

# Growth and Development of Tobacco Production and Exports of Tobacco Industry in India - An Overview

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## Introduction

Tobacco occupies an important place among cash crops grown in India. It is cultivated in a meagre area of 4 lakh ha which constitutes 0.27 per cent of the total arable land in the country. The production, on an average, touches 700 million kg of cured leaf annually. On global basis, India ranks first in respect of non-FCV tobacco production and fifth in area under FCV tobacco. West Bengal occupies an important place in the tobacco map of the country under non-FCV tobacco, i.e., chewing type of tobacco.

The tobacco industry, with several short term multifarious attractive features like, its employment potential, tax earning capacity and its ability to catch up on standard soils, has dominated the economy of many developing countries with low employment, limited tax revenues and low agricultural productivity. Despite several tobacco phobic campaigns and import restrictions by importing nations, the performance of tobacco in the third world countries is commendable.

India is a major grower and exporter of tobacco in the world. Tobacco contributes a lot to the government exchequer in terms of revenue generated through central excise on cigarettes. The cultivation, processing, manufacture and marketing of tobacco and its products also provide gainful employment to millions of people in the organised and unorganised sector.

In India a variety of tobaccos are grown suitable for use in manufacturing cigars and cigarettes, 'beedies', hookah, cheroots and snuffs and chewing.

## Varieties of Tobacco and Tobacco Products Exported

- Tobacco: FCV and Non-FCV (Burley, Sun Cured Country, Sun Cured Virginia, Dark Western Fire (DWF) Jutty, Oriental, Lalchopadia, Rustica and Judi).

- Tobacco Products: Cigarettes, Cut Tobacco, Bidis, Hookah Tobacco Paste, Chewing tobacco, Snuff powder etc.

According to Dr. M.S. Swaminathan, however, the tobacco crop may exit India in the next 15 years as it is world's most hated 'dying crop'. The consumption of tobacco has already come down drastically in the developed countries for its evil effects on consumer's health.

The union government and the state governments of many states have placed various curbs on the consumption of tobacco in the form of cigarette smoking in public places and banning the sales of gutka, etc., but have not banned the cultivation of tobacco because it is the lifeline of 36 million people in the country. There are an estimated 6 million farmers engaged in the cultivation of tobacco, 4 million people engaged in rolling of 'beedies' and one million people engaged in plucking of tendu leaf. There are more than a million people engaged in selling of cigarettes, 'beedies', betels, gutka and other tobacco products. The fate of even betel industry hangs on tobacco. Bedas contain several other ingredients like betel leaves arecanut, kaththa, lime, cardamom, cloves, fennel, gulkand etc. These all industries are inter-dependent and a ban on gutka or betal chewing can affect all these industries badly.

Tobacco is a drought resistant crop mainly grown in unirrigated tracts in the country. Its normal crop year is from July to June. Andhra Pradesh, Gujarat, Karnataka and Uttar Pradesh are major tobacco cultivating states in the country accounting for over 90 per cent of the area and output of tobacco in the country. The cultivation of tobacco has now extended to Bihar, Maharashtra, Orissa, Tamil Nadu and West Bengal also.

On January 24, 2002, the Supreme Court ruled that the cultivation and sale of raw tobacco is a

non-industrial agricultural activity and the state governments are free to impose any agricultural market fee on their sales as in the case of any other agricultural produce. The processing and manufacturing of tobacco products is an industrial activity and is under the jurisdiction of the Central lawmakers, namely, the Tobacco Board Act. The Court called its earlier 1985 ruling barring the states from imposing market fee on raw tobacco as bad in law.

### Objectives of the Study

- To study the over all position of the Tobacco Industry in India.
- To study the economic importance of the crop and
- To analyse the production of tobacco.

The Table 1 gives the details relating to the production of FCV tobacco. China, USA, India, Brazil, E.U., Argentina, Zimbabwe, Tanzania, Bangladesh, Indonesia, Malawi, Canada, Zambia, Philippines, South Africa, Thailand,

Uganda are the major tobacco producing countries in the world. According to universal crop reports February 2009 the world output of tobacco was expected to increase to 580 M tones an 2009 from 485 Million tonnes in 2002. In an attempt to balance output with consumption and reduce the domestics the major producer countries have increase the area under to tobacco. At present China, the US, India, Brazil Argentina are major producers in FCV tobacco. More than half of the world leaf tobacco outputs is from China. India has increases its output in 2000 to higher the leaf stocks after record outputs of past few years. The area under tobacco in Zimbabwe fell because of depressed economic condition and ongoing land ownership crisis. The universal crop report had projected India output of unmanufactured tobacco at 296 Million tonnes in 2000 from 177 Million tones in 2000-2001 due to crop holiday in one of the states. India's consumption of tobacco is expected to increase 82 Million Kgs in 2009 from 63 Million tonnes in 2000.

Table 1: The Global FCV Tobacco Crop Production, World FCV Production by crop year and country wise - Green Leaf (in Million Tonnes)

Sl. No.	Country	Years										
		2000	2001	2002	2003	2004	2005	2006	2007	2008 E	2009 P	Avg.
1	Brazil	425	408	513	480	701	694	632	643	608	580	13.76
2	India	177	60	183	201	238	236	242	260	275	296	7.02
3	U.S.A	256	247	259	230	227	195	210	220	219	249	5.91
4	E.U	126	129	135	141	146	149	121	125	130	36	0.85
5	Argentina	65	55	71	69	90	91	81	85	82	84	1.99
6	Zimbabwe	0	203	166	82	70	73	55	73	49	40	0.95
7	Tanzania	19	26	23	30	41	50	48	49	51	59	1.40
8	Bangladesh	0	31	40	40	42	42	49	57	53	56	1.33
9	Indonesia	0	46	23	36	36	38	37	41	42	42	0.99
10	Malawi	11	08	11	14	23	25	30	23	24	25	0.59
11	Canada	52	55	52	44	40	38	25	16	10	11	0.26
12	Zambia	0	04	05	07	16	22	23	19	14	16	0.38
13	Phillipines	37	36	37	39	24	23	22	25	23	30	0.71
14	S.A	23	25	25	27	25	20	13	10	07	08	0.19
15	Thailand	25	25	22	23	19	18	15	15	15	15	0.35
16	Uganda	10	12	19	18	20	11	10	11	16	18	0.43
17	Others	460	337	334	312	299	312	288	255	258	251	5.95
18	Total	1923	1707	1917	1793	2057	2037	1901	1927	1876	1916	45.45
19	China	1800	1800	1733	1800	1700	2000	2050	1950	2300	2300	54.55
20	World	3723	3507	3650	3592	3761	4044	3951	3877	4176	4216	100.00

Source: Universal Crop Reports, February 2009.

Table 2: Tobacco Production in India

(Million Kgs)

Year	Production		A.P.FCV	Prakasam district
	All Tobacco	FCV		
2000	599	168	131.03	64.96
2001	530	52	Crop -Holi	0
2002	592	187	120.04	67.91
2003	595	222	127.67	72.31
2004	602	243	147.97	88.34
2005	582	228	153.00	91.35
2006	596	269	145.36	82.6
2007	611	253	171.95	96.74
2008	692	318	165.33	95.30
2009	700	(271.43)	203.93	121.05

Source: Statistical Abstract in India, Directorate of Economics and Statistics. Ministry of Agriculture, New Delhi, 2009.

The above table tobacco production in India is presented in table 2 indicates maximum output took place in 2008-2009 over the last ten years whereas in 2000 the production was 599 M Kgs. India's share in the total world's average production is significant. Virginia tobacco is a kharif crop in Karnataka and early rabi crop in Andhra Pradesh. The crop in Karnataka is usually ready for harvesting in October as the season for planting seedlings begins in Andhra Pradesh. The crop in Andhra Pradesh is harvested in the later half of January. Increased arrivals of the Andhra Pradesh crop in the market however, take place only from the month of February.

In recent years, the tobacco output in India has shown marked improvement in 2008. For the first time India, crossed the 300 M.kgs mark India produced 168 M. Kgs FCV tobacco in 2000 against 318 M. Kgs in 2008 and 271.43 M. Kg as on 31.12.2009 due to a crop holiday in 2009, at the same time Prakasam district plays a crucial role

in FCV tobacco production 64.96 M. Kgs in 2000 and 121.05 M. Kg in 2009 due to increase in FCV production in Prakasam district.

#### Type Wise Performance of Tobacco Products

Type-wise performance exports of tobacco products is presented in table 3. In value terms 85.45 crores exports of tobacco products during the year 1999-2000 increased by 675.15 crores during the year 2008-2009 and in quantity terms 13631 tonnes during the year 1999-2000 in increased by 27,740 tonnes. The exports of India tobacco and tobacco products continued to grow for the consecutive year and registered a record performance during the fiscal 2008-2009 surpassing all the previous records on three counts the exports have surpassed 27,740 tones mark in quantity terms and Rs.675.15 crores mark and US\$ and 147.06 mark in value terms. This jump in exports of HT paste and cigarette tobacco contributed to be impressive in exports of tobacco products from India.

Table 3: Type-wise Performance of Export of Tobacco Products (Qty. In Tonnes, Value In Rs. Crores)

Products	1999-2000			2000-2001			2001-2002			2002-2003		
	Qty	Value	MUS\$	Qty	Value	MUS\$	Qty	Value	MUS\$	Qty	Value	MUS\$
Cigarettes	1851	46.29	10.82	2016	56.52	12.74	2883	84.88	18.	4704	121.92	25.02
Bidis	1174	37.18	8.69	962	32.96	7.43	961	33.37	7.10	1112	38.19	7.84
HT Paste	8439	31.66	7.40	9543	34.23	7.71	8910	34.83	7.	10182	36.29	7.45
Chewing/Zarda	1724	66.35	15.51	1953	94.33	21.26	2640	124.95	26.59	2413	116.88	23.99
Cut tobacco	409	3.20	0.75	907	8.03	1.81	663	7.14	1.52	1381	11.42	2.34
Snuff	37	0.77	0.18	12	0.27	0.06	19	0.46	0.10	50	0.63	0.13
Total	13631	185.45	43.36	15393	226.34	51.00	16076	285.63	60.	19842	325.37	66.78
Products	2003-2004			2004-2005			2005-2006			2006-2007		
	Qty	Value	MUS\$	Qty	Value	MUS\$	Qty	Value	MUS\$	Qty	Value	MUS\$
Cigarettes	6050	130.75	27.92	7190	155.18	34.83	5885	119.24	27.21	6424	148.39	32.85
Bidis	1029	34.4	7.35	1062	37.78	3.48	694	32.92	7.	1079	39.08	8.65
HT Paste	10534	42.93	9.17	10600	39.41	8.85	9930	37.37	8.53	10594	42.38	9.38
Chewing/Zarda	2944	423.37	26.34	3778	140.97	31.64	5739	171.27	39.08	5953	198.48	43.94
Cut tobacco	2103	16.93	3.62	2034	18.25	4.10	2506	23.89	5.43	4229	52.54	11.63
Snuff	116	1.77	0.38	110	1.69	0.38	108	1.26	0.28	91	1.50	0.33
Total	22776	350.16	74.77	24774	393.28	88.28	24862	385.95	88.0	28370	482.37	106.79
Products	2007-2008			2008-2009								
	Qty	Value	MUS\$	Qty	Value	MUS\$						
Cigarettes	5833	145.14	36.07	7760	247.65	53.94						
Bidis	1003	44.22	10.99	731	34.43	7.50						
HT Paste	10656	45.70	11.36	6508	32.39	7.06						
Chewing/Zarda	8338	252.95	62.86	8154	283.73	61.80						
Cut tobacco	4680	54.82	13.62	4490	76.07	16.57						
Snuff	147	1.44	0.36	97	0.88	0.19						
Total	30657	544.27	135.26	27740	675.15	147.06						

Source: Tobacco Board, Guntur.

Table 4: Exports of Tobacco &amp; Tobacco Products

Year	Tobacco		Tobacco Products		Total		
	Quantity	Value	Quantity	Value	Quantity	Value	
	(Tonnes)	(Rs.Crs)	(Tonnes)	(Rs.Crs)	(Tonnes)	(Rs.Crs)	(M.US\$)
1999-2000	122590	864.77	13631	185.45	136221	1050.22	245.55
2000-2001	100537	677.04	15393	226.34	115930	903.38	203.55
2001-2002	86010	602.89	16076	285.63	102086	888.52	189.04
2002-2003	107715	770.62	19842	325.33	127557	1095.95	224.95
2003-2004	128186	865.48	22776	350.15	150962	1175.63	251.04
2004-2005	138159	968.90	24774	393.28	162933	1362.18	305.77
2005-2006	142007	1027.52	24862	385.95	166869	1413.47	322.49
2006-2007	152618	1241.05	28370	482.37	180988	1723.42	381.54
2007-2008	174690	1478.51	30657	544.27	205347	2022.78	502.67
2008-2009	197127	2713.28	27740	675.15	224867	3388.43	738.06

Source: Tobacco Board, Guntur

Exports of tobacco and tobacco products is presented in table 4. It is clear that FCV tobacco is a crop of great socio-economic importance which touches the lives of nearly one lakh small and marginal growers of the states of Andhra Pradesh and Karnataka. FCV tobacco in India makes significant contribution to the national economic by earning about Rs.3388.43 crores (US \$ 738.06 millions) of foreign exchange, besides earning Rs.13300.32 crore to central exchequer by way of excise levies on cigarettes. The government therefore, gave highest priority to the development of this crop and had established tobacco board with an objective of overall development of tobacco industry. Owing to various efforts of the Board and stakeholders in the industry, the production and exports in this sector have significantly increased to a record level. The future thrust of this sector shall be on sustaining and improving the FCV tobacco

cultivation and to establish India as the most preferred global supply base. From the same table, one can observe that global economic recession on exports of tobacco and tobacco products does not show any considerable impact.

Targets and achievement of tobacco and tobacco products is presented in table 5.

Table 5: Targets &amp; Achievements of Tobacco &amp; Tobacco Products

Year	Targets		Achievements							
	Qty. Tonnes	Value Rs. Cr.	FCV tobacco		Non-FCV tobacco		Tobacco Products		Total	
			Qty. Tonnes	Value Rs.Cr.	Qty. Tonnes	Value Rs.Cr.	Qty. Tonnes	Value Rs.Cr.	Qty. Tonnes	Value Rs.Cr.
1999-00	110000	850.00	81929	681.20	40661	183.57	13631	185.45	136221	1050.22
2000-01	115000	900.00	64638	509.97	35899	167.07	15393	226.34	115930	903.38
2001-02	106000	930.00	57126	482.73	28884	120.16	16076	285.63	102086	888.52
2002-03	106500	930.00	74169	619.36	33546	151.26	19842	325.33	127557	1095.95
2003-04	115000	980.00	99183	702.31	29003	123.17	22776	350.15	150962	1175.63
2004-05	155000	1235.00	105417	818.12	32742	150.78	24774	393.28	162933	1362.18
2005-06	158000	1280.00	109575	857.90	32432	169.62	24862	385.95	166869	1413.47
2006-07	170000	1540.00	120300	1060.57	32318	180.48	28370	482.37	180988	1723.42
2007-08	-	-	137779	1242.14	36911	236.10	30657	544.27	205347	2022.78
2008-09	-	-	150174	2230.27	46953	483.01	27740	675.15	224867	3388.43

Source: Tobacco Board, Guntur.

From the above table 5, Indian FCV tobacco cultivation and exports have made rapid strides in the last ten years. Leaving behind the bitter memories of crop holiday in 2000-01 and proving the words of the skeptics that Indian tobacco had lost its customer base because of crop holiday, the FCV production had grown from 64,638 tones in 2000-01 to 1,50,174 tones in 2008-09 and emerged as dependable supply base. India is the third largest producer of tobacco in the world. From the "opportunistic market", it has grown to be the permanent blend constituent of major brands of multi-national cigarette manufacturers. The exports of FCV tobacco have grown tremendously breaking the records in 2008-09.

Overall, the exports of tobacco and tobacco products were a record Rs.3388.43 crores in 2008-09. India has emerged as the second largest exporter of FCV in the world after Brazil.

FCV tobacco cultivation has become highly remunerative and Indian FCV tobacco grower had for the first time in the history of tobacco cultivation received highest price of Rs. 160 Kg or US\$3.20 Kg for his produce in 2009 as compared to an average of US\$1, he was getting for years together. The year 2008 and 2009 are the watershed years in the history of tobacco cultivation and the period can be rightly termed as 'golden age' for tobacco growers as they were able to make sizeable profits during this period.

By virtue of sheer volumes and favourable quality value ratio, Indian FCV tobacco is progressing to occupy its rightful place in the world tobacco. The strategy of all the stakeholders in the Indian industry shall be to make it a reality in the next few years. The excise duty and foreign exchange revenue on tobacco are presented in the following table-6.

The exports of excise duty and foreign exchange from India in 1999-2000 is Rs.in 7262.11 crores, Rs.1050.22 crores and MUS\$ 245.55. The overall position of the excise duty and foreign exchange 2001-2002 to 2008-2009 shows an increasing trend. In the excise duty and foreign exchange in the year 2008-2009 Rs in 13300.32 crores, Rs.3388.43 and MUS\$ Rs.738.06.

Table 6: Excise Duty & Foreign Exchange Revenue on Tobacco

Year	Excise duty	Foreign exchange	
	(Rs.in crores)	(Rs.in crores)	Million US\$
1999-2000	7262.11	1050.22	245.55
2000-2001	8182.35	903.38	212.56
2001-2002	6443.67	888.52	189.04
2002-2003	6397.23	1095.95	224.95
2003-2004	6635.61	1175.63	251.04
2004-2005	7170.84	1362.18	305.77
2005-2006	8382.07	1413.47	322.49
2006-2007	9197.40	1723.42	381.54
2007-2008	10271.55	2022.78	502.67
2008-2009	13300.32	3388.43	738.06

Source: Tobacco Board, Guntur.

India has a comparative advantage in supply of tobacco due to availability of varied agro-climatic conditions, diversified variety mix available all, throughout the year and low wage rates leading to lower cost of production. Hard working, well-experienced farmers and well-trained agricultural labour in tobacco cultivation, vast infrastructure and state of the art processing facilities available with exporters who had years of experience in processing and supplies will provide the cutting edge for improving the competitiveness of Indian tobacco in the world and make it a preferred choice for the customers.

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