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Expanding India's Oral Tobacco Exports: Economic Opportunity and Outlook

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Abstract

This paper examines how India can transform its tobacco sector by shifting from low-value raw leaf exports to high-value oral tobacco products, such as snus and nicotine pouches. While India is the second-largest tobacco producer globally and recently became the top exporter of unmanufactured tobacco, most exports remain in raw form, limiting economic returns. The report argues that by processing more tobacco domestically, India can capture greater value, enhance farmer incomes, increase tax revenues, and tap into the rapidly growing \$15 billion global oral nicotine market.

The paper outlines the current structure of India's tobacco value chain, identifying inefficiencies in value capture and highlighting the emergence of domestic snus and nicotine pouch manufacturing. It explores the fiscal implications of value addition, including gains from corporate tax, job creation, and rural income growth. The report assesses regulatory and trade compliance, concluding that India can expand exports within WTO rules, provided it avoids prohibited subsidies and aligns with technical standards in target markets. It also draws on global benchmarks from Sweden, Zimbabwe, Brazil, and Indonesia to compare strategies for domestic value capture.

A 5-year export projection is presented under three scenarios—baseline, moderate, and high value-addition—showing how processed product exports could elevate India's tobacco trade to over \$3 billion annually. The paper concludes with strategic policy recommendations, including investment in processing infrastructure, farmer-processor linkages, regulatory compliance, ESG alignment, and market diversification. Overall, the report offers a roadmap for India to become a leading exporter of oral nicotine products while supporting rural livelihoods and navigating global health and trade considerations.

Key Words: Tobacco Industry, Oral Tobacco Products, Value Addition (Tobacco), Tobacco Exports, Farmers Income

1. INTRODUCTION

India is one of the world's largest tobacco producers and recently became the top global exporter of unmanufactured tobacco (Press Information Bureau, 2025; Statista, 2023). However, most exports are in low-value raw form (IBEF, 2024). This report finds substantial fiscal and strategic opportunity in expanding exports of high-value oral tobacco products – notably snus (moist oral tobacco in pouches) and nicotine pouches (tobacco-free nicotine sachets) – by processing more of India's tobacco domestically (Schmid, 2023; Market Research Future, 2025). By moving up the value chain, India can boost farmer incomes, generate higher tax revenues, and capture a greater share of the ~\$15 billion global oral nicotine market (Research and Markets, 2024).

2. Key Findings

Domestic Scale: India produced ~772,000 metric tons of tobacco in 2022, making it the second-largest producer globally. Tobacco farming provides a livelihood for an estimated ~50 million farmers and workers in India (IBEF, 2024; SPRF, 2024). Yet only a fraction of the crop's ultimate value is captured domestically; most is exported as raw leaf or used in low-margin products (Statista, 2023; PIB, 2025).

Value Addition Potential: Transforming raw tobacco into snus, nicotine pouches, and other oral products domestically could significantly increase value per kg. Rather than exporting leaf at a few dollars per kg, India can manufacture products that sell for many times that amount. This would directly boost

farmer prices (for higher-quality leaf) and create manufacturing jobs. Government revenues would rise from corporate taxes and possibly excise duties, even if exports of finished goods themselves remain tax-free (Schmid, 2023; Market Research Future, 2025).

Current Momentum: India's tobacco exports hit a record ₹12,005.8 crore (\$1.5 billion) in FY2023-24, up 19.5% in dollar terms. Exports of manufactured tobacco products (which include chewing tobacco, snuff, etc.) were about \$395 million in FY24 (PIB, 2025; Statista, 2023). Dozens of Indian companies have recently begun producing Western-style snus (locally called "filter khaini") and nicotine pouches for export, targeting markets in Russia, the US, China, and the Middle East. This nascent industry shows India's capacity to compete in high-value segments (Schmid, 2023; Morung Express, 2024).

WTO Compliance: India can promote domestic value-addition within WTO rules by avoiding prohibited export subsidies and ensuring any export incentives are WTO-compatible. Key markets have regulatory barriers (the EU bans snus sales outside Sweden, the US bans certain flavored tobaccos, etc.), but these are generally health regulations that India must navigate under WTO's technical and health exceptions. No fundamental WTO obstacles bar India from exporting oral tobacco/nicotine products, so long as products meet importing countries' standards (BMJ Open, 2023; Tobacco Control, 2024).

Global Benchmarks: Comparative analysis shows Sweden, Zimbabwe, Brazil, and Indonesia offer valuable lessons. Sweden's snus industry illustrates how investing in a premium smokeless product can yield high margins and global brand recognition (Statista, 2023a; Statista, 2022). Zimbabwe and Brazil underscore the importance of local processing: Zimbabwe is aiming to raise local cigarette manufacturing from 2% to 30% of its crop to capture value, and Brazil's contract-farming model has made it a top raw leaf exporter (OECD, n.d.; Farmonaut, 2024). Indonesia's clove-laced kretek cigarette sector – which contributes ~10% of government tax revenue and millions of jobs – shows the economic impact of a robust domestic tobacco product industry, while also highlighting export challenges when health regulations abroad differ (Research and Markets, 2024).

5-Year Outlook: Under a High Value-Addition scenario, India's tobacco exports could roughly double to ~\$3 billion+ by Year 5, driven by aggressive growth in snus and nicotine pouch exports (Schmid, 2023; Morung Express, 2024). Even a moderate expansion scenario yields ~\$2.4–2.5 billion in annual exports by Year 5, versus ~\$1.8 billion in a status quo scenario. This growth would translate into higher rural incomes (through better leaf prices and volumes) and increased government revenues (through taxes on processing activities and greater economic output) (Market Research Future, 2025).

2.1 India's Oral Tobacco Sector: Scale and Value Chain Dynamics

Scale of Production and Consumption: India cultivates tobacco on roughly 0.3% of its arable land yet is a tobacco

powerhouse – producing about 772 thousand metric tons of unmanufactured tobacco annually. It is the world's third-largest producer (after China and Brazil) and recently the second-largest exporter of raw tobacco (IBEF, 2024; Statista, 2023). This crop is economically important: cultivation is a source of livelihood for an estimated 50 million farmers and farm laborers across regions of India (SPRF, 2024). Major tobacco-growing states include Andhra Pradesh and Karnataka (notably for Flue-Cured Virginia tobacco used in cigarettes), as well as Gujarat, Uttar Pradesh, and others for burley, rustica and aromatic tobacco used in bidis and chewing products.

Domestically, India has a large consumer base of smokeless tobacco: about 29% of Indian adults use tobacco, and a majority (21% of adults) use smokeless forms such as khaini, gutkha, and betel quid with tobacco. This equates to roughly 260 million smokeless tobacco users in India, making it the world's largest market for oral tobacco products (Global Action to End Smoking, 2020). Traditionally, much of this demand has been met by cheap, unorganized-sector products (e.g. khaini, a sun-dried tobacco-lime mix, or gutkha, a tobacco-areca nut concoction). These products involve minimal processing and value addition – they are often just flavored or mixed leaf sold in small sachets – yielding low revenues per unit of tobacco and significant health harms (Tobacco Control, 2024).

Value Chain and Efficiency: The tobacco value chain in India starts with millions of mostly smallholder farmers. Productivity varies by type: yields of Virginia tobacco (grown under Tobacco Board regulation) average around 1.5–2.0 tons/ha, comparable to global averages, while other varieties can have lower yields. Farming is labor-intensive, and leaf is cured (flue-curing for Virginia, sun-curing for others) and then sold. The Tobacco Board of India regulates production of Flue-Cured Virginia (FCV) tobacco through licenses and auction platforms, helping farmers secure better prices and ensuring quality and traceability. In 2024, these auctions saw robust demand – India's total tobacco exports (raw + processed) jumped 20.8%, reaching an all-time high, partly due to higher prices paid to farmers as global buyers sought Indian leaf (PIB, 2025). Non-FCV tobacco (for smokeless use) is less regulated; farmers often sell to local traders or companies directly, with more volatile pricing.

Once sold, a portion of India's tobacco is processed into final products domestically – mainly cigarettes, bidis, and chewing tobacco for the local market – and the rest is exported as unmanufactured leaf. In FY2023-24, India exported about ~250,000 tons of raw tobacco (worth ~\$1.1 billion) and about \$395 million of manufactured tobacco products (which include hookah tobacco, pan masala containing tobacco, snuff, etc.) (Statista, 2023; PIB, 2025). This indicates that the majority of export earnings still come from raw leaf. Thus, most value-creation (blending, flavoring, packaging) is happening abroad or not at all. The value chain is currently "top-heavy" in farming and raw trading, with relatively little happening in India beyond primary processing (such as drying and grading) (IBEF, 2024).

Domestic Value Capture Issues: Because of this structure, Indian farmers and the domestic economy realize only a small share of the potential final value of tobacco. For example, Zimbabwe's experience (a tobacco-exporting peer) showed that exporting unprocessed leaf yields only 50–70% of the final value; simple processing like de-stemming can add 30–50% to export price (Farmonaut, 2024). For even higher-value products like snus, the disparity is greater: raw tobacco might sell at ₹400–500/kg (\$5–6), whereas that same tobacco converted into snus can retail for many times more in consumer markets. Swedish Match, for instance, reported operating margins of ~45% on its snus products, reflecting the significant value captured through branding, refining and retailing (Statista, 2022; Statista, 2023a). Currently, those margins accrue to foreign manufacturers when they source raw Indian tobacco to make their products. This represents a lost opportunity – India is effectively “giving away” the high-value component of the supply chain.

Emergence of Snus and Nicotine Pouch Manufacturing in India: In the past few years, Indian entrepreneurs have begun to recognize this opportunity and tap into the growing global demand for alternative oral nicotine products. Modern forms of pouched smokeless tobacco, analogous to Swedish snus, have been developed locally under names like filter khaini. Notably, Harsh International (Delhi) introduced India's first snus-like product (Chaini Khaini) as early as 2002, and by the 2020s saw success exporting flavored snus pouches to markets in Central Asia and Europe. According to Harsh International, once their brands “hit the jackpot” abroad, “some 20 other companies” in India followed suit with their own snus products (Schmid, 2023; Morung Express, 2024). Another firm, LA Group (Punjab), launched its Gold Rush and Green Dragon snus pouch lines in 2020–22, blending Indian rustica tobacco with flavorings tailored to U.S., Chinese, and Middle Eastern tastes. At least one Indian factory has attained pharmaceutical-grade cGMP certification for manufacturing smokeless nicotine products, indicating a push for international quality standards (Market Research Future, 2025).

Parallelly, Indian companies are now producing tobacco-free nicotine pouches (white pouches containing extracted nicotine). Several firms offer private-label manufacturing for export markets. This leverages India's existing capabilities in chemical extraction (nicotine extraction for pharma use) and its low-cost manufacturing (TIFAC, 2001). It's notable that India's ban on domestic sales of e-cigarettes and certain oral products does not extend to production for export – thus firms can legally manufacture nicotine pouches domestically as long as they are exported. The rise of these enterprises – exporting to the US, UK, EU, and Gulf countries – demonstrates the feasibility of capturing more of the value chain at home (BMJ Open, 2023).

Boosting Farmer Incomes: Expanding these high-value product lines could directly benefit Indian tobacco growers. Many of India's smokeless-tobacco farmers grow *Nicotiana rustica* (a variety with very high nicotine content) in states like Bihar and Uttar Pradesh. Historically, rustica leaf has been

used in cheap chewing tobacco or even as natural pesticide, keeping farm-gate prices low. But this variety is ideal for nicotine extraction and strong snus. If demand for Indian rustica rises to supply nicotine pouch factories, farmers could see higher prices for their crop. Likewise, farmers producing premium sun-cured tobaccos for snus could earn more through contract arrangements that pay for quality and specific leaf characteristics (as is common in contract farming models in Brazil and elsewhere) (Farmonaut, 2024). In short, domestic processing creates a market pull for higher-quality leaf and nicotine, which can translate into improved farm income stability. India's recent experience with FCV tobacco is instructive – through the Tobacco Board's auction system and export promotion, average FCV prices and farmer earnings have risen (PIB, 2025). The government noted that tobacco farmers' incomes roughly doubled over the last 5 years (SPRF, 2024). Value-added expansion can extend similar gains to growers of other tobacco types.

Government Revenue Implications: Although tobacco product exports themselves are generally tax-free (to encourage exports), the government stands to gain revenue in several ways from greater domestic value addition:

- **Excise/GST on Domestic Sales:** If any portion of the new snus/nicotine products is sold domestically in the future (for example, if regulatory stances soften to allow reduced-harm products like snus), they would be subject to tobacco taxes. Even without domestic sales, inputs (e.g. packaging, flavorings) generate GST, and manufacturing activity increases the tax base.
- **Corporate Income Tax:** Profitable tobacco product manufacturers will pay corporate taxes. High-margin exports mean higher profits in India instead of abroad. Even at a moderate 25% corporate tax rate, a successful snus export industry (say \$200 million in profits industry-wide) could contribute tens of millions of dollars in income tax (Market Research Future, 2025; Research and Markets, 2024).
- **Export Duty (if levied selectively):** India could consider a small export duty on unprocessed leaf to incentivize local processing (as some countries do) – if implemented, that duty itself would be revenue. However, this must be balanced to not hurt farm exports; a better approach is to let market forces drive processing while using existing tax tools on the value-added products.
- **Multiplier Effects:** More processing plants mean more employment and ancillary economic activity (equipment, logistics, marketing) all of which contribute to tax revenues (income tax from salaries, etc.).

A vivid contrast comes from Indonesia – by keeping most of its tobacco value chain in-country (via kretek cigarette production), Indonesia's government secures nearly 10% of its total tax revenues from tobacco (Research and Markets, 2024). India currently sees a much smaller share, mainly from

cigarette excise (since a large informal smokeless sector yields little tax). A thriving formal smokeless export industry would broaden the tax base without relying on domestic consumption increases.

In summary, India's domestic landscape shows tremendous scale at the raw material level and a large pool of labor and expertise, but underutilization in terms of value addition. Correcting this by emphasizing snus and nicotine pouch production can directly address rural prosperity and fiscal gains. The next sections examine how to do this within international trade rules and draw lessons from other countries' experiences in tobacco value capture.

Policy and WTO Alignment for Expanded Exports

As India pursues greater domestic processing of tobacco, it must navigate the policy space carefully, ensuring compliance with global trade rules and anticipating trade barriers or regulations in target markets.

Consistency with WTO Rules: India is within its rights under WTO agreements to encourage domestic processing, but certain practices must be avoided or crafted carefully:

- **Export Subsidies:** Direct subsidies contingent on export performance are prohibited for non-LDC countries under the WTO Agreement on Subsidies and Countervailing Measures. India has already phased out schemes like MEIS (Merchandise Exports Incentive Scheme) due to WTO challenges. Thus, any financial incentive for snus/nicotine pouch exporters should be structured as WTO-compliant support (e.g. RODTEP – rebate of duties/taxes, or PLIs – production linked incentives that are not strictly export-conditioned) (IBEF, 2024). For example, providing R&D grants for developing new smokeless products or subsidies for machinery could be allowable if not tied explicitly to export volumes.
- **Local Content or Export Requirements:** Requiring tobacco farmers to sell only to domestic processors or mandating that a certain percentage of tobacco be processed domestically could violate WTO rules (specifically GATT Article III on national treatment and Article XI on eliminating export restrictions). A subtler approach, if needed, is an export tax on raw tobacco: WTO does not forbid export taxes outright (India could impose, say, a small duty on unmanufactured tobacco exports to nudge companies to process locally). This must be applied non-discriminatorily. Care would be taken as it may be seen as trade-restrictive by partners, but it is an option some countries use to promote value addition (Farmonaut, 2024).
- **Agreement on Agriculture (AoA):** Tobacco is typically classified as an industrial crop rather than food, but any price support to tobacco farmers (e.g. minimum support price or subsidies on inputs)

would count toward India's WTO agriculture subsidy commitments. India's current support in tobacco is minimal (tobacco is not under MSP), so no immediate issue. However, if state governments consider incentivizing growers to cultivate certain high-nicotine varieties, they should remain within de minimis subsidy limits or use green-box measures (like research, extension services, which are allowed) (SPRF, 2024).

- **Importing Country Regulations (TBT and SPS):** The nature of tobacco and nicotine products means India's exports will face stringent regulations abroad, often on health grounds. Under WTO's Technical Barriers to Trade (TBT) Agreement and Sanitary/Phytosanitary (SPS) measures, countries can enforce rules to protect public health, but they should be science-based and non-discriminatory. Key considerations:
- **Product Bans and Restrictions:** The European Union bans the sale of snus in all member countries except Sweden (which obtained an exemption upon joining the EU). This is a significant barrier: no matter how competitively India produces snus, it cannot be sold in most of Europe due to this outright ban (which is a legal, albeit WTO-gray, measure under a public health exception) (BMJ Open, 2023; Tobacco Control, 2024). Similarly, certain countries ban chewing tobacco or have stringent approval processes for novel nicotine products. Mitigation: Target markets where these products are legal. The United States, for instance, allows snus and nicotine pouches, regulating them via the FDA. Russia, Central Asia, and many parts of the Middle East have traditionally accepted smokeless tobacco products and are growth markets mentioned by Indian manufacturers. Africa is another potential market (e.g. shisha and snuff use in some regions) (Global Action to End Smoking, 2020). Over time, India could also engage in diplomacy: if global health evidence continues to support that snus/nicotine pouches are lower-risk alternatives to smoking, India might join international discussions to ease trade in such harm-reduction products or seek mutual recognition of standards.
- **Flavor and Ingredients Regulations:** Some countries forbid certain flavors or additives (e.g. the US banned flavored cigarettes including clove, as discussed below, and may scrutinize flavored oral products). Nicotine pouches in particular are coming under regulatory review for their flavorings and nicotine content. Indian exporters must be prepared to customize products to meet each region's rules (e.g. produce unflavored or menthol-only versions if required). This falls under TBT – standards must be met, and being proactive will give Indian firms an edge. Investing in testing labs and certification for products (for nicotine content accuracy, low tobacco-specific nitrosamine levels,

etc.) is crucial (TIFAC, 2001; Market Research Future, 2025).

- **Labeling and Packaging:** Most countries that allow tobacco or nicotine pouch imports still require warning labels, packaging in local language, tax stamps, etc. Compliance with these requirements is part of market access. India's producers will need to incorporate flexible packaging lines and possibly reformulate to reduce harmful constituents (for instance, Swedish snus is pasteurized to minimize nitrosamines; Indian producers may need similar processes to meet import standards) (Schmid, 2023). These are technical barriers that can be overcome with investment and know-how.
- **Tariffs:** On the tariff front, many countries impose import duties on processed tobacco products that are higher than on raw tobacco. For example, importing countries might have low tariffs for raw leaf (for their domestic cigarette industry's benefit) but high tariffs for snus or chewing tobacco to protect local producers or deter use. Indian negotiators should identify key markets and, where feasible, seek tariff reductions through trade agreements. For instance, under a future India-EU trade deal, India could seek lower duties or quotas for oral tobacco exports to Sweden or other receptive countries. Absent agreements, India's competitive low-cost production can still often overcome moderate tariffs (Research and Markets, 2024).

WTO Disputes and Precedents: It's useful to recall how trade disputes on tobacco have played out, to understand the landscape:

- The Indonesia-US Clove Cigarette case (WTO DS406) is a pertinent example. The U.S. banned clove-flavored cigarettes in 2009 (on youth health grounds) but allowed menthol cigarettes. Indonesia – the primary exporter of clove kreteks – challenged this as discriminatory. In 2012 the WTO ruled in Indonesia's favor, finding the ban violated WTO rules because it exempted menthol (a like product) and thus unfairly targeted Indonesian exports. Despite "winning," Indonesia did not regain the U.S. market (the U.S. kept the ban, choosing to accept a WTO-authorized sanction). The takeaway: WTO can curb blatant discrimination, but health regulations have strong standing. India should be aware that some of its target export markets might close or restrict categories (e.g. if a country decides to ban nicotine pouches or certain flavors later). Legal recourse can be uncertain and slow. A strategy of market diversification is therefore prudent – do not rely on a single country's policy remaining favorable (Tobacco Control, 2024).
- The Plain Packaging disputes (brought by countries like Honduras, Dominican Republic against Australia's cigarette plain packs) showed WTO's deference to health measures under the right conditions. Australia won those cases. While those

were about cigarettes, it signals that stringent packaging rules (which might extend to graphic warnings on smokeless tobacco) will likely be upheld. Indian exporters should thus plan for compliance rather than expect to litigate such measures away (BMJ Open, 2023).

Alignment with Domestic Health Policies: India is a signatory of the WHO Framework Convention on Tobacco Control (FCTC), which obligates it to curb tobacco use. There is an inherent policy tension in promoting tobacco exports while reducing domestic use. However, these can be reconciled if positioned correctly. India can emphasize that exporting reduced-risk products (RRPs) like snus and nicotine pouches to replace smoking elsewhere is in line with global harm reduction goals – an argument Sweden often makes, as snus helped it achieve the lowest smoking rates in Europe (Statista, 2023a).

Domestically, India would continue its strong stance on tobacco control (e.g. maintaining the ban on gutkha for local sale, high taxes on cigarettes, public education). In effect, India can separate the two tracks: a public health policy at home vs. an export-oriented industry policy. There is precedent for this dichotomy – for instance, pharmaceutical opioids are tightly controlled for use in India, but India exports them for medical use abroad; similarly, India could justify that its oral nicotine exports serve international markets under others' regulations.

Still, transparency is key: India should diligently enforce labor, quality and environmental standards in tobacco processing, addressing concerns (like those raised in the Swedish Radio report about labor abuses in nicotine-tobacco farms) (Morung Express, 2024). Doing so will not only ensure WTO compliance (avoiding any labor standards-related trade action) but also uphold India's reputation as a responsible exporter.

Summary of Trade/Policy Readiness: In conclusion, India faces no insurmountable WTO barriers to expanding oral tobacco exports. The government can lawfully assist the industry through infrastructure support, technical training, and facilitation of foreign market access (all WTO-compliant). Caution is advised against any explicit subsidies or restrictive mandates on raw exports that could invite challenges. Instead, the focus should be on enabling competitiveness and meeting global standards. By monitoring regulatory trends in target markets (e.g. the EU's evolving rules on tobacco and nicotine, or the US FDA's stances) and engaging in trade diplomacy when needed, India can preempt many trade issues. The next section compares international experiences, which will further illuminate best practices and potential pitfalls as India charts its strategy.

2.2 Sweden: Capturing Value with Snus – Niche Product, Global Impact

Sweden represents a successful high-value niche strategy in tobacco. Swedish firms, particularly Swedish Match, have built a thriving snus industry that captures far more value per

kg of tobacco than cigarette production does (Statista, 2023a; Statista, 2022). Some relevant aspects include:

- **Premium Product & Market Positioning:** Snus (moist oral tobacco in small pouches) is deeply ingrained in Swedish culture – about 18% of Swedish men use snus daily. In a country of 10 million, an astonishing 330 million cans of snus were consumed in one year, indicating the scale of domestic demand. This guaranteed home market allowed companies to develop expertise and brands (General, Ettan, etc.). Sweden today is the world's largest snus market by volume, and Swedish Match is the dominant manufacturer (50.4% market share in Sweden in 2021) (Statista, 2023a). High demand at home provided economies of scale and steady revenue.
- **Global Expansion of Smokeless Products:** Because the EU bans snus outside Sweden on health grounds (concerns about oral cancer), Swedish Match turned to export markets in Norway (which also has high snus usage), the United States, and others. By 2013, 50 million cans of snus were sold annually in the U.S., a market Swedish Match actively cultivated. The company even sought and obtained FDA “modified risk” status for some snus products, allowing them to be marketed as less harmful than cigarettes – a first for any tobacco product in the US (BMJ Open, 2023). This regulatory breakthrough shows how science and engagement can open markets. Swedish Match also innovated new products like nicotine pouches (Zyn) which contain nicotine but no tobacco – these have exploded in popularity in the U.S. The company shipped nearly 198 million cans of nicotine pouches globally in 2021, reflecting huge growth (Statista, 2023a). In 2022, Swedish Match's success attracted a \$16 billion acquisition bid from Philip Morris International, underlining the value created in its smokeless portfolio.
- **Value Distribution:** Importantly, Sweden's tobacco farming is minimal (the climate limits it), so Swedish Match and others import raw tobacco (from countries like Brazil, India, the US) and focus on processing and branding. This means the lion's share of economic value (profits, high-paying jobs in processing/marketing) stays in Sweden, while farmers elsewhere get commodity prices. In 2022, Swedish Match's snus division had sales of SEK 22.4 billion (~\$2.3 billion) and 49.5% operating margins, accounting for a majority of the company's profits (Statista, 2022). These profits contribute to Sweden's GDP, taxes, and shareholder wealth – effectively Sweden captures value far beyond what its few tobacco growers ever could. This is exactly the dynamic India wants to emulate from the farming side: currently Indian leaf fuels others' profits; India can instead develop its own profitable brands.

- **Harm Reduction and Policy Support:** Sweden's snus-focused strategy also delivered public health benefits (very low smoking rates and associated disease). While India's goals may center on economics, it's notable that promoting oral nicotine products as smoking substitutes can find favor with health policymakers abroad. Sweden leveraged this narrative – it argued at the EU and WTO levels in defense of snus (Tobacco Control, 2024). (Sweden's EU accession exemption for snus sales domestically was crucial: the Swedish public likely wouldn't have agreed to join without protecting snus.) For India, aligning an export push with global health trends (e.g. positioning nicotine pouches as part of harm reduction in high-income markets) could reduce opposition and possibly open currently closed markets eventually.

Takeaways for India: Sweden demonstrates that a country can virtually exit low-value tobacco (cigarettes) and still sustain a significant tobacco economy by switching to a differentiated product. Key factors were quality control (Swedish snus is low in nitrosamines due to pasteurization techniques), branding/marketing, and regulatory navigation. Indian companies will need to invest in similar quality processes to meet the “Swedish standard” of smokeless tobacco if they want to command premium pricing globally. They will also need brand-building – possibly creating distinctly Indian snus flavors (as some have, with cardamom or rose) to set themselves apart. On policy, India might not get exemptions in other markets but can support the science on reduced-risk products to gradually expand acceptance. In essence, India can be both the farmer and the factory in this equation – capturing what Swedish manufacturers and Indian farmers currently split between them.

2.3 Zimbabwe: Pushing Value Addition in a Raw Tobacco Economy

Zimbabwe offers a contrast: a country heavily reliant on tobacco farming that is now trying to climb the value ladder. Zimbabwe is Africa's leading tobacco producer and until recently was the world's third-largest tobacco leaf exporter (after Brazil and the U.S.). Historically, Zimbabwe exported 98% of its tobacco as unprocessed leaf, similar to India's current export mix (Farmonaut, 2024). Some highlights:

- **Scale of Production and Farmer Impact:** In the latest season (2022/23), Zimbabwe produced a record 296.1 million kg of tobacco leaf, worth \$1.23 billion at auction. This achievement followed land reforms that moved production to many smallholders – over 148,000 farmers now grow tobacco there. Tobacco remains critical to Zimbabwe's economy: it forms nearly 20% of total exports, and contributes almost 10% of GDP (Farmonaut, 2024). These numbers echo what robust tobacco exports could mean for India's trade balance if scaled up (India's share is lower in a larger economy, but significant nonetheless).

- **Limited Domestic Processing:** Despite this huge tobacco output, Zimbabwe has little local cigarette manufacturing capacity. Local companies (e.g. Savanna Tobacco, and a BAT Zimbabwe plant) exist but mainly serve the small domestic market. Only 2% of Zimbabwe's tobacco crop is processed locally into cigarettes or cut rag (semi-processed filler). The rest is exported as raw or semi-processed leaf (Farmonaut, 2024). As a result, Zimbabwe gets the raw commodity value – at auctions farmers averaged about \$6/kg – while importing countries capture the markup by making finished products.
- **Value Chain Transformation Plan:** Recognizing this imbalance, Zimbabwe's government launched a Tobacco Value Chain Transformation Plan (TVCTP) in 2021–22 to increase value addition and farmer share. The goal is to raise local processing from 2% to 30% of production by 2025. They have called for farmers to further boost output to 300 million kg and for investment in new factories. Indeed, construction of a new cigarette manufacturing plant and additional cut-rag processing facilities is underway, aiming to boost processing capacity 50% by mid-2024. The ultimate vision (as stated by officials) is to grow Zimbabwe's tobacco sector (including all value addition) to a US\$5 billion industry by 2025 and even \$60 billion by 2028 – though the latter figure is likely aspirational or includes broader economic multipliers (Farmonaut, 2024).
- **Challenges and Early Outcomes:** Such rapid value-add growth is ambitious. Zimbabwe faces capital and skill constraints, and its products must compete internationally. So far, the country has had some success in producing “cut rag” tobacco (semi-processed tobacco filler that can be exported for cigarette production elsewhere or for local assembly). Getting to 30% processing will require attracting multinational cigarette makers or significantly scaling local firms – a tough task given Zimbabwe's relatively small domestic market and recent economic volatility. However, initial steps have improved farmers' position: contract farming and local merchant processing have increased the farm-gate share of the final export price, meaning farmers get a bit more of the pie than before. Zimbabwe also considered requiring that tobacco be processed into cut rag before export (to add value and jobs), though enforcement of that is unclear (Farmonaut, 2024).

Takeaways for India: For India, Zimbabwe's experience underscores the importance of infrastructure and investment in moving up the chain. Simply having the plan isn't enough – one needs factories, trained workforce, and assured markets for the processed goods. India, fortunately, has a much larger domestic market and far better investment climate to support such ventures. Where Zimbabwe seeks foreign investors to build plants, India already has domestic companies starting

snus/pouch production and could attract joint ventures (possibly with Swedish Match/PMI or others looking to outsource production).

Additionally, Zimbabwe's focus is on cigarettes, a market that is actually stagnating or declining worldwide, whereas India is targeting snus/nicotine pouches – a growing segment – which might be a smarter play. One cautionary note is Zimbabwe's heavy reliance on one crop: over 30% of exports from tobacco is risky. India's economy is far more diversified, but if it ramps up tobacco exports significantly, it should watch out for over-dependence or potential international backlash (though less likely for smokeless products at this stage). Still, Zimbabwe's proactive approach to “beneficiation” (local value addition) is validating – it shows a consensus that relying on raw exports wastes potential. India can also observe how Zimbabwe navigates WTO rules; any export tax or requirements Zimbabwe implements could set precedents (though Zimbabwe's smaller role in global trade means it draws less scrutiny than India might) (Farmonaut, 2024).

2.4 Brazil: High-Volume Efficiency with Some Value Addition

Brazil provides a model of efficient large-scale tobacco agriculture coupled with partial value addition. It has long been one of the world's top tobacco exporters by volume and value, though it mainly exports leaf rather than finished products (IBEF, 2024).

- **Integrated Farming and Productivity:** Brazilian tobacco (primarily grown in the southern states like Rio Grande do Sul, Santa Catarina) is produced via a well-organized contract farming system. Multinational leaf buyers (e.g. Alliance One, Philip Morris International's leaf division, and Japan Tobacco's leaf arm) contract tens of thousands of small family farmers. These companies provide seed, technical guidance, fertilizers, and in many cases, even curing barns or finance, in return for guaranteed buy-back of the crop at preset grading prices. This system has made Brazilian farmers among the most productive and consistent in quality. Average yields are around 1.8–2.2 tons/ha (higher than India's average) and the leaf meets strict global standards (low residues, etc.). The contracts ensure farmers a market and companies a reliable supply – a win-win that India's Tobacco Board has tried to emulate in part for FCV growers (IBEF, 2024).
- **Export Powerhouse:** As a result, Brazil produced roughly 683,000 tons of tobacco in 2023 and exported approximately \$1.3–1.5 billion worth of tobacco annually in recent years (fluctuating with crop size and price) (IBEF, 2024). Until 2023, Brazil often held the #1 rank in world tobacco exports by value. (India's surge to \$1.5 billion in 2024 may have slightly overtaken Brazil, depending on Brazil's crop that year.) Notably, Brazil runs a trade surplus in tobacco, importing very little. The efficiency means Brazilian leaf is used worldwide in

cigarette blends – it's seen as reliable and reasonably priced (Statista, 2023).

- **Local Processing and Manufacturing:** Brazil does capture some additional value through primary processing – virtually all leaf is threshed (stemmed) and packed in Brazil by the contracting companies before export (similar to Zimbabwe, this adds some value domestically and provides employment in rural processing facilities) (IBEF, 2024). However, when it comes to manufactured products, Brazil's focus historically was its domestic cigarette market. Up until the 1990s, Brazil had high smoking rates and a large domestic industry (led by Souza Cruz, the local BAT subsidiary). Cigarette consumption has since declined under strong tobacco control, and Brazil has not positioned itself as a major exporter of cigarettes or smokeless products. One reason is that multinational companies use Brazil mainly as a leaf source, while final product manufacturing happens closer to consumer markets for logistics and tax reasons. Brazil does export some cigarettes to neighboring countries, but it's small-scale. Interestingly, Brazil has faced an illicit twist: it is a huge importer of contraband cigarettes (from Paraguay), which is outside this discussion but indicates Brazil did not capitalize on exporting finished cigarettes even regionally.
- **Diversification and Alternatives:** Brazil is now actively encouraging farmers to diversify away from tobacco (into food crops, bioenergy, etc.) as part of its public health commitments. Despite this, Brazil is likely to remain a major leaf exporter for the foreseeable future due to the established system. The lesson here is that Brazil prioritized volume and efficiency over value addition in tobacco – a conscious or unconscious choice that kept it in the lower margin segment of the chain (IBEF, 2024). Brazilian farmers benefit from decent yields and company support, but they still capture only a fraction of the ultimate value of a pack of cigarettes sold in (say) Europe that contains their tobacco.

Takeaways for India: Brazil's case suggests that efficiency and value addition are not mutually exclusive – but if one does not pursue value addition, the industry can still thrive on volume albeit with less domestic gain per unit. India already has comparable or greater volume than Brazil and a cost advantage in labor. By combining Brazil-like farm efficiency (through better extension services, maybe more contract farming or cooperatives for smokeless-tobacco farmers) with an added push into manufacturing, India can have the best of both. Essentially, India could continue to export raw tobacco (especially certain grades where it holds advantage) and grow exports of processed products.

Brazil also highlights the importance of maintaining quality: Indian tobacco sometimes faces complaints of pesticide residues or non-uniform quality. Adopting Brazilian practices in agronomy and curing could help Indian leaf meet

international standards for oral products (where purity is important since the product is absorbed directly). Another insight is to leverage existing multinational presence – companies like ITC, Godfrey Phillips (which have foreign partnerships) could be encouraged to develop smokeless product lines for export, much as multinationals in Brazil did for cigarettes.

Brazil's lack of finished goods export also indicates that having a large domestic market for those goods might be a factor (Brazil's smokers preferred domestic cigarettes, not smokeless; in India's case, domestic smokeless use is huge but mostly in traditional forms, not yet in snus/pouches). So, India might consider fostering some domestic adoption of modern smokeless products (e.g. as cessation aids or alternatives) to give an initial market to producers, which then helps them scale for export – a strategy analogous to Sweden's (Global Action to End Smoking, 2020).

2.5 Indonesia: Maximizing Domestic Value – The Kretek Model

Indonesia provides a unique example of a country that keeps most of its tobacco value chain onshore, via its indigenous kretek (clove cigarette) industry. While kreteks are a smoking product, the parallel is that Indonesia mixes domestic tobacco with other ingredients (clove spice, flavor “sauce”) to create a distinct high-value product, rather than exporting raw tobacco (Research and Markets, 2024). Key points:

- **Dominance of Kretek in Domestic Market:** Kretek cigarettes – made from a blend of tobacco (typically locally grown) and cloves plus flavorings – account for 92% of cigarettes consumed in Indonesia. This is an almost complete substitution of what could have been a market for imported “white” cigarettes or raw tobacco export. Instead, Indonesian companies like Gudang Garam, Djarum, and Sampoerna (now part of Philip Morris International) manufacture hundreds of billions of kretek cigarettes annually for local sale. This has created massive employment – over 10 million Indonesians work in the tobacco product industry (many in hand-rolling kreteks). Many of these are low-wage jobs, but it's significant socioeconomic impact, nonetheless (Research and Markets, 2024).
- **Tax Revenue Windfall:** The Indonesian government heavily taxes tobacco (especially machine-made kreteks), yet because of the cultural popularity, demand remains high. The result is that tobacco excise delivers nearly 10% of government tax revenues – on the order of USD 5–6 billion annually in recent years (Research and Markets, 2024). This revenue supports public expenditures (though health costs from widespread smoking are also high; Indonesia has among the highest male smoking rates). Still, from a purely fiscal perspective, Indonesia has kept the value-added and tax base at home rather than exporting the leaf and letting another country earn excise on finished products.

- **Exports and Trade Barriers:** Indonesia does export some tobacco (leaf to manufacturers abroad) and some finished kreteks, but it is not a major exporter of cigarettes. The distinctive flavor and tough foreign regulations limited kretek exports. A notable incident was the U.S. ban on clove cigarettes in 2009 (part of the law targeting candy-flavored cigarettes to reduce youth smoking). Before the ban, the U.S. was a small but growing market for Indonesian kreteks; after the ban, that trade ended. Indonesia's WTO challenge succeeded in principle (as discussed, the WTO found the ban discriminatory), but in practice the ban stayed, cutting off that export avenue (Tobacco Control, 2024). Other countries, like many in Europe, also ban flavored cigarettes, or have little demand for kreteks. Thus, Indonesia's value capture is predominantly internal – they turned their tobacco into a product consumed by their own population, generating domestic economic activity.
- **Recent Shifts:** With global tobacco trends, Indonesia is also seeing the rise of alternatives like e-cigarettes and nicotine pouches (BAT has even test-marketed Velo pouches there). The Kretek companies might adapt over time but currently continue to focus on domestic sales and some regional exports (Research and Markets, 2024).

Takeaways for India: Indonesia's model shows the upper bound of domestic value capture – if one can develop a product that is culturally embraced, the domestic market itself can generate huge value and jobs. India's situation differs in that domestic policy is against smokeless tobacco (due to severe health effects of traditional preparations causing oral cancer). So, India likely will not encourage domestic snus consumption on a large scale. However, one lesson is the importance of product innovation rooted in local strengths. Indonesia used local spices (clove) and catering to local taste to differentiate their product. Indian companies might similarly innovate smokeless products that cater to certain diaspora tastes or emerging preferences (for instance, a pan masala-flavored nicotine pouch for South Asian diaspora markets). This could be a niche where India has an edge over say a Swedish or American competitor, much as kreteks are a niche dominated by Indonesia.

Another lesson is resilience amid regulation: Indonesia didn't give up its kretek industry when facing international pressure – it doubled down on quality and efficiency (Research and Markets, 2024). Indian smokeless exports might face headwinds (e.g. more countries could ban flavored oral nicotine in the future); having a strong home base (even if small) or diversified markets can cushion that. Also, Indonesia's experience in WTO shows that it's possible to win a trade argument but not gain economically – a sober reminder that compliance with foreign health laws is often the only practical path.

In summary, across these four benchmarks we see a spectrum: Sweden (high-tech, high-quality smokeless for export, no

farming advantage), Zimbabwe (big farming base pushing into manufacturing out of necessity), Brazil (big farming base largely content with raw exports, some processing), and Indonesia (maximal domestic processing for domestic use). India shares Zimbabwe and Brazil's large farming base, has an opportunity akin to Sweden's (to lead in smokeless innovation), and should heed Indonesia's ability to leverage cultural products but avoid its public health pitfalls. Leveraging the best elements of each – India's path could involve Brazilian-style farm productivity, Swedish-style product quality/branding, Zimbabwe's policy focus on value addition, and a touch of Indonesian innovation in flavors – to create a unique success story in oral tobacco exports.

3. Fiscal Projections: 5-Year Outlook Across Three Scenarios

This section presents a five-year outlook (FY2024–25 to FY2028–29) for India's tobacco export sector under three scenarios: Baseline, Moderate Value-Addition, and High Value-Addition. These projections aim to quantify fiscal gains from increased value addition, particularly through high-margin oral products like snus and nicotine pouches. Export revenue is the primary metric, complemented by qualitative estimates of government revenues and farmer incomes. All projections begin with the FY2023–24 actual baseline of approximately \$1.5 billion in total tobacco exports.

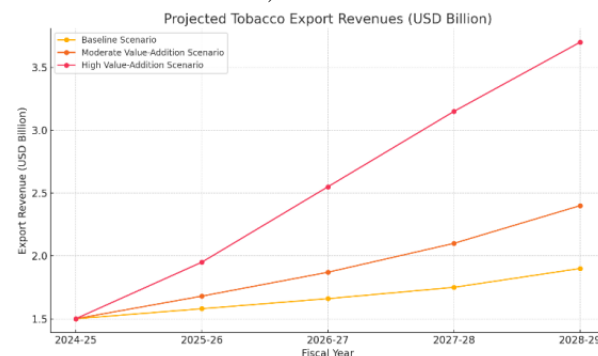
Key Assumptions:

Baseline Scenario: Assumes current policy and export structure remain unchanged. Raw tobacco exports grow slowly—about 2–3% annually in volume and 2% in price. Value-added products remain marginal.

Moderate Scenario: Assumes policy push and market expansion for oral products. Manufactured exports grow ~15% annually from a low base, while raw exports rise ~3–4% annually.

High Scenario: Assumes aggressive industry development. Snus and nicotine pouch exports grow ~30% annually, raw tobacco output expands by ~5% annually, and India gains significant market access and regulatory compliance by FY2028–29.

Projected Tobacco Export Revenues by Scenario (USD, FY2024–25 to FY2028–29)



Scenario Analysis

1. Baseline Scenario:

By FY2028–29, exports reach \$1.9 billion, an increase of only \$400 million over five years. Growth is driven by marginal volume and price increases in raw leaf exports. Government revenue remains modest—export earnings hover around ₹15,000 crore, with stable tax contributions from leaf traders. Farmers see minor gains through increased volumes, but without value addition, farmgate prices stay aligned with global commodity trends. Essentially, this scenario reflects a “business-as-usual” path that misses the opportunity for structural economic transformation.

2. Moderate Value-Addition Scenario:

Exports rise to around \$2.4 billion by Year 5—a 60% increase over current levels. The product mix changes: while manufactured products account for ~25% of exports today, they could reach ~40% by FY2028–29. For instance, exports could comprise \$1.5 billion in raw leaf and \$0.9 billion in processed goods. This assumes Indian snus brands gain traction in mid-sized markets and nicotine pouch exports reach 5–10% of the projected \$15–20 billion global market.

The additional \$900 million in export value would translate into domestic profits—value-added products often carry 20–30% profit margins. Even taxing just \$200 million in added profit at 20% could yield \$40 million annually in corporate tax by FY2029. Farmer incomes may rise 10–15% for contracted tobacco types, and total production could reach 900,000 tons by 2028. The rural impact would be substantial—more processing jobs (e.g., in Gujarat or Punjab) and increased prices for specialized crops.

3. High Value-Addition (Accelerated) Scenario:

In this ambitious pathway, exports nearly double to \$3.7 billion by FY2028–29. Of this, \$2 billion comes from processed smokeless products and \$1.7 billion from raw or semi-processed exports. This assumes India captures a sizable share—~10%—of the projected \$20+ billion global nicotine pouch market, especially in countries like the US (currently \$6 billion).

Government revenue would surge from corporate taxes and economic spillovers—thousands of jobs, greater rural incomes, and consumer spending. Farmers would benefit significantly: high-nicotine tobacco could command premium contract prices, and the sector would be less exposed to the decline in global cigarette demand.

Furthermore, the government could explore a 5% export duty on raw tobacco, generating ~\$85 million/year by 2028. These funds could be reinvested into farmer support and processing infrastructure, reinforcing value-addition without undermining global competitiveness.

Broader Economic Impact

Under the moderate and high scenarios, multiplier effects are strong. Processing stimulates ancillary industries—packaging, flavors (e.g., menthol, spices), logistics, marketing, and skilled employment (e.g., chemists, food technologists). Manufacturing has a higher economic multiplier than agriculture, making this transition more impactful for rural

development—especially if factories are located near farming zones.

Risks and Caveats

These projections rely on favorable conditions. Key risks include:

- Regulatory shifts, such as bans on flavored nicotine products
- Global competition from low-cost exporters like Indonesia or emerging African players
- Domestic policy reversals due to ethical concerns or international pressure under the WHO-FCTC framework

Still, current trends support optimism. The moderate scenario is achievable; the high scenario is attainable with focused investment and enabling policy.

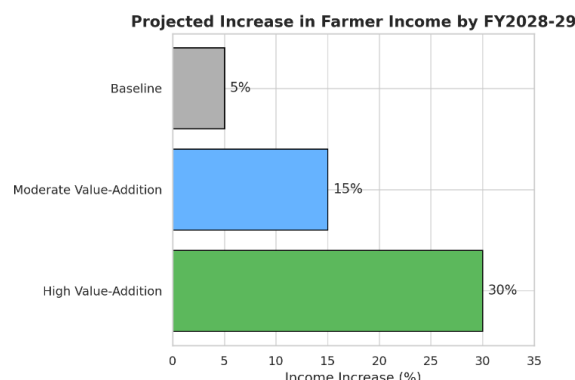
Global Comparisons and Validation

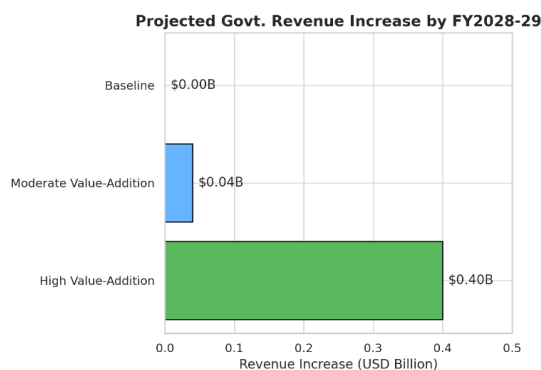
A doubling of exports is not unprecedented. India’s \$1.5 billion in 2024 exports already reflected 20% growth from the previous year. Countries like Brazil witnessed similar booms in the 1970s–80s. The reduced-risk nicotine market is growing rapidly. Swedish Match’s Zyn grew from zero to \$600+ million in a few years. Indian firms, if competitive, could achieve similar success abroad.

Implications for Government and Farmers

Under the high-growth scenario by FY2029:

- Government tax revenue (excluding domestic excise) could increase by ₹2,000–3,000 crore (\$250–400 million) annually
- Farmer incomes could rise by 20–30% in key growing regions due to higher demand and value share
- Export-led smokeless growth could shield farmers from declining cigarette demand—offering a more stable and future-oriented livelihood





In conclusion, these projections illustrate the substantial upside of a strategic shift toward value-added tobacco exports. Even the moderate scenario significantly outperforms the baseline in fiscal and rural outcomes. Achieving these outcomes will require proactive policy measures and private sector initiative, as discussed in the following section.

4. Conclusion and Recommendations

India stands at a crossroads in its tobacco sector. On the one hand, it has a vast production base and a recent surge in export performance; on the other, global shifts away from combustible tobacco threaten long-term demand for raw leaf (IBEF, 2024). Expanding into high-value oral tobacco and nicotine products offers a path to not only sustain but elevate the sector's contribution to India's economy in a health-conscious world (Market Research Future, 2025). By capturing more value domestically – through manufacturing snus, nicotine pouches, and related products – India can significantly boost farmer incomes, create jobs, and increase government revenues without promoting tobacco use at home (Schmid, 2023; Morung Express, 2024). The experiences of countries like Sweden and Indonesia demonstrate the payoff from value addition (Statista, 2022; Research and Markets, 2024), while those of Zimbabwe and Brazil highlight the importance of not remaining a mere raw material supplier (Farmonaut, 2024; IBEF, 2024). India has the advantage of learning from these models and leveraging its unique strengths (low-cost skilled labor, large existing smokeless-tobacco know-how, and growing trade heft) to become a leading exporter of oral nicotine products. The transformation will require concerted effort across the value chain, but the economic projections suggest the rewards – potentially an additional \$1–2 billion in annual export value within 5 years – are well worth pursuing (PIB, 2025).

Strategic Recommendations:

Invest in Processing Infrastructure & Skills: Both government and industry should facilitate the establishment of world-class smokeless tobacco processing facilities. This includes technology for tobacco pasteurization, controlled-release nicotine formulations, and modern packaging. Public-private partnership could set up a “Tobacco Technology Park” perhaps in a tobacco-growing state, offering common facilities (quality labs, effluent treatment, etc.) to smokeless product manufacturers (TIFAC, 2001). Training programs (maybe via the Tobacco Board or NSDC) can skill workers in

the specialized production processes, ensuring quality meets stringent international standards (emulating Swedish quality controls for snus) (Statista, 2022).

Encourage Farmer-Processor Linkages: To ensure farmers benefit, a system of contract farming or cooperatives for smokeless-grade tobacco could be developed. Processors might provide seeds for nicotine-rich varieties and buy back the cured leaf at premium prices (Farmonaut, 2024; IBEF, 2024). The Tobacco Board can help by identifying varieties and agronomic practices suitable for snus/pouch tobacco (for instance, low nitrosamine curing methods) and disseminating those to farmers. This will raise raw material quality and align farmer output with export market needs. As seen in Brazil, such integration improves efficiency and quality (IBEF, 2024).

Policy Incentives for Exports (WTO-Compatible): The government could include tobacco products in schemes like Production-Linked Incentives (PLI) or interest subvention for plant & machinery, with careful design to avoid WTO pitfalls. For example, a PLI that gives a bonus for every incremental increase in domestic value addition (regardless of export destination) would incentivize firms to process more internally. Additionally, maintaining low import duties on inputs that go into nicotine pouches (e.g. cellulose fiber for pouch material, flavor chemicals not made in India) will help keep Indian products globally competitive (PIB, 2025; SPRF, 2024).

Ensure Regulatory Compliance & Advocate Abroad: Indian manufacturers must proactively comply with target market regulations – obtaining certifications and approvals (like US FDA premarket tobacco product approvals for any new products) (BMJ Open, 2023). The government can assist by bilateral engagement: for instance, working with the Russian or Gulf region governments to include Indian smokeless products in trade agreements, or lobbying for science-based regulation in forums like WHO TobReg (Tobacco Control, 2024). Citing Sweden's success in harm reduction and India's own stringent manufacturing standards could build a case for market access (Statista, 2023a).

Sustainability and Standards: A looming challenge noted in the India Today report is new sustainability criteria (ESG) for tobacco imports in Europe. Indian tobacco will need to meet environmental and labor standards (e.g. reduced carbon footprint curing, no child labor, etc.). Embracing these standards early is a must. Investments in more efficient curing barns (to cut coal/wood use), solar energy at processing plants, and community programs in farming areas can ensure Indian exports remain acceptable globally (Research and Markets, 2024). This not only avoids future trade barriers but also improves the sector's long-term viability amid climate concerns (TIFAC, 2001).

Monitor Health Impact and Diversify Products: While focusing on exports, India should still monitor the public health impact of any domestic leakages or usage of these products. Emphasizing tobacco harm reduction in product design (for example, ensuring nicotine pouches have lower

abuse potential than gutkha) could align economic goals with health principles (Global Action to End Smoking, 2020). Moreover, India could diversify into related nicotine products like therapeutic nicotine (for gums/patches) or even cannabis/hemp products if legalized, applying similar agro-processing skills – these hedge against any one product’s regulatory risk.

By implementing these steps, India can transform from primarily a raw tobacco exporter to a leading supplier of high-quality oral nicotine products, carving out a strong position in a changing global tobacco landscape. This strategic shift promises substantial economic uplift, distributing gains from cities (through manufacturing and export earnings) to villages (through better farm incomes), while positioning India at the forefront of a new era of tobacco commerce that emphasizes value, not volume. Such a move, executed responsibly, could serve as a model for other developing countries looking to enhance agricultural value capture without compromising on health commitments

5. Discussion

India became the one of the world’s top tobacco exporters by 2024, with FY2023-24 exports reaching ₹12,005.8 crore (~\$1.5 billion), reflecting a 19.5% YoY growth driven by demand for Indian tobacco.

India’s tobacco cultivation involves ~50 million farmers and workers, making it a crucial livelihood crop despite occupying only 0.45 million hectares of cultivation area.

Dozens of Indian firms (e.g. Harsh Industries, LA Group) now make “filter khaini” – Western-style snus pouches – for export, focusing on markets like Russia, the US, and Middle East. Snus is banned in most of the EU, but demand in other regions is growing.

The global nicotine pouch market was valued over \$15 billion in 2023 and is projected to continue growing rapidly (~29% CAGR) as consumers seek smoke-free nicotine. This fast-growing segment represents a key opportunity for Indian exports.

Sweden’s snus industry shows the profitability of value-add: Swedish Match’s snus/snuff sales (~2.3 billion in 2022) had 49.5% profit margins, far higher than margins on raw tobacco. Sweden achieved this despite importing most raw tobacco, underscoring the importance of processing and branding in value capture.

Zimbabwe produced 296.1 million kg of tobacco in 2023 worth \$1.23 billion to farmers, yet 98% of its crop is exported raw. Zimbabwe’s new plan aims to locally process 30% of its tobacco by 2025, from just 2% currently, by building cigarette and cut-rag factories – a move to boost earnings and farmer returns.

Indonesia retains most tobacco value through kreteks: tobacco contributes ~10% of Indonesia’s tax revenue and supports over 10 million jobs thanks to its domestic kretek cigarette industry. However, export growth is hindered by international flavor bans (e.g. the US ban on clove cigarettes

was deemed WTO-inconsistent for exempting menthol, yet remains in effect, limiting kretek exports).

Any Indian policy to promote local processing must comply with WTO rules – e.g. avoid export subsidies or discriminatory restrictions. Export incentives should be structured via allowed means, and products must meet importing countries’ health and safety standards. With careful policy design, there are no fundamental WTO barriers to India’s expansion in this arena.

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