Spirited in times of gloom - the Indian wine industry!

Introduction

Wine industry in India which is still in a nascent stage is growing at a phenomenal rate. The wine consumption is expected to grow by 25-30% annually between 2009 and 2012.[1] The basis of this growth even during the recessionary period has been factors such as favorable government policies, growing disposable income, enlarged wine marketing, and influence of western culture which are helping to drive India's wine consumption. Additionally, India has been taking several steps over the past few years to improve the domestic wine sector, and encourage foreign participation to boost competition in the Indian market.

With the shift in the approach of the government, India is now seen as a potential market by global wine companies. More uniformity of laws, new regulatory policies, tax incentives and the spending power of its expanding affluent middle class widely recognizing wine as a lifestyle drink, Indian wine market is likely to spread and find an increased acceptability in India. The present E-newsline attempts to identify the current concessions provided to the wine industry apart from navigating through the process of wine import in India and the promises that domestic wine industry is poised to offer despite the slump.

1. Recent concessions

Government faces conflicting pressures when it takes decisions on policies relating to taxation and regulation on alcoholic beverages as it involves social, economic, and ideological dimensions. To give a boost to the wine industry, domestic as well as imported, several concessions have been announced by the government at various levels.

There has been a great shift in the approach of the government towards wine sector recently. The new Food and Safety Standards Act, 2006 (**"the Act"**)[2] has included "*alcoholic drink"* within the definition of "food."[3] This, in effect, makes wine entitled to the benefits available to the food processing industry (**"FPI"**) to the wine sector as well, though with certain constraints. By enlarging the definition of food to encompass wine, the market views this effort as an attempt to consolidate the regulations related to alcoholic beverages.[4]

The budget for the year 2009-2010 has reduced the customs duty on food processing machinery and their parts from 7.5% to 5%. The custom duty on packaging machines has also been reduced from 15% to 5% and that of refrigerated vans from 20% to 10%. These will impact the FPI in a petite but effective way.

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[1]According to the research report, "Indian Wine Industry Forecast to 2012" visited on November 24, 2009 at http://www.reportlinker.com/p0163727/Indian-Wine-Industry-Forecast-to-2012.html.
[2] The Act shall come into effect from January 2010.
[3] As provided under section 3(j) of the Act.
[4] For details related to various laws governing wine sector, please see E-Newsline of January 2008 available at http://www.psalegal.com/pdf/E%20Newsline%20January%202008.pdf.

Since "alcoholic liquor for human consumption" is a state subject, several states have made amendments to their retail policy and allowed wine to be retailed by private department stores/retail stores. This policy was initiated in the state of Goa and has been followed by Maharashtra (since 2007), Haryana (since 2008), and Karnataka (since May 2009). The latest addition to this list is Delhi (November 2009 onwards). The private department store that sells fruit, vegetables, and groceries now also retails wine. The department stores in Delhi which were allowed to sell only beer and pay an annual licence fee of INR 50,000 (about $ 1,000) will sell wines as well, though this fee is expected to go up once they start retailing wine.

2. Foreign participation - *process simplified*

Substantial liberalization of the trade policies has opened up the Indian market to most commodities; however, alcoholic beverages are still considered a "sensitive" import item. Currently, 100% foreign direct investment (**"FDI"**) is allowed under automatic route in FPI and food infrastructure including food parks, distillation & brewing of alcohol,[5] cold storage chain and warehousing, thereby parting several other aspects of alcoholic drinks out of its sphere.

Import policy and regulations

Under India's trade regulation, all importers and exporters of wine must be authorized by the Director General of Foreign Trade (**"DGFT"**) through an importer-exporter Code number.[6] Import permits for products subject to restrictions and health and sanitary certificates must be obtained prior to import from the relevant government departments and submitted with the customs declaration.

Storage regulations

Imported wines have to be stored at a government-approved custom bonded warehouse. The importer/distributor must meet all mandatory requirements of the state where they plan to market the imported wines before the wines can be released from the bonded warehouse for distribution. The Indian Customs Act allows warehousing of imported bottled wine in custom bonded warehouses for a period of one year *(12 months from date to date)* during which the importer must ensure sale.

Distribution licensing and transport permit

The importer/distributor is required to apply for a foreign liquor marketing license (FL-1 license) from the state excise departments for which a fixed fee is paid annually. Though the requirements vary from state to state, the importer should mandatorily have a registered office in the state in which he/she applies for a FL-1 license. Inspite of applying

[5] Vide Press Note 4 (2006) issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, and subject to licensing by the appropriate authority.
[6] Under the Foreign Trade Policy procedures, certain goods may be imported without this import export code number which includes the imports by central government ministries, imports for personal use, and trade with Myanmar and Nepal valued at under INR 25,000 per consignment.

for multiple licenses in several states, an importer can also use the services of an approved FL-1 licensed distributor, who is not using his license for any reason, as a market intermediary to market their product in the state.

For transporting wine, the licensed wholesaler/distributor has to apply for a transport permit from the excise department to allow transfer of the quantity specified in the order from the custom bonded warehouse to the buyer. The state excise department issues the transport permit upon receiving the state excise duty, vend fee, and state-specific taxes. When this transport permit is obtained only then the bonded warehouse releases the specified quantity of wine to the licensed distributor.

3. Domestic industry - *Incentive & Hurdles*

Despite the potential for growth, the present reality is that the limited domestic consumption of wine in India and non-availability of standard wine varieties to produce good quality wines of international standards has discouraged the grape production as well as the research & development in this sector which is now being given adequate impetus. In order to encourage the domestic wine industry, the states of Maharashtra, Karnataka, and Goa have increased their excise duty on imported wines which is the same as that imposed on Indian wines from outside the respective states. Delhi is the only major wine market to have resisted raising taxes on imported wine.

The state governments of Maharashtra and Karnataka offer several incentives to the grape wine cultivators in wine parks. Maharashtra, which has the largest cultivable land, around 40,000 acres, under grape wine cultivation produces around 94% of the total wine of India. There are 51 wineries in Maharashtra. Karnataka has just 2 wineries and effectively 9,700 hectares of land under cultivation.[7] These two states have also simplified and liberalized the license requirements thereby creating an environment conducive to encouraging growth.

However, when the growth of the fastest growing wine market in the world was affected by recession, this year the government of Maharashtra announced three major policy decisions as a relief measure. The local duty on imported wine was slashed, the registration fee only for the out-of-state wines was lowered, and finally, local producers will get a big VAT refund which came as a respite to the manufacturers.[8] Karnataka followed and slashed tax on local wine and unveiled a new cheaper "wine bar" license as well.

The local producers have realized that making decent wine involves more than fermenting grape juice and sticking a label on the bottle. Farmers have now become aware about the diverse wine varieties, the method of technique to grow grapes and brew them to get the desired result and most importantly, they have learnt to plan before planting new vineyards keeping the market in consideration, not only domestic but global as well.

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[7] The data has been obtained from the following website visited as on November 23, 2009: http://businesstoday.intoday.in/index.php?option=com_content&task=view&id=7480&sectionid=4&issueid=38&Itemid=1.

[8] Please see http://www.cainindia.org/news/9_2009/makes_vat_incentive_grant_official.html (visited on November 24, 2009).

These are major developments, yet the requirement of an industrial license[9] for beer, potable alcohol and wines has not been eliminated in the small-scale industries sector. In fact, since nearly two years, the annual licence fee has also been increased for operating in states like Delhi which has raised the fee from INR 200,000 to INR 500,000.

Promotional activities for Indian wines

The Agricultural and Processed Food Products Export Development Authority has been working on the strategy to showcase "Wines of India" across the globe, especially to the wine markets of the world, viz., France, Italy, Germany, USA, UK, and Singapore, apart from other regions. In addition to the 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 the Indian society. Several wine clubs have been formed in various cities of India. The concept of wine tourism has developed and several magazines and web communities are lending great hand in promoting wine culture in India.

Conclusion

Efforts are being made to encourage wine industry in India and also to promote the "made in India" wine globally. Though these efforts have produced favourable results, the growth is not uniform because it is taking place in just two-three places and other states have lagged behind. For an all-inclusive growth, uniformity of regulations is an utmost requirement. The Act has, in fact, consolidated the laws relating to food and established Food Safety and Standards Authority of India for laying down standards for articles of food and to regulate their manufacture, storage, distribution, sale, and import, to ensure availability of safe and wholesome food for human consumption in India. But the Rules for the Act are yet to be enacted. Further, for allowing greater participation by global players, the license regime should also be eased apart from making wine imports policy more flexible as that will make the market and competition more spirited!

Authored by:

Neeraj Dubey

[9] Under the Industries (Development and Regulation) Act, 1951.