TOBACCO UNDERGROUND:
LOOSE BORDERS & BOOMING TRADE IN BANGLADESH

FHM HUMAYAN KABIR
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CONTENTS

Executive Summary ........................................................................................................... 5

Chapter – I: Research Idea ................................................................................................. 8
  1.1 Introduction ....................................................................................................................... 8
  1.2 Bangladesh and Tobacco Smuggling...................................................................................9
  1.3 Study Objectives .............................................................................................................. 10
  1.4 Limitations of the study .................................................................................................... 11
  1.5 Methodology & Data Source ............................................................................................ 11
    1.5.1 Brainstorming and Idea Generation ........................................................................... 12
    1.5.2 Building Rapport ........................................................................................................ 13
    1.5.3 Data Collection ......................................................................................................... 13

2 Chapter–II: Tobacco Industry ..................................................................................... 15
  2.1 Tobacco Industry in Bangladesh .......................................................................................15
    2.1.1 Market Structure: Tobacco Manufacturing ................................................................. 15
    2.1.2 Legal Market ..............................................................................................................16
    2.1.3 Economic Impact of Tobacco use .............................................................................. 16
    2.1.4 Health Impact of Tobacco Use .................................................................................. 17

3 Chapter–III: Illegal Trade ............................................................................................18
  3.1 Types of Illegal Trade in Bangladesh .................................................................................18
    3.1.1 Illegal Manufacturing .............................................................................................18
    3.1.2 Smuggling ..................................................................................................................19
  3.2 Routes of illegal Trade ......................................................................................................19
    3.2.1 Bangladesh-Myanmar Border .....................................................................................21
    3.2.2 Bangladesh-India Border ............................................................................................24
  3.3 Diversions from Ports of Entry .......................................................................................... 25
    3.3.1 Sea Ports ....................................................................................................................25
    3.3.2 Airports ......................................................................................................................27
  3.4 Illicit Manufacturing of Bidis .............................................................................................28

4 Chapter – IV: Economic Impact ..................................................................................32
  4.1 Impact of Illicit Tobacco Trade on Bangladesh Economy .................................................. 32
    4.1.1 Revenue from Tobacco ............................................................................................ 32
  4.2 Fiscal Loss ........................................................................................................................ 33
    4.2.1 Tax Evasion ............................................................................................................... 33
    4.2.2 Economic Loss from Smuggling of Cigarettes ............................................................. 33
    4.2.3 Economic Loss from Smuggling of Cigars ................................................................. 36
  4.3 Estimated revenue losses across tobacco products ............................................................ 36
    4.3.1 Revenue Loss from Cigarettes .................................................................................. 37
    4.3.2 Revenue Loss from Cigars (Churut): ...................................................................... 38
4.4 Money channel ................................................................................................................ 38
4.5 Threats to National security ..............................................................................................39
4.6 Factors Facilitating the Illicit Trade of Tobacco ................................................................. 39

5 Chapter–V: Illegal Trade Protection............................................................................40
5.1 Policy Framework for Combating Smuggling ................................................................. 40
  5.1.1 Anti-Smuggling Laws ............................................................................................... 40
  5.1.2 Tax & Duty Structure in Bangladesh ....................................................................... 40
5.2 Tax measures ....................................................................................................................41
  5.2.1 Tax and Duties on Domestic Production ................................................................ 42
  5.2.2 Central Intelligence Cell (CIC) and Value Added Tax (VAT)
      Audit Cell of the National Board of Revenue (NBR) .................................................. 42
5.3 Recommendations ............................................................................................................42

6 References ......................................................................................................................... 46

FIGURES&TABLES

Figures:
- Figure 1: Retail shop in Baitul Mokarrom area selling illegal foreign-brand cigarettes .......... 2
- Figure 2: Main land route of Smuggling- Bangladesh’s South-eastern border ......................... 2
- Figure 3: A boy smuggling cigarettes from Myanmar’s Maungdaw city to Bangladesh’s Teknaf border ................................................................. 2
- Figure 4: Myanmarese cigarettes smuggled through Naf River to Teknaf town in Bangladesh ...... 1
- Figure 5: Bangladeshi visitors from Myanmar are getting down from the boat ......................... 2
- Figure 6: Foreign cigarette brands illegally traded in Bangladesh’s retails shops ...................... 1
- Figure 7: Pictures of cigarette packet, made in Myanmar ....................................................... 1
- Figure 8: News items on smuggled cigarettes seized at Kamlapur Inland Container terminal in Dhaka ......................................................................................... 1
- Figure 9: Duty-free shops in Dhaka airport. The shopkeepers supply foreign-brand cigarettes to the city markets illegally ......................................................... 2
- Figure 10: A news item on illegal bidi manufacturing in Bangladesh’s different areas ................ 2
- Figure 11: Local, hand-made Patar bidi (leaf-made cigar) and churuts ..................................... 2

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 ........ 15
- Table 2: Observational Estimation of patar-bidi (leaf-rolled bidi) ........................................ 31
- Table 3: The sale of churuts (cigar) in the illegal market ...................................................... 32
- Table 4: Total amount of smuggled cigarettes sold in Bangladesh ........................................ 32
Table 5: Share of Tobacco Taxes in Total Tax Revenue  .............................................................. 33
Table 6: Tobacco Tax & Duties – the figure of the year 2005/06 has been taken as the base line figure ................................................................. 34
Table 7: Cigarettes smuggled from Myanmar through Teknaf point ........................................ 35
Table 8: Illegal cigarettes traded in Riaz Uddin wholesale market in Chittagong .................... 36
Table 9: The volume of wholesale trade in Dhaka city market .................................................. 36
Table 10: Sales of illegal cigar/ churut ......................................................................................... 37
Table 11: Tax and Duty Structure at Import Level ................................................................. 38
Table 12: Volume of tax and revenue loss due to smuggling of cigarettes ............................... 38
Table 13: Volume of tax loss from the cigar ............................................................................. 39
Table 14: Tax and Duty Structure on tobacco and tobacco products ....................................... 42
Table 15: Tax and Duty Rates of Cigarette Manufacturing .................................................... 43
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...
Bangladesh 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.
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.

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

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

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.
5.1 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 Motiur Rahman Talukder, of ‘Manas’ (Madok Drabba O Nesa Nirodh Sangstha) – an organization working to eliminate drug addiction – manufacturers regularly pay taxes for 100,000 bidis (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.

5.1.1. 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 Bashkhali upazila 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.

5.1.2 Smuggling

Smuggling is the most complex and oldest form of illegal trade, typically avoiding taxes. Traditionally, it has been categorized into small-scale smuggling – or “ant smuggling” – and “large-scale” smuggling. The distinctions between the two includes the involvement of organised 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.

# The seven states of India situated to the east of Bangladesh.
5.2 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 ShahjalalInternational 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.

5.2.1 Bangladesh-Myanmar Border

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

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.

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, Gudang Garam and Esse (South Korea & Indonesia), Mallboro (Switzerland), Bon, King Edward (Cigars), L&M, Salem (USA), and Lips Cherry Cigars (Netherlands).

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, cheroots, cigars, and liquor.

5.2.2 Bangladesh-India Border

Some residents living in border areas with India are involved in the illegal trade of different products like cigarettes, cheroots, 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.²

5.3 Diversions from Ports of Entry

5.3.1 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.

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**The Daily Star**

*Committed to PEOPLE’S RIGHT TO KNOW*

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**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 Kamalapur.

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.

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Figure 8: News on smuggled cigarettes seized at Kamalpur Inland Container terminal in Dhaka

² Information has been provided by the area manager of the local cigarette manufacturer Abul Khair Tobacco Ltd and a local shopkeeper.
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.

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.

5.3.2 Airports

The duty-free shops in Dhaka and Sylhet international airports import foreign brand cigarettes including London 555, Malboro, 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.

“In 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.

5.4 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

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Figure 9: Duty-free shops in Dhaka airport. The shopkeepers supply foreign-brand cigarettes to the city markets illegally

3 The Daily Star newspaper in Dhaka, Bangladesh, August 04, 2006.
Leaf-rolled bidi factories emerge under lax watch

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.

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 ‘Nakol Haite Sabdhan’ (be aware of duplication) or ‘Photo Dekhia Loiben’ (buy after seeing the photo) on the packets to earn smokers’ trust.

While visiting Phulbaria area in Kaliakoir upazila of Gazipur district, The Daily Star correspondent found some unauthorised bidi factories named Hossain Bidi, Mannan Bidi, Alim Bidi, Lucky Bidi and Dewan Bidi.

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 Hossain Bidi factory at Nabir Bahar village in Kaliakoir upazila, 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 Hossain Bidi produces 25 lakh sticks of ‘patarbidi’ every month while Alim Bidi 15 lakh sticks, Lucky 15 lakh sticks and Dewan 10 lakh sticks (10 lakh = 1 million).

Figure 10: A news item on illegal bidi manufacturing in Bangladesh’s different areas

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 bidiproducers 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 patarbidis to gauge the 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 Bazar 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 GudangGaram and Esse (S Korea and Indonesia), Mallboro (Switzerland), Bon, King Edward (Cigar), L&M, Salem (USA), Lips Cherry Cigars (Netherlands); Peacock and W&A (Myanmar) etc are being sold illegally in different parts of Bangladesh.

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

<table>
<thead>
<tr>
<th>Spots/ Places</th>
<th>Smuggled Products</th>
<th>Sales Per Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teknaf, Cox’s Bazar</td>
<td>Churuts (Cigars)</td>
<td>30,000 – 45,000 sticks</td>
</tr>
<tr>
<td>Chittagong</td>
<td>Churuts (Cigars)</td>
<td>30,000 sticks</td>
</tr>
<tr>
<td>Total</td>
<td>Churuts (Cigars)</td>
<td>60,000 – 75,000 sticks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SL</th>
<th>Spots / Places</th>
<th>Smuggled Products</th>
<th>Sales per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Teknaf, Cox’s Bazar</td>
<td>Cigarettes</td>
<td>10,000–15,000 sticks</td>
</tr>
<tr>
<td>2</td>
<td>Chittagong</td>
<td>Cigarettes</td>
<td>1,05,000– 1,40,000 sticks</td>
</tr>
<tr>
<td>3</td>
<td>Dhaka</td>
<td>Cigarettes</td>
<td>52,000 sticks</td>
</tr>
<tr>
<td>4</td>
<td>Total</td>
<td>Cigarettes</td>
<td>1,67,000– 2,07,000 sticks</td>
</tr>
</tbody>
</table>
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 BDT 3,351 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.

1.1 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

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

Source: Total tax from Bangladesh Economic Review 2006, Financial Division, NBR&BBS (Figure based on revised budget)
1.1.1 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.

<table>
<thead>
<tr>
<th>No. of sticks evaded Tax per year (Patar Bidi)</th>
<th>Tax rate per 25 sticks (patarbidi)</th>
<th>Loss of Revenue per year</th>
<th>Loss in percentage to the tobacco tax &amp; duty*</th>
</tr>
</thead>
<tbody>
<tr>
<td>260 Million</td>
<td>BDT1.272</td>
<td>BDT13.228 Million (US$190,000)</td>
<td>0.39 %</td>
</tr>
</tbody>
</table>

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

1.1.2 Economic Loss from Smuggling of Cigarettes

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

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

**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](image)

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

*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](image)

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

* One carton carries 10 packs of 20 cigarettes each.
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.

1.1.3 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.

This researcher visited different spots in Chittagong city and its suburb areas. Through interview of the 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.

1.2 Estimated revenue losses across tobacco products

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

<table>
<thead>
<tr>
<th>Table 10: Sales of illegal cigar/ churut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the Spot</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>Teknaf</td>
</tr>
<tr>
<td>Chittagong</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 11: Tax and Duty Structure at Import Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>---------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>2401.10.00</td>
</tr>
<tr>
<td>2401.20.00</td>
</tr>
<tr>
<td>2401.30.00</td>
</tr>
<tr>
<td>2401.10.00</td>
</tr>
<tr>
<td>2401.20.00</td>
</tr>
<tr>
<td>2402.90.10</td>
</tr>
<tr>
<td>2402.90.90</td>
</tr>
</tbody>
</table>

Note: CD = Customs duty; SD = Supplementary duty; VAT = Value added tax
1.2.1 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 authorities are losing Tk2365.20 million (US$34.03 million) per year.

1.2.2 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 (US$0.971 million) in taxes per year due to cigar smuggling.

1.3 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

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

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

Table 13: Volume of tax loss from the cigar

<table>
<thead>
<tr>
<th>Name of the spots</th>
<th>Total Volume of smuggling per Year (in Million BDT)</th>
<th>Loss of Custom Duty per year (25%)</th>
<th>Loss of Supplementary Duty per year (100%)</th>
<th>Total Loss of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teknaf, Cox’s Bazaar</td>
<td>BDT32.40 million</td>
<td>BDT8.10 million</td>
<td>BDT32.40 million</td>
<td>BDT40.50 million</td>
</tr>
<tr>
<td>Chittagong</td>
<td>BDT21.60 million</td>
<td>BDT5.40 million</td>
<td>BDT21.60 million</td>
<td>BDT27.00 million</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>BDT67.5 million (US$0.97 million)</td>
</tr>
</tbody>
</table>
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.

### 1.4 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.

### 1.5 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.

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*“Hundi” is a form of transferring money to one state to another illegally as the involved businessmen never pay taxes to the government.*
2.1 Policy Framework for Combating Smuggling

2.1.1 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.

2.1.2 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>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CD</td>
<td>SD</td>
</tr>
<tr>
<td>2401.10.00</td>
<td>Tobacco, Not Stemmed/Striped</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td>2401.20.00</td>
<td>Tobacco, Partly or Wholly Stemmed/Striped</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td>2401.30.00</td>
<td>Tobacco Refuse</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td>2401.10.00</td>
<td>Cigars, Cheroots and Cigarillos Containing Tobacco</td>
<td>25.00</td>
<td>100.00</td>
</tr>
<tr>
<td>2401.20.00</td>
<td>Cigarettes Containing Tobacco</td>
<td>25.00</td>
<td>350.00</td>
</tr>
<tr>
<td>2402.90.10</td>
<td>Hand or manually made cigarettes containing tobacco (BIDI)</td>
<td>25.00</td>
<td>100.00</td>
</tr>
<tr>
<td>2402.90.90</td>
<td>Cigarettes, excl. hand or manually made cigarettes containing</td>
<td>25.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

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.

2.2 Tax measures

2.2.1 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.

2.2.2 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.

2.3 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>VAT</th>
<th>Price Per 10 Pieces (in Taka)</th>
<th>Supplementary Duty Rate at</th>
<th>Duty Rate</th>
<th>Total Tax Rate (VAT &amp; SD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>15%</td>
<td>2.50-2.99</td>
<td>32%</td>
<td>45.5%</td>
<td>67.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.00-9.99</td>
<td>49%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.00-24.99</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>15%</td>
<td>25.00+</td>
<td>51%</td>
<td>49%</td>
<td>71.35%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4-4.99</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5-9.99</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10-19.99</td>
<td>55%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>15%</td>
<td>20.00+</td>
<td>57%</td>
<td>49%</td>
<td>71.35%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.00-11.99</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.00-18.99</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>19.00-34.00</td>
<td>55%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>35.00+</td>
<td>57%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: National Board of Revenue (NBR), Bangladesh.

Table 15: Tax and Duty Rates of Cigarette Manufacturing
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 handmade 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.

6 References


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32. World Health Organization South East Asia Region. Impact of Tobacco related Illness in Bangladesh. 2006.
SMOKE ALARM
ILLICIT TOBACCO AND ALLIED TRADE ACROSS INDIAN BORDERS

BY
DAYA SHANKER SHUKLA SAGAR
I. ILLICIT TOBACCO TRADE IN INDIA ........................................................................................................6

II. ILLICIT TOBACCO TRADE FUELLING TERROR ................................................................................7

III. METHODOLOGY ......................................................................................................................................8
  1. Data Collection and Analysis
  2. Geographical Scope of the Investigations
  3. Limitations of the research

IV. BORDER 1: SMUGGLING BETWEEN INDIA AND NEPAL .................................................................9
  1. Smuggling is child’s play in Sunauli ........................................................................................................9
  2. The Rupaidiha namesake .......................................................................................................................12
  3. The Maze called Badhni .......................................................................................................................14
  4. A Hard Nut to Crack .............................................................................................................................17
  5. Terrorism & tobacco: new entrants to Siliguri’s “T-zone” .....................................................................20

V. BORDER 2: SMUGGLING BETWEEN INDIA AND CHINA .................................................................23
  1. Smuggling in the guise of trade ...............................................................................................................23

VI. BORDER 3: SMUGGLING BETWEEN INDIA AND BANGLADESH ..................................................25
  1. The swing door of smuggling ..............................................................................................................25

VII. BORDER 4: SMUGGLING BETWEEN INDIA AND BHUTAN ..........................................................28
  1. Blanket ‘butt ban’: mission impossible ...............................................................................................28

VIII. REFERENCES ........................................................................................................................................30

LIST OF BOXES, FIGURES AND TABLES

Box 1: Indo-Nepal- UK Joint Venture
Box 2: Betel nut: A key input for smokeless tobacco preparations?
Figure 1: Next-door neighbour Nepal at India’s Sunauli border
Figure 2: Girl engaged in “ant-smuggling” at Sunauli
Figure 3: A truck goes unchecked from Indian checkpoint in Sunauli towards Nepal
Figure 4: Illegal foreign brand cigarettes being sold adjacent to the Indian Customs Department checkpoint in Sunauli
Figure 5: SSB Inventory of seized cigarettes at Sunauli
Figure 6: Customs jottings reversing the seizure back to SSB
Figure 7: Tobacco-free school along Rupaidiha border
Figure 8: A teenager ferrying Nepalese-made cigarettes to India
Figure 9: A Nepalese liquor store-owner who is an agent for Marlboro cigarettes
Figure 10: A wholesaler of illicit tobacco
Figure 11: Boy ferrying cases of smuggled Marlboro
Figure 12: Nepalese carrier enjoying a puff of a foreign cigarette
Figure 13: Indian Muslim woman carrier with whom the Nepalese carrier networked
Figure 14: Excise check post at Badhni border where the officials claim that there is not much work to do. Vacant look of the check post proves the point.
Figure 15: Short range CCTV cameras installed by SSB to compensate for the shortage of men
Figure 16: A Nepalese woman selling raw betel nut at the Mechi bridge
Figure 17: Betel nuts being sold along the Mechi bridge
Figure 18: A supari carrier who operates for a local retailer
Figure 19: Women in a bus transporting illicit cigarettes to Siliguri’s “Hong Kong Market”
Figure 20: Shopkeeper in Hong Kong market, Siliguri, selling smuggled foreign cigarettes
Figure 21: The Nathula Pass
Figure 22: Map showing the Nathula trade route (not to scale)
Figure 23: Route to China border in Nathula.
Figure 24: Fencing along the Changrabandha area of India along the Bangladesh border
Figure 25: A sling used in tobacco smuggling at the Bangladesh border
Figure 26: Bangladeshi native preparing to transfer an item to an Indian counterpart using the sling
Figure 27: A gap in the fencing along the Indo-Bangladesh border
Figure 28: Small Hill Huts Built in Bhutan
Figure 29: A Bhutanese native smoking in Phuentsholing
Figure 30: A truck from India crosses unchecked into Bhutanese territory at the Jaigaon entry point
Figure 31: A kiosk selling cigarettes in Phuentsholing
Table 1: Popular foreign cigarette brands available illegally in Indian markets
Table 2: Market Indicators (India illicit trade Estimate 2003-2008)
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)
CHAPTER – I

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

<table>
<thead>
<tr>
<th>Companies</th>
<th>Company’s Base Country</th>
<th>Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Morris</td>
<td>USA</td>
<td>Marlboro</td>
</tr>
<tr>
<td></td>
<td></td>
<td>L&amp;M</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chesterfield</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bond Street</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Philip Morris Parliament</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A Mild</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lark</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Morven Gold</td>
</tr>
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<td></td>
<td></td>
<td>Next</td>
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<tr>
<td></td>
<td></td>
<td>Diana</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optima</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Virginia Slims Merit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Red &amp; White Apollo-Soyuz</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Delicados</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Boston</td>
</tr>
<tr>
<td>British American Tobacco</td>
<td>United Kingdom</td>
<td>555</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benson &amp; Hedges</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kool</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kent</td>
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<td></td>
<td></td>
<td>Dunhill</td>
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<tr>
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</tr>
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<td>Di J Sam Soe</td>
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<td>Sampoerna</td>
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<td></td>
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<td></td>
<td></td>
<td>Gudang Garam Kediri</td>
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<tr>
<td></td>
<td></td>
<td>Indonesia Ruli river</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Djarum Black Just Black</td>
</tr>
</tbody>
</table>
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 NewYork) 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)**

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

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

*In Million Sticks*
CHAPTER – III

METHODOLOGY 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.

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, Jumantha 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. Chirangabandha 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.

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 constrains 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.
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 Kankarbhitta. 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.

Smuggling is child’s play at Sunauli

SUNAULI: 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 solider 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 1: Next door neighbour Nepal at Sunauli Border.

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

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

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

Figure 5 : SSB Inventory of seized cigarettes at Sunauli
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.

**The Rupaidiha namesake**

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 Kollkata, 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.

**The Marlboro Cocktail**

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 Khhatri 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 Khhatri 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. Khhatri 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 Khhatri. 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.

**The Trade Secret**

Krishnanagar: The next stop was Krishnanagar, in Nepal, where this reporter met a wholesaler who understood the dynamics of the trade better than Khhatri. “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.”

**Trespassing the Indian Border**

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.

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 13: The Indian muslim woman Summi Begum with whom Kanti dealt.)
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.

**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 where the officials claim that there is not much work to do. Vacant look of the check post proves the point.](image)

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 Marzatpur, 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.

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. Kothiya, 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
India

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.

**A hard nut to crack**

Panikutanki (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 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

![figure 16: A Nepalese woman selling raw betel nuts at the mechi bridge](image)
which manufacture them. The obvious interpretation is that traders in Nepal procure betel nut because of high demand in India. What has further fueled 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 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 pan 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

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**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, pan masala, mawa and Mainpuri tobacco, which together are estimated to constitute nearly 36% of tobacco consumption in India. Pan 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.

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**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, Srikanth 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.

**Nuts all the way**

Panikitanki (India)/Kankadbhitta (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
Kankadbhitta 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. Kankadbhitta is the real nucleus
of the illicit trade. This reporter drove across Mechi
bridge. As Kankadbhitta 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 Kankadbhitta 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 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.
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 Hasian, 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.

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

Many national companies and organisations have set up their offices here in this central hub. An official of the Bengal government home department says, “Wedges 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.

The Hong Kong House of Smoke

Panikutanki/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 Panikutani 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. Sings 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. “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.
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.

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. 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.

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. The long porous border and the increasing demand for cheap cigarettes has made bartering, that begins May and ends in November, has worked out amicably since then.

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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. The long porous border and the increasing demand for cheap cigarettes has
India a valued market and a destination for cigarette 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 border.”
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 sensitisise 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 sensitisise 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.
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 24: Fencing along the Changrabandha area of India along the Bangladesh border**

**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-feet 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.

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

Figure 26: 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
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.
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.

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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. 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. This had risen to 25.4% according to the 2006 version of the survey.

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.
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 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 Phuentsholing. 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.

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.
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22. Government of Bhutan


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.

Contact:
Indian Media Centre For Journalists
19, Laxmanpuri, Faizabad Road, Lucknow-226016
Ph: + 91-522-3050472-475, Mobile: + 91-9415002299
Fax: + 91-522-3050471