

General Studies – 2; Topic: Issues relating to development and management of Social Sector/Services relating to Health

Ban on FDI in tobacco sector

1) Introduction

- Recently, the Commerce Ministry sent a note to the Cabinet proposing a blanket ban on FDI in the tobacco sector to better achieve the objective of reducing tobacco consumption
- As per WHO Framework Convention on Tobacco Control (FCTC) India is under an obligation to reduce high consumption of tobacco products which pose a grave public health danger.

2) Ban on FDI in the tobacco sector

- India banned FDI in tobacco manufacturing in 2010
- Foreign tobacco companies are allowed to invest through technology collaboration, licensing agreements and by forming a trading company.
- Commerce Ministry sent a note to the Cabinet proposing a blanket ban on FDI through the trademark or licensing route.
- **Effect on Tobacco Industry**
 - a) This would put an end to all kinds of participation of foreign companies in the tobacco sector.
 - b) Some of the American Tobacco giants have invested in the Indian tobacco market and argue that such a ban would be 'discriminatory' and 'protectionist'.
 - c) This move would curb on funding sources to domestic industries and impede the growth of these industries in terms of trade, employment, investment etc.
- **Investor - State Dispute**
 - a) Foreign Tobacco companies might challenge any such blanket ban under India's bilateral investment treaties (BITs).
 - b) FDI blanket ban could be challenged as being discriminatory by favouring domestic tobacco investors over foreign investors.
- **Challenges**
 - a) Ban on FDI in the tobacco sector cannot bring any substantial impact in curbing the tobacco menace
 - b) Domestic players could occupy the market freed up by foreign players.
 - c) Large number of people and farmers engaged in tobacco production and sale has to be provided alternative sources of livelihood.
 - d) The ban would also eliminate the possibility of indirect flow of overseas funds to the sector.

3) Alternative Regulatory Measures

- **Plain packaging regulation**
 - a) Plain packaging regulation is better than banning FDI completely
 - b) FCTC talks about countries adopting packaging and labelling requirements to create better awareness
 - c) India would be on a much stronger legal wicket in defending it than defending a complete ban on FDI.
 - d) Amend the Cigarettes and Other Tobacco Products Act (COTPA) for plain packaging of cigarettes
 - e) Studies from Australia show that smoking rates plunged by 12.2% after plain packaging regulations were introduced.
- **Increase taxes on tobacco products**

- a) Studies argue that overall taxes on cigarettes in India are still low relative to other countries.
- b) Bidis have often been exempted from increase in excise taxes despite being the most commonly used tobacco in India
- c) The 2017-18 Budget has only marginally increased the excise duty on handmade bidis
- **Proactive government**
 - a) The government needs to demonstrate strong political will and carefully choose policies to deal with the menace of high tobacco consumption.
 - b) Phasing out existing investments in the sector made by domestic companies
- **Awareness drives**
 - a) Engage youth, medical personnel, and media in educating masses about ill-effects of tobacco consumption.
 - b) Preventing new users especially youths from getting addicted to Tobacco Products
 - c) An aggressive campaign to disseminate the lethal consequences of tobacco consumption needs to be adopted.
- Across the globe, research has shown that increased taxation and large pictorial warnings have great effect in curbing tobacco consumption.
- It is time to disincentivise tobacco agriculture.

