of Peshawar. Most foreign brand cigarettes are sold in Karkhano market. No exact estimates are available for the total volume of trade. Local businessmen involved in the trade said that two to three 20-foot containers of cigarettes arrive at this market every month.

Box 1: Cartons, master cases and sticks

Each 20-foot container can carry around 700 master cases of 10,000 cigarette sticks (in total around 7 million sticks) while a 40-foot container can carry 1,000 master cases each of 1,000 cigarettes sticks, amounting to a total of 10 million sticks.

A carton normally contains 50 boxes of 10 packs of cigarettes while the small carton carries 25 boxes of 10 packs.

More than 80% of the consignments arrive from Bandar Abbas, in Iran, via Herat-Afghanistan, while a limited quantity reaches Kabul, in Afghanistan, by air from Dubai – the airfare from Dubai to Kabul being more costly. From Herat, the cigarettes are transported to Kabul and Jalalabad for onward distribution inside Afghanistan and across the border into Pakistan. There is no restriction on the transportation of cigarettes inside Afghanistan as importers claim they pay regular duties to the Afghan government. The actual amount paid in duty to the Afghan government could not be ascertained: Afghan traders in Karkhano market were reluctant to disclose any details.

While Afghan traders retain a certain quantity of imported cigarettes in Afghanistan for local consumption, the remainder is smuggled into Pakistan

through unfrequented routes along the Durand Line. However, the exact proportions of smuggled and legally retained cigarettes is unknown, again due to the reluctance of Afghan importers to impart this information.

7. Smuggling Routes

From Herat, consignments are transported to Jalalabad, in Afghanistan, about 70 kilometers from the Torkham border with Pakistan. The consignments are brought to Dakka, a small town some 10 kilometers west of Torkham on the border with Pakistan, where the cigarettes are stored in warehouses. From Dakka, specific quantities are transported along the route of the Kabul river via a rough track up to Loe Shalman - a Pakistani border town. From Loe Shalman, the goods are either moved to warehouses in Landi Kotal or sent directly to Peshawar, depending upon the demand for cigarettes, or await “clearance” for the Peshawar-Landi Kotal road. “Clearance” here implies deals with personnel manning the various checkpoints along the 35 kilometer road up to Peshawar. Deliveries may be delayed due to the vigilance of security forces of *khasadar* personnel posted along the border. Pickup vans, trucks, passenger vans and buses are employed in the transport operation.

The cost of transportation from Jalalabad to Peshawar ranges between PKR 150 to 350 per carton. Carriers are

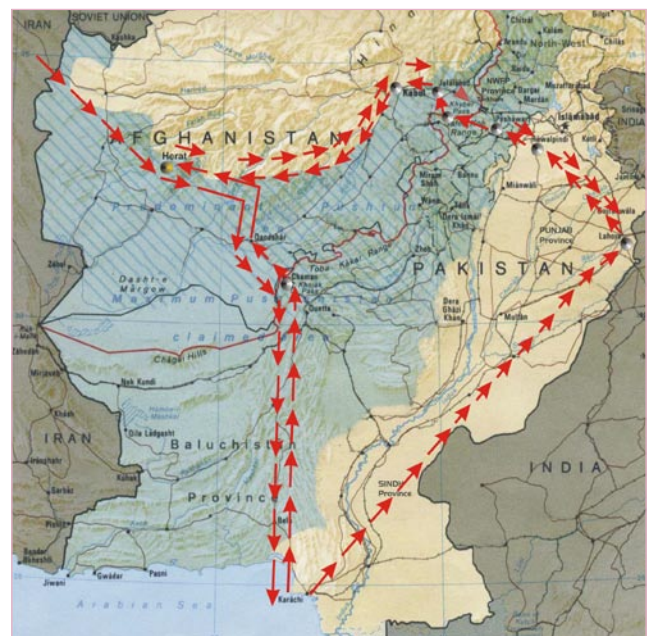


Figure 3. Cigarette Smuggling Routes

Table 3 Major smuggling routes from Afghanistan to Pakistan

Number	Route
1	Jalalabad-Narang-Asad Abad- Ngray-Border-Dir
2	Konar-Narang-Broder-Peshawar
3	Jalalabad-Torkham-Border-Landi Kotal-Peshawar
4	Kohistan (north of Kabul)-Mehmood-e-Raqi-Sarobay-Nesarak border-Parachinar-Peshawar
5	Sad (South of Kabul)- Baraki-Khoshi-border-Parachinar-Peshawar
6	Logar province-Kotgai border with Paktia-Wana-Peshawar
7	Baghlan-Bamyan-Mardan-Wardak-Ghazni-Skaran-Urgun-Bamal-border with Paktia-Wana-Peshawar
8	Mogur (consider less important)-Khosmora-Gamal-border- Asan Warsak-Jandola-Dera Ismail Khan
9	Kandhar-Chaman-Quetta
10	Mogur-Khosmara-Wazakhwa-border-Quamaradin-Karez-Badyini-Quetta
11	Sharebafa-Arghastan border-Quetta

no longer required to pay “passage fees” as the entire route is now jointly manned by Frontier Constabulary, levies and *khasadar* personnel. However, until a year ago the carriers used another route from Jalalabad to Bara. The route was lengthy, costly and risky as carriers had to rely on different modes of transport involving mules, horses and camels, carriers with backpacks, pick ups and trucks. Carriers had to pay substantial sums to local groups and tribesmen residing along the route from Bazaar-Zakhakhel to Bara.

From Peshawar, illegally imported cigarettes are transported to various parts of Pakistan including Rawalpindi, Lahore and Karachi. Cigarette dealers at Karkhano market strike deals with buyers from the Punjab either at Peshawar or Rawalpindi prior to goods being transported by human carriers to various cities. However, shopkeepers dealing with smuggled goods did not rule out the possibility of mixing counterfeit brands with smuggled cigarettes when shifted to the Punjab.

Dealers in Karkhano market said that their profit margin is very small compared to the big importers. They claim that Afghan importers pocket most of the profit. Dealers in Karkhano market said that Fine and Dunhill are the brands most in demand. They refuted allegations of counterfeiting of these brands, adding that fake products could easily be detected. They did admit that some traders attempt to mix counterfeit with original cigarettes, yet fail to deceive buyers.

Box-2

Name: Zaman Khan (name changed)

Age: 45

“I have been involved in the cigarette business since 2001. Although it is not as profitable as smuggling tires, electronic goods or edible oil, I can still earn a profit of PKR 100,000 (US\$ 1,176) from a single consignment. The business is flourishing as the transportation system is improving. Cigarettes come from Dubai to Afghanistan and from there to the Torkham border, and to Peshawar in an open truck or in a container.

There are no more threats of militants on the route. The only money we pay is to middlemen/agents to carry the contraband. There is big market for Benson & Hedges, Dunhill, Mild 88 and 555 in Pakistan. Cigarettes carrying health warnings in Persian/Darri are supposedly meant for Afghanistan. This would imply that various brands that have health warnings in these languages were made only for markets in Afghanistan but are turning up in Pakistan. We do not get any brands from Russia, though we get Chinese cigarettes from Dubai via the sea.”

Box-3

Name: Umar Gul (name changed) Age: 25

He is running a business by the name of Haji Umar Cigarette Store, in Kabul Shopping Plaza “My family has been involved in this business since 1990. It is very profitable since we can save between PKR 1,20,000 to 2,00,000 from a single consignment. Cigarettes come from the UAE via Iran. ELM carries a health warning in Persian. Other brands like Benson & Hedges and Dunhill also sometimes carry health warnings in Persian. From Peshawar, bootleggers carry small quantities of cigarettes to Rawalpindi. A carrier charges PKR 300 per carton excluding travelling expenses.”

Box-4

American brand via Dubai to Pakistan

The family of Abdul Shakoor, aged 19, has been in the cigarette trade for over a decade. They have an agency for Texas 5, an American brand, and their dealers also operate in the major cities of Rawalpindi and Karachi. He says that his brother is still in Dubai, from where he sends him the container. He says that the container is generally sent via Bandar Abbas port to the Chaman border. The containers are of two sizes: 20 feet and 40 feet. There are no border checks, as is also the case when sending goods down country.

8. Counterfeit Cigarettes

There are no precise estimates of the extent of counterfeiting but media reports say that counterfeit cigarettes are being manufactured at more than 20 locations in the cities of Swabi, Mardan and Newshehra in KP, in Chakwal, Bahawalnagar, Sargodha, Okara and other areas of Punjab province, as well as in Pakistan-controlled Kashmir. Approximately 12 factories have been functioning in Pakistan controlled Kashmir alone.²¹ Sources in the market say that similar kinds of household industries also exist in Karkhano Bazar and Shah Alam market in Lahore city and in Quetta.



Figure 4. Cheap cigarettes being sold on street carts

A survey of Shah Alam market revealed that more than 30 illegitimate brands are on sale. Located in northern Pakistan, it is the largest wholesale market feeding most of the smaller bazars in the region. Gold Leaf (BAT brand), Marven Gold (emulating PMI’s Morven Gold), Red and White (PMI brand) are some of the common counterfeit brands.

Counterfeit cigarette factories are concentrated in those areas of the KP, where most of Pakistan’s fine quality tobacco is cultivated. Two international cigarette giants - British American Tobacco and Phillip Morris - also have a presence through their local factories of Pakistan Tobacco Corporation, in Akora Khattak area, and Lakson Tobacco, in Ismailia, respectively.²²

Reportedly, the tobacco companies also influence the regulation of supply and demand in their favour. “The overproduction of tobacco, systematically promoted by tobacco companies, leads to competition among growers. The growers with small land holdings get sidelined and are forced to sell their crop at lower prices either to those involved in producing counterfeit cigarettes or to manufacturers of other products like smokeless tobacco (naswar) and hand-rolled cigarettes”.²³

Prices of tobacco leaf are determined each year by the Pakistan Tobacco Board (PTB), a body controlled by the federal ministry of commerce. Farmers have raised serious objections to the ways PTB handles issues related to the tobacco crop. In a formal letter to the federal minister, Anjuman-e- Kashtkaran Tobacco (the growers body) in KP, accused the PTB of favouring the tobacco companies while fixing prices and dealing with other matters.

9. Transportation of Cigarettes from up country to down country

Once cigarette enter Pakistan by means of container traffic at ports or trucks across land borders, bootleggers carry them in smaller quantities to a variety of different cities. Large godowns are situated close to bus stations in major cities such as Rawalpindi and Lahore where counterfeit and smuggled cigarettes are stored. Special compartments are made in the back seats of buses to conceal the contraband. Both men and women are recruited as carriers.

Bakhat Bibi, 50, a resident of the Afghan Colony in Peshawar city, has been transporting cigarettes along with other items like cosmetics and edible oil from Peshawar to Rawalpindi since 2003. She says she earns around PKR 600 per trip.

10. Illicit Tobacco Nurturing Black Economy

Cigarette smuggling as part of huge smuggling network also nurtures the black market economy in Pakistan. It is estimated that the underground economy ranged between Rs 2.91 trillion and Rs 3.34 trillion (equivalent to between 54.6% and 62.8% of GDP respectively) in 2005.²⁴

“Illegal activities such as smuggling, corruption, black marketing, narcotics, informal legal jobs etc., constitute the underground economy. These activities are not in the tax net and have significant negative impact on the social welfare of the country. Almost all the transactions made in the underground economy are through cash...”²⁵



Figure 5. A moneychanger who also deals in money laundering

The ATT is based on the Hundi (Hawala) system²⁶. This system bypasses the banking channels; international transactions are made by paying money in local currency and the equivalent in foreign currency is paid over in the recipient’s country.

11. Role of Tobacco Industry

There are over 50 licensed cigarette manufacturers in Pakistan but the two largest companies –Pakistan Tobacco Company (BAT) and Lakson Tobacco Company (PMI) - have the major share of the country’s cigarette market. Of a total of 78 billion sticks produced in Pakistan in 2008, these two companies produced almost 80%, i.e. 63 billion²⁷.

These companies seems to have been cleverly exploiting unbridled smuggling and the counterfeit market only by crying foul. So far they have not launched any campaign to discourage tobacco smuggling or create awareness about counterfeit cigarettes that can be expected to affect their market share. In some ways, these illegal activities may assist the companies by promoting their own brands and inducing demand for cigarettes among various income groups which the companies could eventually capitalise upon.

Levels of production, and profits, of these companies are both on the increase. And Pakistani law allows foreign companies to retrieve their investments along with their profits. In 2007, Phillip Morris increased its share in its local affiliate Lakson Tobacco from 48% to 98%.

These companies have not only hired the services of professional lobbyists to influence policy reforms but also have retained retired, influential army officers and civilian bureaucrats as members of their Boards of Directors. PTC has engaged as a non-working director an army Lieutenant General and a distinguished bureaucrat who served General Musharraf as Secretary General Finance.²⁸

Both Phillip Morris and BAT have a history of involvement in smuggling internationally. Their role in cigarette smuggling in Pakistan therefore needs to be examined.

12. Implications of this Study for the proposed Protocol to curb Illicit Tobacco Trade

The information compiled in this study has implications for specific articles in the draft “Protocol on Illicit Trade in Tobacco Products”. This includes:

1. Article 4, which concerns controlling and regulating the supply chain of tobacco and taking appropriate measures to increase the effectiveness of customs, police and other relevant regulatory agencies.
2. Article 5 and 6, regarding ‘License or Equivalent approval system’ & ‘Customer identification and verification’, that requires commercial import/

export or wholesaling, brokering, warehousing or distribution of tobacco products or manufacturing equipment to be licensed, with due diligence conducted by businesses.

3. Article 7, ‘Tracking and tracing’, that calls for securing the supply chain and establishment of a global tracking and tracing system to assist in the investigation of illicit trade in tobacco products.
4. Article 9, regarding adoption and implementation of effective legislative, executive, administrative or other measures that persons involved in commercial trade and sale should take care to prevent the diversion of tobacco products into illicit trade channels.

REFERENCES

1. Abdul Sattar Chaudhry, Health Education Consultant, Ministry of Health, (December 19, 2009).
2. FBR plans crackdown on cigarette smuggling, Dawn, May 19, 2009, <http://www.dawn.com> (July 21, 2010).
3. Abdul Sattar Chaudhry, Health Education Consultant, Ministry of Health, (December 19, 2009).
4. No data available on volume of smuggling under ATTA, Aftab Maken, The News, December 31, 2009.
5. Interview with Tanvir Qureshi, Member Customs, Federal Bureau of Revenue. December, 18, 2009.
6. Notification of Federal Ministry of Commerce dated Feb 12, 1996. S.R.O 135 (1)/96.
7. Interview with Javed Ghani, Chief of Federal Bureau of Revenue, December 18, 2009,
8. Hussain, Dr, Sayed Waqar, "The impact of Afghan Transit Trade on North West Frontier Province (KP) Economy", Peshawar, Area Study Centre, University of Peshawar and Hanns Seidel Foundation, 2008.
9. Interview with Tanvir Qureshi, Member Customs, Federal Bureau of Revenue. December, 18, 2009.
10. Phillip Morris International's Press Release. Philip Morris International announces agreement to purchase majority stake in Lakson Tobacco Company in Pakistan, Philip Morris International / Lausanne / 19 January 2007, <http://www.pmi.com> (January 15, 2010).
11. Pakistan Tobacco Company Limited annual report for the year ending on December 31, 2009, <http://www.ptc.com.pk>, (July 21, 2010).
12. Kemal, M, Ali, "A fresh assessment of the underground economy and tax evasion in Pakistan: Causes, consequences, linkages with the formal economy," Islamabad, Pakistan Institute of Development Economics, 2007.
13. Khan, Zaigham, "Killer on the Loose" The Network for Consumer Protection. Islamabad, 2006.
14. Economic Survey of Pakistan 2008-9, <http://www.finance.gov.pk>, (January 25, 2010).
15. Amin Fahim, Federal Commerce Minister told National Assembly, January 15, 2010, <http://www.na.gov.pk> (January 25, 2010).
16. Notification of Federal Ministry of Commerce dated Feb 12, 1996. S.R.O 135 (1)/96.
17. Interview with Javed Ghani, Chief of Federal Bureau of Revenue. December 18, 2009.
18. ATT accord to be reviewed in January, Dawn, December 31, 2009.
19. Hussain, Dr, Sayed Waqar, "The impact of Afghan Transit Trade on North West Frontier Province (KP) Economy", Peshawar, Area Study Centre, University of Peshawar and Hanns Seidel Foundation, 2008.
20. Interview with Tanvir Qureshi, Member Customs, FBR, December, 18, 2009.
21. Cigarette over and under the counter, Lahore, <http://www.dawn.com>, January 24, 2010, (January 25, 2010).
22. Pakistan Tobacco Company Limited, <http://www.ptc.com.pk> & <http://www.lakson tobacco.com.pk>, (January 25, 2010).
23. Khan, Zaigham, "Killer on the Loose" . The Network for Consumer Protection, Islamabad. 2006.
24. Kemal, M, Ali, "A fresh assessment of the underground economy and tax evasion in Pakistan: Causes, consequences, linkages with the formal economy," Islamabad, Pakistan Institute of Development Economics, 2007.
25. Kemal, M, Ali, "A fresh assessment of the underground economy and tax evasion in Pakistan: Causes, consequences, linkages with the formal economy," Islamabad, Pakistan Institute of Development Economics, 2007.
26. Kemal, M, Ali, "A fresh assessment of the underground economy and tax evasion in Pakistan: Causes, consequences, linkages with the formal economy," Islamabad, Pakistan Institute of Development Economics, 2007.
27. Cigarette over and under the counter, Lahore, <http://www.dawn.com>, January 24, 2010, (January 25, 2010).
28. Pakistan Tobacco Company Limited annual report for the year ending on December 31, 2009, <http://www.ptc.com.pk>, (last accessed on July 21, 2010).

About the Researcher

Nadeem Iqbal has extensive print and electronic media experience dating back to 1997. He has worked as investigative reporter and analyst for premier Pakistani news organizations such as The News and Newsline.

He also has extensive consultancy background on development and health issues such as women's rights, food security, anti smoking, Tuberculosis and environment. Mr.Iqbal's expertise also extends to health communication in developing and implementing CAM (Communication, Advocacy and Mobilization) strategies. He is an expert media trainer and trains journalists from the print, radio and TV sectors.

He holds Masters degrees in Film and TV productions from Bristol University, UK and in English from Punjab University, Pakistan. He has produced many video documentaries, TV commercials, talk shows and directed a short feature film.

SECTION 4
THE SMOKE SCREEN:
UNVEILING ILLICIT TOBACCO
TRADE IN SRI LANKA

MANJARI PEIRIS

CONTENTS

Preface	85
1. International Scene	86
2. Sri Lankan Scenario.....	87
3. Specific Objectives	87
4. Methodology	88
5. Geographical Scope of the Study	88
6. Limitations of the study	88
7. Tobacco smuggling patterns in Sri Lanka.....	88
7.1 Main routes of tobacco smuggling	88
8. Prevalence of tobacco smuggling in Sri Lanka.....	90
9. Types of smuggled products.....	90
10. Beedi leaves and sticks.....	90
11. White cigarettes	91
12. International Brands.....	91
13. Key players in the trade.....	92
14. Legislative and Enforcement Efforts	92
15. The role of the Customs Department.....	93
16. Detections by the Excise Department.....	94
17. Recommendations	95
References.....	96

LIST OF BOXES, FIGURES & TABLES

Boxes

Box 1: Look who is Complaining about Illicit Tobacco Trade?	91
Box 2: World Bank’s Recommendations on Tobacco Taxation & Smuggling.....	93
Box 3: Glimpses of Inter agency Coordination in Seizure & Destruction of Smuggled Goods.....	95

Figures

Figure 1: Key areas investigated for research	88
Figure 2: Cigarettes seized as “intermingled” with Milk powder and fans	89
Figure 3: Transporting cigarettes intermingled with milk powder	89
Figure 4: Turkish cigarettes found in the illegal market in Sri Lanka.....	89
Figure 5: Illegal beedi manufacturing spurting island-wide	90
Figure 6: Customs seizure of smuggled cigarettes.....	94
Figure 6: Head of Narcotics Division, Excise Department with confiscated contraband.....	94

Preface

While undertaking this study, the researchers realized that in Sri Lanka awareness about and attention given by the relevant authorities and people in general to the illicit tobacco trade is very insignificant. This has given those engaged in the illicit trade the ability to continue their activities largely unabated.

At present, there are no consolidated records or estimates about the extent of the illicit tobacco trade or the consumption of illegal cigarettes in Sri Lanka. There exists no Sri Lankan study about illegal cigarette, beedi, or cigar consumption, production, imports, or exports. Existing estimates thus rely solely on industry claims, Ceylon Tobacco Company reports, port documents, and periodical newspaper coverage on seizures of smuggled cigarettes. This poses a significant hindrance to understanding the magnitude of the trade, the involvement of anti-national elements, and of possible strategies to curb smuggling. On the other hand, it is encouraging to learn that Sri Lanka's Excise Department plans to study the issue in the near future.

Sri Lanka is a Party to the Framework Convention on Tobacco Control (FCTC). Article 15 of the FCTC describes obligations of the Parties in controlling illicit trade in tobacco products. Article 15 requires that Parties recognize that the elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacturing, and counterfeiting, and the development and implementation of related national laws – in addition to sub-regional, regional and global agreements – are essential components of tobacco control.

Similarly, the Parties should adopt and implement effective legislative, executive, administrative, or other measures to ensure that all unit packets and packages of tobacco products and any outside packaging of such products are marked to assist Parties in determining the origin of tobacco products. In accordance with national law and relevant bilateral or multilateral agreements, such labelling would also enable Parties to determine the point of diversion and to monitor, document, and control the movement of tobacco products and their legal status.

Therefore, the Sri Lanka government and its relevant authorities need to follow the commitments made to the FCTC by developing national laws that promote cooperation between national agencies, as well as agreements with relevant regional and international intergovernmental organizations, and adopting and implementing measures to combat the illicit trade of tobacco products. This process would undoubtedly increase government revenue and save human lives.

1. International Scene

The tobacco industry argues that high tobacco taxes are the primary cause of tobacco smuggling and that reducing taxes is the only remedy.

However, tax is only one of many factors that influence smuggling rates. More importantly, there are other reasons such as the tobacco industry itself facilitating smuggling, lack of appropriate controls on tobacco products in international trade, existence of deep rooted smuggling networks, unlicensed distribution, and non-existence of anti-smuggling laws, weak enforcement, and official corruption.

Approximately one-third of all cigarette exports in the world disappear into the money-spinning black market. The smuggling industry seriously harms public health by undermining tobacco tax policies and by making tax-free cigarettes available to young people and price-sensitive smokers who might otherwise quit. Smuggling also reduces government revenue that is an increasingly important funding source for tobacco control and other public health programs.

Organized smuggling typically begins when a bulk order for cigarettes is placed from a manufacturer. The criminal networks involved tend to be creative and, once established, they are difficult to eradicate.

Tobacco industry internal documents and recent court cases have made it clear that cigarette companies have been heavily involved in smuggling operations. Senior tobacco industry executives have been convicted of smuggling-related offences in many parts of the world.

Many nations fail to treat tobacco smuggling as a serious crime which has enabled tobacco to become more attractive to smugglers, who weigh the huge potential for profit against the small chance of getting caught, convicted, jailed and/or fined.

The lack of more secure systems for transporting cigarettes in international trade fuels the black market by giving smugglers access to a large supply of cigarettes free of all taxes and duties. Failure to license all players involved in cigarette distribution, and especially the presence in some nations of unlicensed street vendors, hinders law enforcement and facilitates smuggling.

Price differentials are a significant factor in the case of informal bootlegging. It is much less a factor in large-scale organized smuggling of “in transit” cigarettes.

The existence of a large volume of duty-free tobacco products in international commerce also creates opportunities for smuggling.

Most nations do not devote the necessary resources to tobacco tax enforcement until after a smuggling problem has developed. It is much more difficult to eradicate smuggling networks once they are established than to take measures to prevent the networks from taking root in the first place. No international treaties and other mechanisms have been developed to date to reduce tobacco smuggling.

Raising tobacco taxes is one of the most effective measures available to prevent children from smoking and to encourage adults to quit. However, the fear of combating smuggling has become the greatest impediment to raising tobacco taxes worldwide. The tobacco industry has successfully exploited this fear, convincing policymakers around the world that virtually any tobacco tax increase will spark uncontrollable smuggling, resulting in lost government revenue and rampant lawlessness.

Out of hundreds of tobacco tax increases successfully implemented in the world, there are very few cases in which a smuggling problem developed that was large enough to cause a government to reduce taxes. In Canada, it has now been shown conclusively that the tobacco industry itself has been actively involved in facilitating much of the smuggling. The tobacco industry leveraged its success in Canada to help defeat major price increases proposed in the United States in 1994 and 1998, and has used the “Canadian example” globally as a lesson, as well as a threat, to governments that consider significant tobacco tax increases.

Smuggling provides cigarettes at a discount to young people and price sensitive smokers who might otherwise quit smoking.

Tobacco smuggling has “helped to promote some of the world’s leading brands in markets which had remained closed to foreign imports and where demand for Western cigarettes has continued to grow.”

Cigarette smuggling costs governments tens of billions of dollars a year in lost tax and customs revenue. In

a growing number of countries, these funds have become a primary source of funding for effective tobacco control programs. Therefore, to the extent that tobacco tax increases are rejected due to concerns about smuggling, even the spectre of smuggling robs tobacco control of one of the most promising sources of badly needed funding.

On going negotiations on a protocol on illicit tobacco trade under the Framework Convention on Tobacco Control (FCTC) represent a unique opportunity to take concerted action on smuggling.

Multilateral agreements would prevent smuggling both through provisions contained in the specific protocol of the FCTC and by stimulating the political will and the commitment of resources that are essential to eliminate the unacceptably high rate of smuggling that now prevails.

Introducing international laws is highly recommended for countries to establish a rigid system to control the smuggled cigarette trade.

If the tobacco smuggling trade is to be controlled in Sri Lanka, there should also be effective national laws established by the government to regulate the business activities of the tobacco industry.

2. Sri Lankan Scenario

The current prevalence of tobacco use in Sri Lanka is 39% among males and 2.6% among females. In Sri Lanka, tobacco is consumed in two forms: smoking and chewing. Chewing tobacco is used mainly as a complement to betel leaf. Smoking is mainly done in the form of cigarettes, beedis, and cigars. Tobacco is also smoked in pipes, but in very small quantities. According to the unpublished findings of the Sri Lanka STEPS survey conducted in 2007, 22.8% of male and 0.3% of female adults are current smokers. Chewing tobacco is more common than smoking among women.

Non-communicable diseases (NCDs) have become the leading cause of morbidity and mortality in the country, with tobacco use being the second largest cause of all deaths and disabilities from NCDs (Source: Ministry of Health). Over 20,000 people die due to tobacco-related illnesses annually in Sri Lanka. Cardiovascular diseases

related to smoking, at 30% of all deaths, is currently the primary cause of death in Sri Lanka

There are no records of the trends in sales of illegal cigarettes. No study has yet been done in Sri Lanka on illegal cigarette, beedi, or cigar consumption, production, import, or export. All current information is based solely on reports from the Ceylon Tobacco Company, port documents, and newspaper reports about the seizure of smuggled cigarettes.

The tobacco company claims that the tax levied on legal cigarettes by the Sri Lanka government is fairly high (about 80% of the total cost of a stick). It claims that the difference in price between legal and illegal cigarettes is the primary reason for the increase in tobacco smuggling in the country. However, this is a false assumption. Sri Lanka has one of the lowest cigarette prices in the world, given the country's high inflation rates. This research sought to investigate the illicit tobacco trade in Sri Lanka.

A number of different views exist among relevant officials in regard to the current rate of tobacco taxation. Some are of the opinion that the tax represents about 80% of the real cost, while others feel that it is insufficient to reduce tobacco use.

3. Specific Objectives

This study investigated the smuggling of cigarettes into Sri Lanka via sea and air. The specific objectives of the project were to:

- Identify the key players involved in the illicit trade of tobacco and tobacco products in Sri Lanka via sea and air routes
- Explore the implications of the illicit tobacco trade for the economy, national security, and public safety of the country
- Identify the gaps in law enforcement that are contributing to the illicit tobacco trade in Sri Lanka

4. Methodology

Process of discussions and information gathering

The project team held a series of discussions and interviews with the following persons:

- Government Sector- Law enforcement agencies, Customs, Revenue, NATA, Ministry of Health
- Entities in the Illicit Supply Chain- Transporters, retailers, distributors, manufacturers
- Other Stakeholders including media and NGO personnel and tobacco users

5. Geographical Scope of the Study

Preliminary interviews of government and media sources indicated Colombo airport and Colombo seaport as two primary points of entry of illicit tobacco products into Sri Lanka. Although there are several other ports in the country, they are not used as cargo ports.

Apart from goods entering through the Colombo seaport, boats from India are said to be smuggling tobacco products randomly. The boats do not come during windy seasons (called “Warakan” in Sri Lanka) because it is dangerous to the smugglers. The exact places where these boats unload are not clear, as unloading points are changed regularly when the smugglers sense detection or other danger. Such smuggling is reportedly taking place all along the coast, from Mannar district to Galle district (the Sri Lankan coast facing India).

The places visited by the researcher are indicated in the map.

6. Limitations of the study

- The study is limited to the smuggling of tobacco products into Sri Lanka. It does not identify or address any tobacco products that are smuggled out of the country.
- The researchers experienced difficulty approaching and getting information from those who are engaged in the trade
- Beedi/cigars are not considered as smoking items by the majority of the Sri Lankan population. The government also addresses the various aspects of cigarettes and beedi/cigars separately. This is because the latter are considered as cottage industries.
- The researchers faced the risk of threats from criminals.

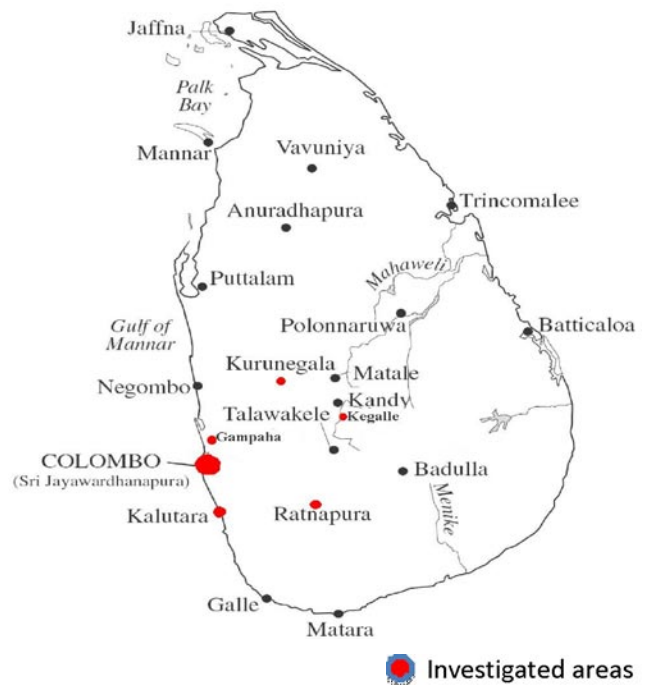


Figure 1: Key areas investigated for research

7. Tobacco smuggling patterns in Sri Lanka

Main routes of tobacco smuggling

The main routes of cigarette smuggling into the country are via the airport and sea port (both at Colombo). There is also substantial smuggling of tobacco products along other coastal towns and ports thereof.

On entry to the country via the sea port, the transportation routes, warehouses, wholesale markets, distribution networks, and destinations for retail sales often vary. The importer of the smuggled products decides where the stocks will be distributed. Smuggled cigarettes are “intermingled” or concealed with other goods that are imported to the country and are later separated at stores or warehouses. This is one mode of bringing smuggled cigarettes into the country.

The smuggled cigarettes are quickly distributed throughout the country along with other legal goods (such as boxes of electronic items and milk food); they are never stacked in permanent warehouses. The smugglers use this strategy to confuse law enforcers and to prevent detection. The smuggling chain is large enough that the transporters and retail traders know little about the original importer or wholesaler. This points to the need for customer identification and due diligence procedures to be undertaken before trading cigarettes.



Figure 2: Cigarettes seized as “intermingled” with Milk powder and fans

The illegal importers appear to be a small group of organizations and/or individuals that are quite interlinked. During their discussions with the researchers, the wholesalers claimed that they do not engage in this illegal trade continuously or regularly. However, further discussion and observation demonstrated that most of them are within the same family circle and are continuously engaged in the illicit trade.

The transporters reported that they are neither bothered nor even often aware of what they are transporting; rather, they just carry goods from one place to another at the request of traders. This points to the need for transporters to require licenses to deliver tobacco and other harmful goods.



Figure 3: Transporting cigarettes intermingled with milk powder

When retailers were asked what caused them to become engaged in this trade, their most common answer was that it is profitable as there is a high profit margin and it is a means of easy money making.

Some retailers indicated that there is no other way for them to earn a living and feed and educate their children. So they depend on this illicit trade. One said; “I couldn’t bear any more the sight of my children starving, that is why I chose this work although I know it is risky and harmful to others”. Another said “I tried my best to find some work with no hope, and at the end chose this work. But I want to earn some money, save and get into other good work later. I am always in fear that I would be caught”.

Through this study we learnt that most of the retailers were engaged in the illicit tobacco trade as it was an easy way to make money. However, the wholesalers that we contacted were very shrewd when answering our queries and pretended that they engaged in the trade only occasionally; they were very careful not to reveal their source of supply –those who import illicit cigarettes with other goods.

Prominent among the smuggled cigarettes are Turkish-made Gold Leaf cigarettes which are available in the local market and are sold clandestinely as genuine Gold Leaf cigarettes. The counterfeits are almost identical to the genuine product; hence the customers do not notice the difference.



Figure 4: Turkish cigarettes found in the illegal market in Sri Lanka

Sri Lankan-made Gold Leaf packets contain the text only health warning messages in three languages (Sinhala, English, and Tamil). Gold Leaf packs from Turkey carry the warning messages in Turkish language.

Counterfeit Gold Leaf cigarettes can be identified by Excise Department officials by the wording on the packs, the bar code, the colour of the pack, and finally by the taste (when taste tests are conducted). Hence, these products are sold in a “top secret manner” to avoid identification by Excise officials.

Yet another route of smuggling is via Indian boats that approach the Sri Lankan coast. As the Indian boats carrying cigarettes arrive at the deep sea in the India-Sri Lanka ocean border, they are transferred to Sri Lankan fishing boats which are ferried along with the day’s catch to the Sri Lankan coast.

On receiving intimation of the activity, Sri Lankan Police and Narcotics Department raid the boats. The activity is frequent in Chilaw, Negombo and Mannar where fishing industry flourishes. Later the goods are distributed and sold in Colombo via the illicit gangs.

8. Prevalence of tobacco smuggling in Sri Lanka

Tobacco products illegally smuggled into Sri Lanka are first transported to warehouses where they are unloaded and then distributed to different areas across the country. The goods are sold to distributors in different volumes, usually in packages of 100 cartons or more, although sometimes in smaller quantities such as 50-100 cartons. There are 200 cigarettes in a carton. Some of the illegal cartons are distributed via vans or lorries with other grocery items. When they reach retail shops, they are sold in packages of 3 cartons. The selling prices vary vastly. Some cartons are sold at low price and customers call them “cheap ones”. Sometimes the smuggled or counterfeit cigarettes are sold at the same price as the legal cigarettes, deceiving both the Government and the consumers.

9. Types of smuggled products

During the years 2004 to 2008, the Ceylon Tobacco Company (CTC) paid Excise Duty on cigarettes worth Rs. 36,391,327,019.33 to the Sri Lanka government, in addition to other excise duties on manufacturing. (Source: Excise Department). However, as noted

below, a potentially significant amount of tobacco product is imported illegally, with no tax or excise duty being paid.

10. Beedi leaves and sticks

While CTC legally imports tobacco leaves for its cigarettes, traffickers bring the leaves into the country illegally by sea from India and Pakistan for use in beedi manufacturing. The exact locations and scale of this illegal trade have not been explored, but the researchers learnt through sources that this smuggling it could be happening island-wide, especially in coastal areas.

Beedi sticks manufactured in India and Pakistan are also brought illegally into the country through the seaports and airports in the passenger baggage.



Figure 5: Illegal beedi manufacturing spurting island-wide

There are currently no taxes on or laws addressing beedi. The Excise Department has requested all beedi manufacturers, wholesalers, traders, and store keepers through gazette notification (Appendix -1) to register as legal industries and applications have already been issued to them. The number of beedi manufacturers who continue to work unregistered (and thus illegally) is unknown.

However, regulating beedi production and taxes have been a politically sensitive issue. A media report in Daily News denotes the concerns of Excise Department when its Commissioner General Wasantha Hapuarachchi when he said that the use of White Cigarettes (Sudu beedi) and the normal beedi was quite prevalent with low income earners. Lack of taxes on beedis is therefore a disservice to the poor who would have quite from the impact of higher prices.

11. White cigarettes

White cigarettes are domestically-made cigarettes on which no tax is levied. Hence their production is not considered as a legal industry although there are about 200,000 people engaged in the manufacture and trade of this product according to information provided by the Excise Commissioner General.

In 2002, the present Researcher had a discussion with the White Cigarette Manufacturers Cooperative Society sources with regard to the status of white cigarette manufacturing. At that time, the sources claimed that the white cigarette industry dated back 20 years and that the scale of production had widened since. They revealed that the tobacco for white cigarette manufacturing had been initially supplied by the CTC initially, although it later stopped doing so. The white cigarette manufacturers said that there were bills to prove that the CTC provided them with the raw materials.

According to these sources, the papers for wrapping the white cigarettes were imported from Calcutta. In the beginning, there were 51 white cigarette manufacturers who were registered under the White Cigarette Manufacturers' Cooperative. There were also other white cigarette manufacturers who were not registered with the manufacturers' society.

If white cigarette manufacturers pose a threat to the CTC, as the latter often claims, one wonders why the CTC helped the white cigarette manufactures to initiate such an industry? During a discussion the representatives of the Association, it was unofficially revealed by them that CTC bore all the expenses at the first meeting held by the white cigarette manufacturers at a luxurious hotel, several years ago.

In recent times, the Multi-purpose Cooperative Society consisting of "White Beedi Manufacturers" in the Kegalle District approached the court to allow them to continue business. The Sri Lankan Supreme Court has since directed that the Petitioners should seek registration in terms of Section 5 of the Tobacco Tax Act No. 8 of 1999. However, regulations had not been made in terms of Section 5 to enable the Petitioners to seek registration. In the interim period, the petitioners were permitted to carry on their trade and all administrative action against offenders stayed.

It was disclosed in letter dated 8.9.2006 sent by the Commissioner General of Excise that regulations have been prepared and sent to the Ministry of Finance on 11.8.2006. But the regulations have not been gazette as yet. The Excise Commissioner General has indicated that regulation white cigarette manufacturing could be overcome through suitable law implementation.

12. International Brands

Benson & Hedges, an international brand of cigarette, at times enters the country through outgoing duty free shops located at the airport. It is assumed that duty free cigarettes meant of our bound travellers are leaked into the local market through personnel employed at the airport.

According to the information provided by senior Customs officials, smuggled cigarettes come to Sri Lanka from China and Middle East countries like Dubai.

Box 1: Look who is Complaining about Illicit Tobacco Trade?

Increased availability of smuggled and illicit cigarettes in Sri Lanka is eroding profits of Ceylon Tobacco Co Ltd, analysts said on Wednesday..... Sri Lanka's monopoly cigarette maker said on Wednesday net profit for the six months to June 30 slipped to 232.41 million rupees (\$3.56 million) from 250.85 million in the same period a year ago. Ceylon Tobacco Co (CTC) said in a statement exports in the first half of 1998 rose by 32 percent. Domestic sales increased by just under five percent due to the increasing presence of illegally manufactured cigarettes and smuggled international brands in Sri Lanka.

Source: Reuters, 1998

The Customs sources stated that the major entry point to Sri Lanka for smuggled international branded cigarettes is the Colombo Port and that 75% of the products come from Dubai. . Sometimes the products that come from

Dubai go first to India, where the container labels are changed to “sugar” container cargo.

According to information gathered from the Director General of Customs, customs officials detected nearly 245.3 million illegal sticks in 2004, 82 million sticks in 2005, 27.9 million sticks in 2007, 33.5 million sticks in 2008, and 40 million sticks in 2009. All these were counterfeits or illegally manufactured cigarettes. According to the Department, they come through the seaport as well as the airport. (Source: Customs)

Illegal cigarettes also come in small air parcels, since Sri Lankan air freight charges are dropping and importers are able to gain a higher profit margin from bringing cigarettes this way.

13. Key players in the trade

The key players involved in the illegal tobacco trade are among the most rich and influential people in the country. Through interviews that the team had with middlemen engaged in the trade, it was revealed that the middlemen enjoyed political support.

The illicit trade supply chain at the local end involves middlemen, transporters, helpers, and retailers, several of whom engage in the trade for basic survival. The evidence needed to catch the main culprits is seldom found. However, those who are caught in raids are punished, sometimes with hefty fines.

Often efforts by authorities responsible for combating illicit trade do not reach their logical conclusion. When offenders are taken into custody to be produced in courts, many find ways and means to evade the law, sometimes with the protection and support of those supposedly working to convict them.

The main reason for such an unfortunate situation is the influence of politics and wealth. This has enabled culprits to escape the law and continue their illicit activities. It has also been revealed that the main culprits engaged in this trade continue directing illicit tobacco trade, even as they serve a jail term. It was also revealed that there had been instances where the officials had been misguided by the law violators by various ploys and inducements.

The Excise Department has the authority to check on the tobacco company's activities, but it is not certain if the system is fool-proof. This research has

not investigated the role of the legal tobacco industry in abetting illicit tobacco trade. But it is an area that is highly recommended for future research.

14. Legislative and Enforcement Efforts

The Excise Commissioner General revealed that the Department had suggested to the Ministry of Finance to introduce a rewards system to encourage the general public to be vigilant, truthful, and accurate about the smuggling trade to enable the Department to implement a more efficient and successful operation system. It is also planning to reward the officers involved in carrying out more efficient operations. This would encourage both the general public and officers concerned, he said.

In April 2010, using information provided by an informant, the Department detected massive containers containing about 1,000 cartons and a further 350 cartons. “We do our operations [based] on information that we get from certain information providers”, elaborated the Commissioner. Under the 1999 No. 8 Tobacco Tax Act, we have the powers to fine the offenders or to prosecute them. We do destroy the seized stocks in the presence of media, he clarified.

Regulation No. 8 Tobacco Act of 1999 approved white cigarette manufacturing. But considering the amount of revenue that the government was losing from white cigarettes on which no tax was paid, the government decided to remove this clause in the amendment act of Tobacco Tax No. 9 of 2004. Thus white cigarette are now prohibited goods and cannot be sold. Regulations relating to beedi and cigars were also passed in Parliament this year. Accordingly, all beedi and cigar manufacturers must obtain a licence from the Excise Department to import, export, store, or manufacture cigarettes, beedi, and cigars, effective 1st of March 2010.

However, for white cigarette manufacturing no licence could be obtained because it is not a legal product. Since there is a ‘stay order’ by the Appeal Court, white cigarette manufactures cannot be apprehended either. But the Excise Department is working with the Attorney General's Department for legislation in this regard.

Box 2: World Bank's Recommendations on Tobacco Taxation & Smuggling

The World Bank report - "Curbing the Epidemic" summarizes the evidence on the set of policies and interventions that have proved to be effective and cost-effective in reducing tobacco use, in countries around the world.

Tax increases that raise the price of tobacco products are the most powerful policy tool to reduce tobacco use, and the single most cost-effective intervention. They are also the most effective intervention to persuade young people to quit or not to start smoking. This is because young people, like others with low incomes, tend to be highly sensitive to price increases. Still Governments hesitate to increase tobacco taxes and are concerned about taxes increasing smuggling.

World Bank Report recognizes that "Cigarette smuggling is a serious problem. Researchers estimate that some 30 percent of internationally exported cigarettes, or about 355 billion cigarettes, are lost to smuggling. This is a far higher percentage than most consumer goods that are internationally traded. The problem is acute where there are large variations in tax between neighboring states or countries, where there is widespread corruption, and where contraband sales are tolerated. Here, we briefly describe the extent of the smuggling problem and discuss the options for its control. The benefit of controlling smuggling is not principally that it reduces supply, but that it helps the effective implementation of price increases that reduce demand.

Differences in price between countries or states will clearly increase the incentives to smuggle cigarettes. However, the determinants of smuggling appear to be more than price alone. A study prepared for this report assessed the extent to which other factors, such as general levels of corruption in a country, contribute to the size of the smuggling problem. Using standard indicators of corruption levels based on Transparency International's Index of Countries, the study concluded that, with notable exceptions, the level of tobacco smuggling tends to rise in line with the degree of corruption in a country."

Source: Curbing the Epidemic: The Governments and Economics of Tobacco Control, World Bank.

At present Rs. 10/- tax on every kilo of tobacco is levied. 3.4 million kilo grams of tobacco leaves have been used in 2008, in 2009 it has decreased to 3.0 million kilo grams (there is a decrease due to high taxes imposed).

Cigarettes are taxed under the Special Provisions Tax Act; in addition VAT and several other kinds of taxes are also added. In addition, according to the length of a cigarette, another tax is levied at the Excise Unit of the Customs according to the 1989, No. 13 Excise Act. Annually, the tax is increased in an effort to minimize consumption.

15. The Role of the Customs Department

The mission of Sri Lanka Customs is to enforce the country's revenue and social protection laws while facilitating trade. The main functions of the Department of Customs are to collect taxes, duties and other levies as imposed by the government, and to ensure proper enforcement of tariff, trade and social

protection policies of the state and flow of passenger, goods and related means of transport.

To enhance strategies against transnational cigarette smuggling activities, the First Meeting of World Customs Organizations was held in June 2004 in Asia Pacific Region. An action plan, code-named Project Crocodile, was drawn up by 16 participating Customs Administrations including Sri Lanka. This plan was implemented on 1st of August 2004 and the Regional Intelligence Liaison Office (RILO) initiated Project Crocodile.

The participating countries included Australia, Brunei, China, Hong Kong China, Indonesia, Japan, Korea, Macao China, Malaysia, New Zealand, the Philippines, Papua New Guinea, Singapore, Sri Lanka, Thailand and Vietnam. The initiative targeted specifically transnational cigarette smuggling that used the circumlocutory paths or adopted the "merry-go-round" mode. Through Project Crocodile, the participating Customs Administrations have joined their efforts

and stepped up intelligence exchange to monitor the movement of all suspicious cigarette shipments crossing the borders of their respective countries.

Significant results were recorded during the initial stage of the action plan. For instance, in August 2004, through the monitoring system Hong Kong Customs alerted the Philippines Customs about a suspicious shipment of 28 containers of cigarettes and successfully stopped the shipment from diverting to the black market. The shipping agent had to re-import the shipment back to Hong Kong through legitimate means.

According to the Sri Lankan Customs Head, random checking is undertaken as is risk-based, selected checking to detect smuggled cigarettes. Information comes from Project Crocodile operators about shipments of cigarettes and other goods.



Figure 6: Customs seizure of smuggled cigarettes

When smuggled cigarettes are seized, according to the Customs Ordinance a fine of three times of the value of the stock is levied on the suspect. The stocks are also confiscated. If the person fails to pay the fine, the Department prosecutes the importer. According to the Customs Chief, the Department destroys the smuggled cigarettes according to the accepted norms in the presence of all the relevant government authorities.

When the Customs Chief was informed about the public belief that the seized stocks of smuggled cigarettes (which Customs releases to the Ceylon Tobacco Company for crushing) are not destroyed entirely, but are rather released to the market to be sold at a low price, he said, "A representative of the National Authority on Tobacco/ Alcohol (NATA) participated even at the last disposal and we have asked them to inform all the NGOs to be present at disposals, as we don't have a list of all the NGO who are working on tobacco control. In the second half of

2009 we requested NGOs to be present so that they may count."

When the Director General of Customs was asked what they do with smuggled cigarettes, he said, "At present the Customs Department destroys the smuggled cigarettes at tobacco company-arranged premises with the participation of tobacco company and under the supervision of the relevant authorities." It was also revealed that the tobacco company pays Rs. 1/- per stick to the Customs Department and takes a great interest in the process of disposal of smuggled cigarettes.

16. Detections by the Excise Department

The smuggled stocks which make it through the ports undetected and reach the market, are sometimes later seized by the Excise Department, which acts on information it receives from the general public or through investigative vigilance.

Very recently a large load of smuggled cigarettes (both Gold Leaf and Gold Seal) was detected and seized by the Excise Department at Peliyagoda, a few kilo meters away from Colombo in a large warehouse where many varieties of goods such as electrical items, mobile phones etc. were being stored. This stock



Figure 6: Head of Narcotics Division, Excise Department with confiscated contraband

Source: Daily News

Box 3: Glimpses of Inter agency Coordination in Seizure & Destruction of Smuggled Goods

Excerpts from “A move to ensure destruction of illegally imported fags...by Shamindra Ferdinando”

The Island – 22/10/2009 (excerpts)

The National Authority for Alcohol and Tobacco of the Health Ministry has intervened to ensure that illegally imported cigarettes seized by the Customs, Excise and the police, are not released surreptitiously to the market.

This was revealed at a press conference called by the Customs 21/10/2009 at the Trico warehouse, Bloemendhal Road.

Sisira Kodagoda, who represented the National Authority for Alcohol and Tobacco, said that following their representations, they, too, were involved in the destruction of illegally imported cigarettes. Earlier, the Customs used to hand over seized cigarettes to Ceylon Tobacco Company (CTC) to destroy them at their expense.

The Customs yesterday handed over a 20 foot container load of cigarettes (approximately 4.8 million cigarettes) valued at approximately Rs. 36,397,500 to CTC to be destroyed under their supervision in the presence of the National Authority for Alcohol and Tobacco.

Customs Superintendent R. P. Hewagama said that Customs units had seized the consignment in separate detections over the past three years. Had they escaped detection, the country would have been denied tax revenue to the tune of Rs. 110, 454,280. Hewagama said that racketeers had used fraudulent documents to smuggle in cigarettes from the Middle East, particularly Dubai.

A CTC representative, who had been present at the press conference, told The Island that so far this year authorities recovered about 70 million illegally imported sticks. Speaking on the condition of anonymity, he said that bulk comprised Gold Seal and Gold Leaf. According to him, Gold Seal was an original product though illegally imported whereas Gold Leaf were counterfeit cigarettes.

worth over Sri Lankan Rs. 4 million (US\$ 35,715.) had been illegally imported from the Middle East and were duplicates of brands used in Sri Lanka. The stock was confiscated and a fine of Rs. 1 million was imposed on the owner of the warehouse. The smuggled cigarettes were stacked in electric fan boxes from China and even in huge luggage bags. When arriving the country and even after reaching the country the importers generally pack them in boxes of other products, may be to confuse and evade Customs and Excise Department seizures. According to the Excise Department officials they crush the seized stocks separately and there is no joint operation with the Customs.

17. Recommendations

1. A system of monitoring and surveillance on tobacco smuggling is critical to track the movement of tobacco products through the country.
2. The infrastructure and resources, both human and technical, for law enforcement needs strengthening.
3. A tracking and tracing regime involving unique identification marks on all tobacco products is to be introduced to monitor the movement of traded tobacco through the supply chain.
4. The inter-agency cooperation and exchange of intelligence and information between customs and other law enforcement agencies such as Police, Excise, Ministry of Trade, Ministry of Health and Ministry of Justice is to be strengthened for effective coordination and increased detection of illegal tobacco products.
5. Given the link between tobacco and poverty and tobacco and sustainable development, tobacco control in general and illicit tobacco trade control

in particular must be an integral part of the overall development policies of Sri Lanka.

6. Robust data and records of varied forms of tobacco smuggling are not available in the country. Systematic surveillance and documentation of seizures, confiscations, penalties and trends in tobacco smuggling is to be developed.
7. Taxes need to apply optimally to all tobacco products with a view to discourage tobacco use and discourage shifting between products. and Side by side with consistent increase in taxes, penalties and other forms of deterrents to offences relating to illicit tobacco trade must be raised to optimal levels.
9. A better and transparent system for destroying detected smuggled cigarettes is required to avert the supply of seized illegal goods back into the market.
10. In addition to action on counterfeiting, Government needs to pay increased attention to smuggling of tobacco products into the country, including examining the role of the tobacco industry, if any,

in it.

11. Mandatory licensing and due diligence procedures are to be required of all entities in the supply chain of tobacco products to secure it from potential diversions in transit.
12. The suggestion made by the Excise Department to institute a reward system that encourages the general public and officials to increase the number of intimations, seizures and control of the volume of smuggled cigarettes entering the country is desirable.
11. Most of the cigarettes sold in Sri Lanka are single sticks. Hence it is possible to easily mix local brands with illicitly brought cigarettes. Sale of single sticks is to be banned both as a measure to eliminate illicit trade in cigarettes as also to discourage initiation to tobacco habit.
12. Government agencies with jurisdiction over the legal tobacco entities needs to exercise their powers to closely monitor their activities and initiate timely investigations in the event of activities suspected to be illegal in nature.

REFERENCES

1. Action Plan to suppress cigarette smuggling in Asia Pacific endorsed. <http://www.info.gov.hk/gia/general/200406/11/0611211.htm>
2. A move to ensure destruction of illegally imported fag. ShamindraFerdinando.The Island Online. 22 October 2009.
3. AnushaAttygalle, "Illegal trade dogs Ceylon Tobacco profits," Reuters, 26 August 1998.
4. Cheap pleasure with high risks for Beedi smokers - RasikaSomarathna
5. Curbing the Epidemic: Governments and the Economics of Tobacco Control. Washington DC: World Bank Publication. 1999.
6. *Drinking and smoking*. LankaNewspapers.com. Sunday, 8 January 2006 - 12:37 AM SL Time. <http://www.lankanewspapers.com/news/2006/1/5163.html>, last accessed on 17 June, 2010.
7. Frances Harrison. Sri Lanka cigarette smuggling soars. BBC News. 29 October,2003, <http://news.bbc.co.uk/2/hi/business/3223225.stm>, last accessed on 29 September 2010.
8. Revenue Collection and Protection. Customs & Excise Department. Government of Hong Kong Special Administration Area of the People's Republic of China. http://www.customs.gov.hk/filemanager/common/pdf/pdf_publications/dept_review03_04/txt_eng/html/chapter08.htm
9. *Taxing Habit: Sri Lanka tobacco users generate more taxes, sales lower*. Lanka business online. 29 July 2009. <http://www.lankabusinessonline.com/fullstory.php?nid=430989155>, last accessed on 17 June 2010.

APPENDIX-1

Excerpts from Tobacco Tax Regulations No.1 of 2009

“Tobacco Tax Act 1999 - Gazette No. 1625/1 – Part 1: Section (I) General Government Notifications – Tobacco Tax Act, No. 8 of 1999, regulations made under Section 21 of the Tobacco Tax Act No. 8 of 1999 and published in the Gazette Extraordinary, No. 1610/28 of 17th July 2009 is hereby amended by substitution for the regulations. These Regulations may be cited as the “Tobacco Tax (General) Regulations, No. 1 of 2009”, and shall come into operation from 1st September 2009. However these regulations shall come into operation with manufacture, effect from 1st March 2010 in case of manufacture, import and export of beedi, beedi tobacco and cigars.

No person shall manufacture, store, import or export any raw material or finished product of cigarettes or pipe tobacco and shall manufacture, import or export any raw material or finished product of cigars or beedi without obtaining a certificate of Registration issued by the Commissioner General of Excise (hereinafter referred to as “Commissioner General”) in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999.”

About the Researcher

Manjari Peiris is a freelance journalist who believes in engaging her media skills to advance development issues. Among other activities, she has undertaken tobacco industry surveillance, research on white cigarette industry and survey on tobacco control law. She has undertaken several media sensitization and training programmes on tobacco and non-communicable diseases.

Ms. Peiris is also involved in monitoring the enforcement of tobacco control policies in Sri Lanka, working very close with policy makers, law implementing agents, National Tobacco Control Authority, Ministry of Health and Sri Lankan Customs. Her work has helped draw attention to the subversive marketing strategies of tobacco companies against the laws of the land.

Manjari Peiris has authored several books on tobacco related issues and made a documentary on tobacco victims and their families. Ms. Peiris holds two degrees in Mass Media and is qualified both in foreign and local examinations in English and Hindi as also in accounting. Her contributions have been acknowledged through national and international awards.