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## Growth & Opportunities in Indian Wine Market

### INTRODUCTION

Indian wine market is on the threshold of its first major milestone i.e., crossing the one million cases mark in 2008. The buoyant Indian economy has already attracted global wine makers like E&J Gallo, Veuve Cliquot, Moet Hennessy, Diageo, Seagram (renamed Pernod Ricard India), etc to set shops in India. With reductions in duties and India adapting to World Trade Organization (“WTO”) norms, this sector is set to see several milestones in coming times. The present newsletter analyses the major regulatory changes with their implication on the wine industry and factors supporting foreign participation in the wine sector of India.

#### 1. New duty structure: meeting WTO requirements

The Constitution of India provides that the Central government is empowered to collect excise duties on a range of products. However, products defined as ‘*alcoholic liquor for human consumption*’ has been specifically excluded from the domain of the centre and in principle, the State governments have exclusive competence to levy excise duties on wines and spirits and determine their rates. The structure and denomination of these taxes varies considerably across the States, as does the resulting overall level of taxation and prices of wine.

With consideration to its commitment to WTO, Government of India (“GOI”) started the gradual reduction of duties and taxes in wines since last few years. GOI abolished<sup>1</sup> the countervailing duty (“CVD”)<sup>2</sup> which has affected the prices of wine from

157% to 273%. However, there is also a simultaneous increase in the basic customs duty from 100% to 164% (150% customs duty plus additional taxes).<sup>3</sup> Thereafter, with the existing import duties, taxes and VAT, wines continue to cost almost 4-6 times to that of the actual value of the product from the 8-10 times prior to these changes. Therefore, GOI also decided to allow states to impose local levies on imported liquor equivalent to taxes imposed on domestic liquor to lower the price of wine in the Indian market. Any official notification to this effect is yet to be issued.

#### 2. Regulations applicable to the wine industry

As the liquor industry in India is regulated by the states and not the centre, “*Intoxicating liquors*” are specifically covered by Entry 8 of the State List, and this places all aspects including manufacture, possession, transport, purchase, and sale of intoxicating liquors within the sphere of the state only.

The prevalence of state specific acts concerning the regulatory aspects of wine sometimes complicate the issue. Some of the operational issues pertaining to wine have also been encapsulated in certain centralized acts. To minimize the overlap, the Food and Safety Standards Act, 2006 includes ‘*alcoholic drink*’ within the definition of food. Now as the Rules are being drafted under this Act, the

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WTO member may levy any countervailing duty on the importation of any product of the territory of another unless it determines that the effect of the subsidization is such as to cause or threaten material injury to an established domestic industry, or is such as to retard materially the establishment of a domestic industry.

<sup>3</sup> Notification No. 81/2007-Customs, New Delhi dated 3<sup>rd</sup> July, 2007.

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<sup>1</sup> Notification No. 82/2007-Customs, New Delhi dated 4th July, 2007.

<sup>2</sup> A special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly, or indirectly, upon the manufacture, production, or export of any merchandise. No

regulations would become uncomplicated with this central act containing all relevant guidelines.

Bureau of Indian Standards prescribes standards for alcoholic beverages. The Standards of Weights and Measures (National Standards) Rules, 1988 prescribe that alcoholic strength be declared as a percent (%) of volume with symbol “% Vol.”<sup>4</sup> No advertisement, direct or surrogate, is permitted for promoting consumption of liquor. However, communication at the point of sale/consumption is permitted.

The Standards of Weights & Measures (Packaged Commodities) Rules, 1977<sup>5</sup> provide for affixing of labels incorporating following declaration: (i) Name and address of the manufacturer, (ii) Common name of the commodity (for example, Whisky/Rum/Wine/Beer) (iii) Net quantity when packed, (iv) Month and year of manufacture, (v) MRP. However, in respect of alcoholic beverages printing of MRP is not mandatory subject to the condition that the retailer shall display prominently in his premises the retail sale price of the package.

Several Indian states require safety holograms, approved by the excise commissioners to be printed on every bottle of liquor. Safety holograms certify that duties/fees due on the particular bottle have been paid and the liquor is of prescribed standard.

### 3. Various taxes and duties applicable to the wine industry

Common denominations of taxes generally levied in major states of India as applicable to the wine industry include excise duty, additional duty, distillery/brewery license fee, bottling fee, litterage fee, assessment fee, franchise fee, permit fee, gallonage fee, raw material excise, availability fee, brand/label fee, transportation fee, import pass fee, export pass fee, welfare cess, vend fee, sales tax/surcharge, license fee, and toll tax. GOI is planning<sup>6</sup> to remove this complicated list of tax & duty structure. Bringing about a uniform duty

structure would ease the process of tax & duty calculation for wine.

If the industry sources are to be believed then the Economic Times<sup>7</sup> reported recently that the maximum retail price (“MRP”) of liquor may soon be made uniform across the country. There is surprisingly a consensus among states to bring about a uniform duty structure under four heads- excise and CVD, sales tax, licence fee and label registration charge. It is proposed that tax on Indian-made foreign liquor (“IMFL”) should be two-third or one-third of its MRP. In case of wine, tax should be one-fourth of MRP. It is also proposed that the manufacturers should be allowed to set up retail vendts to create a competitive environment. However, no official/government notification has been issued so far.

### 4. State wise Analysis

The diverse laws prevalent in several states have also undergone several changes to meet the demands of the growing competitive market. The following section provides a brief synopsis of the significant changes in the regulatory norms of several states. These changes have been made to promote wine industry and involve international companies in the Indian wine market. It also encourages the local manufacturers to flourish and help home-grown industry prosper.

#### 4.1 Maharashtra

Maharashtra is the most liberal state as far as liquor policy is concerned. Though in November 2007 it raised the duty on wines from 150% to 200% to encourage the local manufacturers, it has generally a congenial environment for growth of wine industry. According to the state government the duty on wines will either be 200% of the assessable value or Rs 200 per bulk litre, whichever is higher which has led to an increase of price.

The grape wine industry in Maharashtra has taken big strides in the last few years where Red, White, Rose and sparkling wines are produced. As per the Maharashtra Grape Processing Industrial Policy, 2001 (“Maharashtra Act”) grape wineries have been

<sup>4</sup> Ministry of Food Processing Industries: GSR 1076(E) dated 16.11.1998

<sup>5</sup> Formulated under the Standards of Weights & Measures Act, 1976

<sup>6</sup> “Liquor price may sober up to one rate in India”: January 8<sup>th</sup>, 2008; The Economic Times.

<sup>7</sup> Ibid.

given the status of food processing industry and, therefore, are eligible for all the benefits available to the food processing industry. For instance availability of financial assistance to wine industry based on agri-horticultural produce and setting up wine parks with common infrastructural facilities in the lines of food parks will help these wineries. A wine board is also being set up. Even a wine institute is in the offing to improve quality of wine either manufactured or traded in India. There has been a huge cut by 50% for the existing wineries and 75% for the new wineries in excise duties.<sup>8</sup>

As per the Maharashtra Act, wine bar licences is now available with one window system. Maharashtra Industrial Development Corporation is the nodal agency for establishment of grape wine parks in the state and has till date established two wine parks: Godavari Wine Park at Vinchur, Nashik district, and Krishna Wine Park at Palus, Sangli district.

#### 4.2 Karnataka

The State government acknowledging the potential of the wine industry has tried to exploit the impending benefits from it and made a new policy on wine. The “Karnataka Grape Processing and Wine Policy – 2007” has been enforced from 14<sup>th</sup> of March, 2007. To initiate the process, the grape wine production units have been declared as “Horticultural and Food Processing Industries”. The inclusion of wine in the agri-horticultural produce enables the government to set up food parks and provide financial assistance to this sector. The government proposes to set up two wine parks as well.

The Government seeks to encourage and assist the companies taking-up contract cultivation in the state. Licenses to wineries are issued at the district level and the concerned district Deputy Commissioners is empowered to clear the license applications within 30 days of applying. This is done to encourage the local manufacturers.

The Government of Karnataka also proposes to recommend the wineries for the 25% subsidy

available to the agriculture and food processing units. The new Karnataka Industrial Policy, 2006 extends a subsidy of 50% for the installation of grape processing units.

#### 4.3 Haryana

Keeping pace with the developments taking place in other states of India, Haryana Cabinet approved the state excise policy for 2007-08 on January 20, 2007. It has several interesting aspects like allowing the sale of wine in the departmental stores located in shopping malls in cities.

The new policy also reduces the excise duty to Rs. 20.50 per proof litre from Rs. 32.25 per proof litre. In addition Haryana has reduced the export duty to 50% for the domestic industry to encourage exporters of wine.

#### 4.4 Chandigarh

The Excise Policy of Chandigarh (2007-08)<sup>9</sup> has lowered the licence fee and brand registration fees for beer and wine to introduce more varieties in the union territory. Under the new policy, license fees have also been reduced for beer and wine pubs.

In order to encourage responsible drinking habits and to create an environment where consumption of alcohol is subject to regulation, the proposal for the year 2007-08 encourages a bar-code on all brands of IMFL, beer, wine, and country liquor.

Pursuant to the new policy, retail sale licence L-2 are granted to departmental stores for the sale of IMFL, wine, and beer. These **licensees** are free to stock and sell non-alcohol items also. As regards the fixation of wholesale rates, department will no longer fix the rates but will intervene in case of abnormal increase in price by any wholesale licensee. The licence fee for pubs, (retail vend of bottled/drought beer and wine for consumption on the premises) is also proposed to be slashed to promote the consumption of low alcoholic content drink such as wine and beer. Further notification to this effect is awaited.

<sup>8</sup> A policy statement on alcoholic beverages & alcohol issued by the Ministry of Food Processing Industries for states of India, December 2006.

<sup>9</sup> Department of Public Relations, Chandigarh Administration: 10 January 2007

#### 4.5 Delhi

The consumer lifestyle choices and demands are changing rapidly in Delhi and this has led to a great expansion of wine market in the region.

Delhi permit branch of the Delhi excise department issues import permits for import of liquor into Delhi and transport permits for transportation of liquor from bonded warehouses to off/on site licensed consumption premises. On an average 80 import permits and 1800 transport permits are issued daily.<sup>10</sup> The Delhi excise department regulates import and supply of liquor and allows the sale of imported wine through the existing wine shops or any other outlets provided the seller registers with the local excise department and is prepared to spend about Rs. 200,000 (\$5100 approx.) for the L1 F license. This entitles the licensee to stock and wholesale to retailers and hotels and restaurants already holding the requisite liquor license.<sup>11</sup>

With more uniformity of law the reach of wine is likely to spread since it is widely recognized as a lifestyle drink and finding an increased acceptability in India. And this shift has compelled major global wine companies to see India as a potential market and tap into the spending power of its expanding affluent middle class.

*(Neeraj Dubey)*

#### CONCLUSION

Apart from numerous changes in regulations to help the wine industry grow in India, several steps are also being taken to make wine a more popular drink so that the acceptance of wine increases in Indian society. The concept of wine tourism and launch of several wine clubs, magazines, and web communities are lending great hand in promoting wine culture in India. Interestingly, an advisory committee consisting of several members of Parliament is actively seeking ban on serving liquor in the air be removed<sup>12</sup>.

Governments do face conflicting pulls and pressures when taking decisions on policies relating to taxation and regulation on any commodity or activity. It is inherently much more complex when it concerns alcoholic beverages as it involves social, economic, and ideological dimensions. The inclusion of '*alcoholic drink*' within the definition of food in the Food and Safety Standards Act, 2006 marks a great shift in the approach of the government towards this sector.

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<sup>10</sup> Official website of Delhi excise department: <http://excise.delhigovt.nic.in> (Visited on January 24, 2008)

<sup>11</sup> Ibid.

<sup>12</sup> <http://www.delhiwineclub.com/news> (Visited on January 22, 2008).



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