

CHAPTER V EXCISE DUTY ON TOBACCO

The area under tobacco cultivation has recorded a rapid rise in recent years. It rose from 5.7 lakh acres in 1946-47 to 10.2 lakh acres in 1952-53 and India is now the third largest producer of tobacco in the world ranking next after U.S.A. and China.

Tobacco occupies an important place in Indian economy although the area under cultivation constitutes only 0.3 per cent. of the total area under agriculture and the value of the output of tobacco represents only 1.5 per cent. of the total value of crops. According to the Final Report of the National Income Committee, the value of the output of tobacco was Rs. 71 crores in 1950-51. Tobacco thus was fourth in order of importance among cash crops, ranking after sugarcane, groundnuts, and cotton. Tobacco is also an important item of export, being eighth in order of value.

2. Tobacco is cultivated in all parts of India, but there are only four zones of concentrated cultivation, *viz.*, Guntur (Andhra), Charotar (Gujerat), Nipani (Bombay) and Tirhut (North Bihar). Of all the States, Andhra has the largest area under tobacco cultivation representing 35 per cent. of all-India acreage and accounting for 95 per cent. of the total production of virginia tobacco.

3. Tobacco is consumed in numerous forms, the more important being cigarettes, biris, snuff, cigars and cheroots, hookah and chewing. Cigarettes are made in organised factories using mechanised processes. There are in all nineteen factories situated at Bangalore, Bombay, Calcutta, Hyderabad, Monghyr and Saharanpur.

4. As regards biris, there is practically no part of India where they are not manufactured to some extent, but Madhya Pradesh, Bombay, Madras and West Bengal account for more than three-fourths of the total production (77 per cent.). Madhya Pradesh is the largest producing State with 25 per cent. of the output, Bombay being a close second with 21 per cent. The biri industry is not organised on factory lines. There are numerous small-scale producers of biris who employ their own labour and the labour of the members of their household for rolling biris. Biris are not manufactured by large-scale manufacturers by assembling workers under a factory roof. It is the domestic system of manufacture that is largely in vogue. The raw materials, *viz.*, tobacco, *tendu* leaf, etc., are issued to out-workers living scattered about in a town or city or in villages and they manufacture the biris and deliver them at the factory. Recently, mechanical processes have begun to be employed in the manufacture of biris.

5. The manufacture of snuff is concentrated in Madras city and Mangalore in South India and parts of Bombay State. Except for a few large scale producers who use machinery, the production is organised only on cottage scale.

6. The manufacture of cigars and cheroots is confined to a few places in Madras and Andhra States. This is also essentially a cottage industry. A special feature of the consumption of cheroots is that the bulk of the consumption is in Andhra State where it is in the form of cheroots rolled by the consumers themselves. Thus, out of a total quantity of 39 million lbs. cleared for duty under this class, only 9 million lbs. pass into commercial manufacture.

7. The manufacture and consumption of hookah tobacco is almost entirely confined to North India—Punjab, Delhi, U.P., Bihar, West Bengal, Assam and parts of Rajputana and Central India. This is also essentially a cottage industry.

8. The main areas of consumption of chewing tobacco are in South India where it is mostly used in the raw form without any process of manufacture. It is estimated that more than four-fifths of the total consumption of chewing tobacco in India is in the raw form. Uttar Pradesh and Delhi and to a smaller extent Hyderabad are areas where there is manufacture of chewing tobacco called *zarda* on a large scale.

9. Below are given figures regarding the consumption of tobacco Trends in consumption—as indicated by the quantities cleared for the central excise duty under various categories.

TABLE 1.—Clearance of tobacco by tariff classes

	43-44	44-45	45-46	46-47	47-48	48-49	49-50	50-51	51-52	52-53	53-54
	(Million lbs.)										
Cigarettes :											
Flue-cured .	24.5	25.3	30.4	29.1	27.4	21.9	25.0	28.2	24.0	21.3	24.4
Non-flue cured .	11.2	14.0	19.0	14.9	11.1	9.0	11.4	20.4	22.1	21.6	21.8
Total ciga- rettes .	35.7	39.3	49.4	44.0	38.5	30.9	36.4	48.6	46.1	42.9	46.2
Biris .	54.5	61.3	62.9	66.7	76.5	93.9	90.4	105.9	116.7	121.3	117.7
Snuff .	3.1	3.6	6.0	7.8	4.3	4.4	5.6	5.6	8.8	7.8	8.9
Cigars and Cheroots .	27.4	37.6	46.0	49.6	48.2	51.5	49.1	52.2	43.7	41.4	38.8
Hookah .	181.3	142.6	178.7	174.2	53.4	107.3	111.2	120.9	118.8	126.7	119.1
Chewing .	88.3	93.0	127.1	117.9	116.4	127.3	127.6	129.3	114.0	111.2	111.0
Total (other than cigaret- tes) .	354.6	338.1	420.7	416.2	338.8	384.4	383.9	413.9	402.0	408.4	395.5
Grand Total .	390.3	377.4	470.1	460.2	377.3	415.3	420.3	462.5	448.1	451.3	441.7

NOTE.—The figures up to 1946-47 relate to undivided India.
The figures pertaining to Part B States are included only from 1950-51.

10. The manufacture of cigarettes and biris has recorded a rapid rise in recent years. According to the Report on the Marketing of Tobacco in India and Burma (1938), the annual production of cigarettes was 7,500 million and the quantity of tobacco used in the manufacture of biris was 70 million lbs.

These figures have subsequently been far exceeded despite the partition of the country and the consequent partial loss of large markets. In 1950-51, the production of cigarettes totalled 23,364 million, and although since then there has been a decline, the figure for 1953-54 stood at 19,849 million. The biri industry has also recorded a substantial rise and the quantity of tobacco used for the manufacture of biris was 121 million lbs. in 1952-53 and 118 million lbs. in 1953-54 as compared to 55 million lbs. in 1943-44.

11. The Taxation Enquiry Committee (1924-25) observed that **Taxation Committee's findings** **Enquiry find-** "the absence of any internal taxation on tobacco is a feature which distinguishes the fiscal system of India from that of almost every other civilised country in the world". The Committee considered that the use of tobacco in India was even more widespread than in many of the countries which subjected it to taxation and expressed the view that there was a strong case for the taxation of tobacco in India.

12. The possibility of taxation of tobacco was examined on numerous occasions, but the administrative difficulties of evolving a suitable system prevented the imposition of the tax. The Taxation Enquiry Committee considered that the possible methods by which tobacco could be taxed in India were the following:—

- (a) a Government monopoly,
- (b) an acreage fee,
- (c) a regular excise system, and
- (d) a system of licences.

13. A Government monopoly was ruled out as too vast an undertaking to be considered. A system of acreage fee was considered to be administratively difficult because of scattered cultivation and large variations in yield. The Committee, therefore, suggested a combination of a regular excise system for cigarettes, smoking tobacco and cigars manufactured in organised factories and a system of licensing for the taxation of other forms of tobacco.

14. Prior to the enactment of the Government of India Act, 1935, **Constitutional position** the taxation of tobacco was not a central subject. The provinces (now States) were, therefore, "encouraged to derive what revenue they could from the control of taxation of retail vend and generally to develop this field of taxation in the hope that experience of the various schemes suggested might lead to the evolution of a practicable general excise system".* Under the Government of India Act, 1935, however, the power to levy a tobacco excise was allocated to the Central Government (*vide* item 45 of List I—Federal Legislative List—Seventh Schedule).

15. The compelling need for additional revenue during the War **Imposition of the excise in 1943** led to the imposition of an excise duty on tobacco with effect from 1st April 1943. The levy was imposed under the Tobacco (Excise

*Budget Speech, 1943.

Duty) Act, 1943 which was subsequently merged in the consolidated Central Excises and Salt Act, 1944.

16. The rates of duty were designed on a progressive scale. Graduated rates were fixed for flue-cured tobacco used in the manufacture of cigarettes depending on the imported tobacco content of the blends. They ranged from eight annas per lb. to Rs. 1-12-0 per lb. For non-flue-cured tobacco used in the manufacture of cigarettes the rate of duty was fixed at six annas per lb. and the same rate was also fixed for tobacco used for biris and snuff. A lower rate of two annas per lb. was fixed for cigar and cheroot tobacco and a still lower rate of one anna per lb. was fixed for hookah and chewing tobacco and stalks. In addition to the duty on the tobacco used in the manufacture of cigars and cheroots, a graduated duty on the basis of value slabs was imposed on the higher grades of the manufactured cigars and cheroots.

The growers are permitted to retain without payment of duty tobacco required up to specified limits for their personal consumption (including the requirements of the members of their household).

Tobacco used for agricultural purposes is exempt from duty. Exports are also duty-free.

The revenue realised from tobacco in the first year of the excise viz., 1943-44 was Rs. 9.65 crores.

17. With the building up of the organisation necessary for the **Gradual increase in rates** operation of the tobacco excise, the rates of duty were stepped up in 1944. The rates of duty on flue-cured tobacco used for the manufacture of cigarettes were doubled, ranging from Re. 1-0-0 to Rs. 3-8-0 per lb., the rates for non-flue-cured tobacco used for cigarettes as well as biri and snuff tobacco were raised by 50 per cent. to nine annas per lb. and the rates for cigar and cheroot, hookah and chewing tobacco were raised to a uniform level of three annas per lb. As a result of these changes, the revenue from tobacco rose to Rs. 17.28 crores in 1944-45.

18. In 1945, the rates of duty on flue-cured tobacco used in the manufacture of cigarettes in admixture with imported tobacco were graduated further and rates of Rs. 7-8-0 and Rs. 5-0-0 per lb., were imposed on the classes of cigarettes containing over 60 per cent. and between 40 per cent. and 60 per cent. respectively, of imported tobacco in the blends. These changes raised the revenue to Rs. 20.82 crores in 1945-46.

19. The next changes made in the tobacco tariff were in 1948 when an excise duty was imposed on cigarettes and the rates of duty on other tobacco were raised. The tariff for cigarettes followed the same pattern as the tariff for cigars and cheroots viz., value slabs for fixation of rates, but there was no exemption of any class of cigarettes unlike the exemption of the cheaper classes of cigars and cheroots. The rates of duty on biri and snuff tobacco, and cigar and cheroot, hookah and chewing tobacco were raised by one-third to twelve annas and four annas respectively. The effect of these changes was to raise the revenue to Rs. 25.30 crores in 1948-49.

20. In 1951, the rate of duty on biri tobacco was raised to fourteen annas per lb., and the rate for cigar and cheroot, hookah and chewing tobacco was raised to six annas per lb. Snuff tobacco was also classified with the latter and, consequently, the rate of duty for it was reduced from twelve annas to six annas per lb. Surcharges at rates of one pice and two pice per ten cigarettes were also imposed on cigarettes with retail price for ten cigarettes between two annas and five annas six pies, and exceeding five annas six pies respectively.

These changes led to a rise in the revenue from tobacco excise to Rs. 35.39 crores in 1951-52. As a result of fluctuations in production and consumption, there was a slight decline in 1952-53 to Rs. 33.94 crores and in 1953-54 to Rs. 33.23 crores.

21. With effect from 10th April 1954, the rate of duty on all non-
Temporary relief flue-cured tobacco warehoused or deposited in
in 1954 curers' bonded storerooms prior to 1st January 1954, has been reduced by 25 per cent. as a measure of relief to the trade which was faced with the problem of accumulated stocks. The rate of duty on certain specified inferior grades of flue-cured tobacco used for cigarettes has also been reduced from Re. 1 per lb. to nine annas per lb. subject to certain conditions.

22. Under the Central Excises and Salt (Amendment) Ordinance, 1954, which came into force on 29th July 1954, a duty of Rs. 3 per 1,000 has been imposed on biris in the manufacture of which any process is conducted with the aid of machines operated with or without the aid of power. The purpose of this duty is not to raise revenue but to discourage mechanisation and to sustain the present level of employment in the industry.

23. In a system of tariff classification which involves gradation
Working of the tariff of the commodity into different varieties according to their utility, it is a difficult task to ensure equity and compliance to the satisfaction of all concerned. The history of the tobacco tariff is an excellent example of the difficulties involved. Until 1951, the criterion employed was 'intended use'—the intention was to be expressed by the tax-payer in the form of a declaration before clearance for duty. It was in the nature of self-assessment with safeguards by Government to ensure that the declaration made was honoured. The preventive measures extended even to the scrutiny of the accounts of the biri manufacturers although biri was not subject to excise duty on its manufacture. The system was criticised on the ground that it involved the follow up of duty-paid tobacco and led to the harassment of the honest tax-payer. The system lent itself to exploitation by the dishonest tax-payer as preventive machinery could ensure compliance with declaration only at a disproportionate cost.

24. The system was discarded for a short period in 1951 in favour of a flat rate of duty on all varieties of tobacco other than those used for cigarettes, with a further duty on manufactured biris and snuff. As a result of discussions in the Lok Sabha and the Select Committee, the measure was withdrawn on the ground that it would be a source of hardship to a large section of the community if biri,

27. The figures for the clearance of tobacco for various purposes for the two years preceding the adoption of the present criterion and the three years of its implementation are compared below.

TABLE 2.—Clearances of tobacco for biri and other purposes

<i>Quantity assessed at the biri rate</i>					
Year	'Intention' criterion		Year	'Capability' criterion	
	Quantity (million lbs.)			Quantity (million lbs.)	
1949-50	.	.	90	1951-52	117
1950-51	.	.	106	1952-53	121
				1953-54	118
<i>Quantity assessed for cigars, cheroots, snuff, chewing and hookah</i>					
1949-50	.	.	294	1951-52	285
1950-51	.	.	308	1952-53	287
				1953-54	278

There has been a fall of 20—30 million lbs. in the clearance of lower rated tobacco and an increase of about 11—15 million lbs. in the clearance of higher rated tobacco. It is possible to argue from these figures that the new criterion has had the effect of some lower rated tobacco being charged at a higher rate. It is, however, doubtful if a positive conclusion of this nature could be drawn from these figures. There has been a progressive increase in the clearance of tobacco for biris since the duty came into force. The above figures also show an increase of nearly sixteen million lbs. as between 1949-50 and 1950-51 which is largely attributable to the integration of the former Indian States. The increase in the clearance of tobacco for biris after the enforcement of the 'capability' criterion can perhaps be partly attributed to the natural increase that would have taken place in any case especially as the requisite administrative arrangements in Part B States improved. It is possible that a part of the increase might have resulted from the adoption of the new criterion. The percentage of increase is, however, so small that no definite conclusions can be drawn but we can appreciate that there would have been initial difficulties in the implementation of a totally new procedure and it might have led to hardship in some cases.

28. A tariff classification that is based on the ultimate utilisation of the different varieties of the commodity for particular purposes, can be equitable only if the payment of duty is related to their 'actual' use, which is almost impossible to enforce, rather than to their 'intended' or 'potential' use. In the latter event, there is room for the exercise of personal discretion in the implementation of the criterion. Out of the two, it would seem that the 'capability' criterion has greater chance of being applied objectively as far as practicable, provided the initial classification is made scientifically, subsequent changes are made after careful investigation at a level which will inspire public confidence and a procedure is devised for the prompt disposal of the representations made. As there is no other workable alternative except charging a flat rate of duty, it appears to us necessary that all possible steps should be taken, now that the working of the criterion has been known for three years, to carry out an exhaustive review of the procedure adopted. We recommend the appointment of an expert committee which should include a marketing expert in tobacco and a representative of the trade to go into the question fully.

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29. The principal ground urged for a flat rate is the ease with which it can be administered. On the other hand, assuming that it is not possible to sacrifice any revenue in the process, the rate will have to be fixed, on present trends, at about nine annas per lb. It will mean an additional burden of 50 per cent. on the lower rated varieties raising the percentage of the duty to value from nearly 66 to 100. The issue, therefore, is whether the differential rates for unmanufactured tobacco serve any economic purpose. It is argued that the justification for imposing a higher rate of duty on biri tobacco is that it provides a smoke for more sophisticated people and is consumed largely by working classes in urban areas who may be presumed to have larger income than the working classes in rural areas. On the other hand, it has been impressed upon us by some trade interests that if the differential tariff involves any economic principle of ability to pay, it is entirely misplaced in the case of tobacco. The use of a particular form of tobacco for consumption depends more on habit than on price.

30. It is not possible to endorse or to reject either point of view as no scientific investigations have been carried out regarding the class by class consumption of the various forms of tobacco. It is, however, difficult to agree that in a poor country where tobacco is consumed extensively by all classes, the price of the form of tobacco chosen for use will be entirely irrelevant. A proper consideration, in our opinion, will be the proportion of the duty to price in the case of cheap and costly varieties. At the present rates of duty the proportion of duty to value is 60 per cent. for biri tobacco and 66 per cent. for hookah and other tobacco. With a flat rate of nine annas per lb. the percentage will go up to 100 for the latter and go down to 38 for the former. The effect of a flat rate will be felt particularly in a period of falling prices when the duty may have to be reduced. With a differential tariff it will be possible to adjust the burden for the use of different varieties on the basis of the trends of their consumption. With a flat rate, the reduction, in such circumstances, has to be uniform for all varieties.

31. The other alternative is that a low rate of duty which does not bear heavily on cheap varieties of tobacco should be imposed along with a duty on manufactured biris. Assuming that the present rate of six annas per lb. will continue, the tariff for biri manufacture will have to be pitched at least at eight annas per lb. in order to secure revenue of the same order as at present. If small biri manufacturers were exempted from the duty on economic and other considerations, the loss of revenue so caused will have to be made up by a further increase in the rate of duty on manufactured biris. This is likely to disturb the present balance between biris and cigarettes in regard to excise duty. It is difficult to visualise its effect on the consumption of biris. The biri manufacturing trade gives employment to a large number of persons and the possibility of the cheap varieties of cigarettes encroaching on the biri market has to be carefully investigated before a duty on manufactured biris is levied. The trade is organised on the basis of the out-worker system. The administrative control will, therefore, have to extend to lakhs of small scale operators which besides imposing a heavy burden on administration is also likely to cause harassment to these

operators. The only way in which an excise duty on manufactured biris can be successfully operated is by exempting small scale units which, however, represent much the greater part of the industry. The recent Ordinance, since replaced by an Act of Lok Sabha, that has been issued to discourage the use of machinery in rolling biris with a view to maintaining employment in the industry is an indication of the economic importance of the industry as carried on in cottages. At the present stage, we would deprecate any experiment which seeks to make radical changes in the system of excise on biris.

We recommend that the present differential tariff should continue and improvements should be made in the criterion of capability of use for biris as suggested in paragraph 28.

32. The tariff on cigarettes has been evolved in various stages. The progressive tariff on unmanufactured tobacco based on imported tobacco content was introduced in 1943 followed in 1948 by a progressive rate schedule on manufactured cigarettes based on value slabs related to wholesale cash price. A surcharge was imposed at two rates of one pice and two pice for every ten cigarettes on the basis of retail prices. The present rate structure may be seen at a glance in the table given below:—

TABLE 3.—Rates of duty on cigarette tobacco and cigarettes

I. Unmanufactured tobacco.	<i>Per lb.</i>
(1) If flue-cured and used in the manufacture of cigarettes containing—	
(i) more than 60 per cent. weight of imported tobacco.	Seven rupees and eight annas.
(ii) more than 40 per cent. but not more than 60 per cent. weight of imported tobacco.	Five rupees.
(iii) more than 20 per cent. but not more than 40 per cent. weight of imported tobacco.	Three rupees and eight annas.
(iv) 20 per cent. or less than 20 per cent. weight of imported tobacco.	Two rupees and eight annas.
(v) No imported tobacco.	One rupee.
(2) If flue-cured and used for the manufacture of smoking mixtures for pipes and cigarettes.	Seven rupees and eight annas.
(3) If other than flue-cured and used for the manufacture of (a) cigarettes or (b) smoking mixtures for pipes and cigarettes.	Nine annas.
II. Cigarettes of which the value—	<i>Per thousand</i>
(i) exceeds Rs. 50 a thousand,	Twelve rupees and eight annas.
(ii) exceeds Rs. 40 a thousand but does not exceed Rs. 50 a thousand.	Ten rupees.
(iii) exceeds Rs. 30 a thousand but does not exceed Rs. 40 a thousand.	Seven rupees and eight annas.
(iv) exceeds Rs. 25 a thousand but does not exceed Rs. 30 a thousand.	Six rupees and four annas.
(v) exceeds Rs. 20 a thousand but does not exceed Rs. 25 a thousand.	Five rupees.

- (vi) exceeds Rs. 15 a thousand but does not exceed Rs. 20 a thousand. Three rupees and twelve annas.
- (vii) exceeds Rs. 10 a thousand but does not exceed Rs. 15 a thousand. Two rupees and twelve annas.
- (viii) exceeds Rs. 7-8-0 a thousand but does not exceed Rs. 10 a thousand. One rupee and eight annas.
- (ix) does not exceed Rs. 7-8-0 a thousand. One rupee.

33. The double decker progression with a surcharge, which is also graded, makes the system look somewhat complicated and is therefore a subject for criticism. There is a general demand that a simple system should be evolved.

34. It is necessary to appreciate, before any steps are taken to modify the present system, what its main functions are. The first is obviously the maximisation of the revenues; the others are that the duty is levied both on the raw material and on the manufactured product; that consistently with the maximisation of revenue it attempts to distribute the burden equitably among different classes of consumers; and that the duty on the lowest class of cigarette is higher than the duty on biri. It is not clear whether the last consideration was consciously in the mind of Government, but it has been given considerable importance in the evidence tendered before us.

35. We have no doubt that any alternative rate structure that is devised should be such as to secure at least the present revenue and should embody, to the extent practicable, the same equitable distribution of the burden among different classes of consumers. Unmanufactured tobacco, as a raw material, is distinguishable from other raw materials in that it carries a duty in whatever form it is used. We are unwilling to recommend any departure from this practice and to base the duty in respect of cigarettes entirely on the finished product. We anticipate that difficult problems of equity as well as administration will arise if such a change is made. Unmanufactured tobacco when used for manufacturing cigarettes is blended with imported tobacco and forms an intermediate product which is easily recognisable for tariff classification and whose end-use can, reasonably, be estimated. It is, therefore, not difficult, technically and administratively, to work out progression at this stage. When progression was introduced on unmanufactured tobacco, there was no duty on the manufactured product. It has been argued that with the introduction of the latter on a graduated scale the former has become in a sense unreal, on the assumption that in future the mainstay of the revenue will be the indigenous virginia tobacco whose quality has improved considerably. One of the leading manufacturers has, however, argued that the trends of the market still suggest the continued use of imported tobacco; the clearances in respect of the quality of cigarette costing between Rs. 40 and Rs. 50, which presumably use the highest types of blends, indicate that its sales are going up. It is true that the intermediate qualities of cigarettes, using blends with moderate admixture of imported tobacco, are going out of use and a tariff that consists of a number of grades is in practice working as a two or three point tariff in respect of unmanufactured tobacco and also of the manufactured product. We do not, however, favour a single point tariff. We presume that for some time to come imported tobacco will continue to be used. The yield of revenue depends

on the blends used, the import duty on tobacco and the rate of excise duty. It is possible to vary the blends in such a way as to reduce the offtake of the indigenous tobacco, to secure better quality and to pay comparatively less duty if only a single point tariff is adopted for unmanufactured tobacco. The following illustrations will make this point clear:—

TABLE 4.—Comparative amounts of duty payable under the existing tariff and the alternative structure suggested

Illustration 1

(a) Assumptions :			
(1) blend : imported tobacco	75%		
indigenous "	25%		
(2) No change in import duty			
(3) Excise duty		Rs. 2	
Duty per lb. paid at present		Duty per lb. payable if the suggestion is accepted.	
$\frac{\text{Rs. } 9-13-6 \times 75 + 7-8 \times 25}{100} =$	Rs. 9-4-2	$\frac{\text{Rs. } 9-13-6 \times 75 + 2 \times 25}{100} =$	Rs. 7-14-2
		Loss	Rs. 1-6-0
(b) Assumptions:			
(1) blend : same			
(2) Import duty	12-0-0		
(3) Excise duty on unmanufactured tobacco	1-0-0		

$\frac{\text{Rs. } 9-13-6 \times 75 + 7-8 \times 25}{100} =$	Rs. 9-4-2	$\frac{\text{Rs. } 12 \times 75 + 1 \times 25}{100} =$	Rs. 9-4-0
		Loss	Re. 0-0-2

Illustration 2

(a) Assumptions :			
(1) blend : imported tobacco	50%		
indigenous "	50%		
(2) No change in import duty.			
(3) Excise duty.		2-0-0	
Rs. $\frac{9-13-6 \times 50 + 5 \times 50}{100} =$		Rs. 7-6-9	
		Loss	Rs. 1-8-0
(b) Assumptions :			
(1) blend : same			
(2) Import duty	12-0-0		
(3) Excise duty	1-0-0		
Rs. $\frac{9-13-6 \times 50 + 5 \times 50}{100} =$		Rs. 7-6-9	
		Loss	Rs. 6-8-0
			Re. 0-14-9

Illustration 3

(a) Assumptions :			
(1) blend : imported tobacco	20%		
indigenous "	80%		
(2) No change in import duty			
(3) Excise duty		2-0-0	
Rs. $\frac{9-13-6 \times 20 + 2-8 \times 80}{100} =$		Rs. 3-15-6	
		Loss	Rs. 3-9-1
			Re. 0-6-5

(b) *Assumptions:*

- (1) blend : same
 (2) Import duty 12-0-0
 (3) Excise duty 1-0-0

$$\frac{\text{Rs. } 9-13-6 \times 20 + 2-8 \times 80}{100} = \text{Rs. } 3-15-6 \quad \frac{\text{Rs. } 12 \times 20 + 1 \times 80}{100} = \text{Rs. } 3-3-2$$

Loss Re. 0-12-4

These are purely illustrative examples, but they suggest that there is a possibility in certain cases of a squeeze on indigenous tobacco by reviving some of the blends with a moderate admixture of imported tobacco unless the customs duty on the latter is also raised simultaneously. It is perhaps possible to offset this eventuality by changing suitably the tariff structure for the manufactured commodity. We are, however, inclined to think that the better course would be to continue the present progressive structure in respect of duty on unmanufactured tobacco.

36. We have no evidence to indicate the exact degree of competition between the biri and cigarette trades. **Biri versus Cigarette** But we think, in view of the vast number of persons employed in the biri industry, that no attempt should be made at present to reduce the differential between the two.

37. The only suggestion that has been received by us regarding the tariff structure of the manufactured product is that the present nine value slabs should be replaced by two slabs; and the duty should be converted from the present specific rates based on value slabs related to wholesale cash price to two *ad valorem* rates of 10 per cent. and 20 per cent. The burden of the present duty ranges from 13 per cent. in the case of cigarettes whose value does not exceed Rs. 7/8/- per thousand to 25 per cent. in practically most of the cases except in one case where the burden is 27½ per cent. The effect of the suggestion would be to reduce the burden on almost all varieties of cigarettes. The loss of revenue is estimated at Rs. 3 crores or so. Another consequence of the reduction of *ad valorem* incidence on the lowest priced cigarettes would be to increase their competitive capacity as compared to the biris. For these reasons we do not recommend a revision of the present tariff on manufactured products. **Duty on manufactured products**

38. We notice that in one case, *i.e.*, cigarettes costing between Rs. 10 and Rs. 15 per thousand, the *ad valorem* incidence is the highest in the value slabs. We understand that cigarettes so priced are largely prepared from flue-cured and non-flue-cured tobacco of indigenous origin. The trends of clearances show that this variety has lost ground heavily during the last few years. There is a case, in our opinion, for a review of the duty on this variety possibly by abolishing the surcharge.

39. We would also recommend that the surcharge referred to in paragraph 32 should be amalgamated with the ordinary rates and that in order to give relief in the slab referred to above, the surcharge on cigarettes of the value of Rs. 40—50 should be increased to compensate for the loss of revenue that may be involved.

40. The rates of duty for various varieties of tobacco have been increased from time to time and the following **Rates of duty**

table shows the duties expressed as percentages of wholesale prices including duty from year to year:—

TABLE 5.—Rates of duty as percentages of wholesale prices

Variety of tobacco.	1944-45	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54
Cigarette :										
Flue-cured	55.4	59.3	55.6	53.8	51.4	N.A.	47.6	37.8	35.9	28.6
Aircured	47.7	58.6	52.1	38.8	65.4	N.A.	N.A.	N.A.	N.A.	N.A.
Biri	30.4	26.8	27.6	26.0	35.7	34.2	31.8	34.8	32.1	42.9
Snuff	37.8	32.0	37.0	23.7	32.5	36.7	44.1	24.4	17.9	15.9
Hookah & Chew-										
ing	15.8	19.7	19.5	16.7	23.4	30.4	32.3	43.3	37.5	39.5
Cigar and cheroot	16.7	15.1	19.1	27.2	31.6	21.0	19.9	27.4	29.5	31.2

The price data for flue-cured cigarette tobacco relate only to two top grades and the fall in percentages in recent years has been due to the decline in overall average duty following the reduced intake of imported tobacco.

The substantial decline in prices in 1953-54 necessitated the grant of temporary relief in rates of duty which, as mentioned earlier, was announced on 10th April 1954. The demand that was made to us before the announcement of the relief, was generally for reduction in the duties for different varieties. We do not think the change in production, prices and market conditions is sufficiently clear to justify a reduction in the normal rates of duty.