

# Consumer Affairs Minister flags illicit trade as a major deterrent to India's growth

07 April, 2015, The Lalit, New Delhi

FICCI's Committee Against Smuggling & Counterfeiting Activities Destroying Economy (FICCI CASCADE) organized an interactive session on **Illicit Markets – Impacting the Indian Growth Trajectory on April 7, 2015 in New Delhi**. The session enabled a dialogue between the stakeholders on the alarming magnitude of unfair trade practices such as counterfeiting and smuggling and spread awareness about its adverse socio economic impact.

Shri Ram Vilas Paswan, Minister of Consumer Affairs, Food and Public Distribution, chief guest at the event emphasised that illegal trade activities such as smuggling and counterfeiting is a major setback to India's growth and development. This not only hinders the nation's progression but also leads to corruption and black money generation. Given the current emphasis on the 'Make in India' campaign, it becomes imperative that the quality of the products available is not substandard and fake. The Minister further added that illicit trade impacts all sections of society hence it becomes essential to control the quality of goods available in the market. Hon'ble Minister also stated that his ministry would be keen to work with FICCI CASCADE in addressing these issues and invited recommendations in this regard.

On this occasion, the Minister also released 9 sector specific reports entitled 'Illicit Market: A Threat to Our National Interest'. This is perhaps the first quantitative study in India on the impact of illicit markets on various economic aspects. These sector wise reports, broadly classified into two sections; firstly, the Manufacturing Industry, including FMCG Packaged Foods and Personal Goods, Computer Hardware, Automobiles, Mobile Phones, Tobacco and Alcohol, and secondly, the Media & Entertainment Industry including Broadcasting and Motion Pictures sectors. These reports not only estimates the size of the grey market in the industry sectors, but also highlights the losses to the industry in sales and to the Government in revenue. The studies further assess the impact of illicit markets on innovation, investment, tax arbitrage and financing of organised crime and terrorism.

Dr. Jyotsna Suri, President FICCI in her welcome address stated that the need of the hour today is tangible actions to strengthen our laws, and increase enforcement against illicit trade practices. A coordinated strategy with participation from policy makers, industry, civil society and organizations, is needed to work together and comprehensively address this complex challenge.

Mr. Anil Rajput, Chairman FICCI CASCADE presented the highlights of the study and said that stakeholders must put national interests above anything else. Due to India's growing economic clout in the world market, we must be wary of being targeted by illicit trade operators. Mr. Rajput further added that national economic policies will need to give more attention to

protecting the domestic economy from smuggled and counterfeit products that can wipe value creation from legitimate players in the economy, and cause loss of potential employment.

The study estimates that the loss to manufacturing related sectors has increased by 44.4% in just two years, from ₹ 72,969 crores in 2011-12 to ₹105,381 in 2013-14. Loss of sales to the manufacturing industry sectors has increased across all industries. The largest increase is seen in the alcoholic beverages and mobile phones industries, where losses have risen by 151% and 111%, respectively. The total loss to the government for manufacturing industries estimated for 2014, on account of the illicit markets is ₹ 39,239 crores, up from ₹ 26,190 crores in 2012. In the motion pictures industry the loss to the industry for 2014 is expected to be ₹ 1,300 crores approximately. Among all the sectors in the manufacturing industry, loss to the government is highest from the tobacco industry (23 percent) followed by mobile phones industry (17 percent), alcohol industry (16%), FMCG Packaged Food (16%), and FMCG Personal Goods (15%). In the motion pictures industry the loss to the industry for 2014 is expected to be ₹ 1,300 crores approximately.

The study also establishes a relationship between high taxes and availability of illicit products. High tax rates tend to exacerbate illicit markets by creating greater demand for cheap and counterfeit substitutes. A significant reason being, that high tariffs and taxes create opportunities for those involved in illicit markets to step in and supply 'reduced' versions of the original product at lower prices. This is true for the tobacco and alcohol Industry. These industries are not only highly taxed; the tax structure is highly intense and dual in nature. Besides, there are considerable differences in tax rates between states which open up opportunities for illegal cross-border trade.

Earlier, during National Consumer Rights Week, FICCI CASCADE had organized a youth festival – 'Youth for Consumer Rights – Towards Socially Responsible Citizens' in New Delhi. Over 200 students from various schools of Delhi enthusiastically participating in the inter-school Elocution and Painting Competition themed: 'Youth Against Smuggling and Counterfeiting'. Hon'ble Minister also felicitated the winners of both these competitions during the event.

The interactive session was attended by over 100 participants from industry, policy makers, consumer organizations and was well covered by media.

\*\*\*