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India

Wine

India Allows Partial Duty-Free Imports of Liquor by Hotels

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Report Highlights:
The Directorate General of Foreign Trade (DGFT) recently clarified that hotels may import alcoholic beverages and spirits for in-house consumption duty-free up to 5 percent of their foreign exchange earnings. This development is good news for foreign suppliers to India, but only if the mounting opposition from the restaurant sector and domestic liquor industry does not cause the government to modify or rescind this duty-free entitlement.

Includes PSD changes: No
Includes Trade Matrix: No
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Summary:

The Directorate General of Foreign Trade (DGFT) recently notified that beverages & spirits (chapter 22 of the ITC HS classification) for in-house consumption are eligible for duty-free import by hotels (up to 5 percent of their foreign exchange earnings). This DGFT clarification provides a duty relief of 150 percent to 633 percent on imports of foreign liquor, wine, and beer by the hotel industry (three star and above). As the hotel industry is the major importer and consumer of alcoholic beverages in India, market sources expect that the duty relief will fuel imports of foreign liquor and spirits. However, due to mounting opposition from the restaurant and domestic liquor industries, many people believe that the government may have to modify or rescind the duty-free entitlement on imports of liquor by the hotel industry.

India Allows Partial Duty-Free Imports of Alcoholic Beverages by Top-end Hotels

The DGFT recently notified that beverages, spirits, and vinegar covered under ITC (HS) classifications may be imported under the duty-free entitlement. The 2002-07 Export Import Policy amendment announced on March 31, 2003, allowed hotels (three star and above) and other service providers in the tourism sector a duty-free import-entitlement equivalent to 5 percent of their average foreign exchange earnings over the preceding three years, subject to minimum average foreign exchange revenue of rs. 1.0 million per year ($22,000). However, the entitlement and the goods imported against such entitlement are for in-house consumption only and are strictly non-transferrable. This entitlement can be used for imports of equipment and consumables, except for agricultural and dairy products.

There are no reliable or official figures on the number of beneficiaries of the new policy. Market sources report that around 600 luxury hotels have the necessary foreign exchange earnings to qualify for the duty-free entitlement. These luxury hotels will get an import duty rebate up to 5 percent of their average foreign exchange earnings of the previous three years. There had been considerable confusion in the industry over which items were included as agricultural products, specifically regarding the inclusion of alcoholic beverages. Consequently, the DGFT, through a circular dated May 14, 2003, issued the clarification including liquor imports by hotels.

Significant Duty Relief to Fuel Consumption and Imports of Foreign Liquor

Due to prohibitively high import duties, India’s import market for alcoholic beverages is currently very small (see Appendix 1). After the duty-free sector (diplomats and foreign passport holders), luxury hotels and the tourism sector are the major importers and consumers of foreign liquor in India. Although official estimates are not available, market sources estimate the hotel sector may account for 30-35 percent of total liquor imports.

The duty-free entitlement offers a significant cost relief to the luxury hotels, as the existing import duties on alcoholic beverages vary from 150 percent to 633 percent (see Appendix 2). Market sources expect that the current prohibitive prices of liquor at bars and restaurants in luxury hotels may come down by 33-50 percent. They also expect that the current foreign brands to domestic brands usage ratio (20-25:75-80) will shift in favor of foreign brands at most luxury hotels. Reports indicate that more than 200 eligible hotels have already applied for duty-free entitlement for imports of liquor since the clarification was issued by DGFT. More hotels are in the process of applying for the permission.

This entitlement is expected to increase imports of alcoholic beverages by the Indian hotel sector two to three-fold in the next few years. Future import growth will, however, depend largely on the status of the Indian tourism industry. Market sources expect that among the various product groups, imports of wine will show the highest growth rate, followed by scotch whisky, beer, and others. The expected higher imports of wine by the hotels will also be fueled by growing awareness about wine among the Indian consumers. Wine consumption has grown by 18-20 percent per year, albeit from a low base, over the last few years.

Restaurant Sector Claims Discrimination; Government May Rescind New Policy

Licensed restaurant and pub owners are up in arms against this DGFT notification, claiming discrimination, as they will not be eligible for import duty rebate. If the hotels pass on their cost advantage to their clients, these consumers are expected to shift en masse to hotel bars, and the independent restaurants and bars will likely face problems. The National Restaurant Association of India, with more than 300 members, is spearheading the opposition. They argue that the benefits of this new policy will unfairly accrue to the restaurants and bars of the hotels, even though the foreign exchange earnings come largely from the room business. The government will have a hard time extending the duty rebate to the independent restaurants and bars, however, as that would represent a significant revenue loss for them. Restaurants and bars currently earn around rs. 10-12 billion ($217-$261 million) per year.

Besides the likely revenue loss incurred by granting a level playing field to the restaurant sector vis-a-vis the hotel sector, the government will also be concerned about resentment from the domestic liquor industry against any such step, as this would further shift liquor consumption towards imported brands. Other fringe players, among them agricultural groups like growers of grapes, may be pressured to join these protesting groups, as many of the alcoholic beverages are agricultural by-products. Since an expansion of the duty-free entitlement seems to entail much more pain for the government than a modification, or even rescinding the new entitlement, many market sources feel that the government may be forced to adopt these latter options.

Appendix 1: India's Imports of Alcoholic Beverages (Value in Million US$)

HS Code	Item	IFY 2000/01	IFY 2001/02
2203	Beer	1.3	2.1
2204	Wine	1.7	1.6
2208	Liquor/Other Beverages	6.4	6.2
	Total	9.5	9.8

Date refers to Indian fiscal year (IFY) April-March.

Source: DGCIS, Ministry of Commerce

Appendix 2: Import Duty on Alcoholic Beverages

Product	Basic Duty	Countervailing	Special	Total
	/1	Duty/2	Additional	Effective
			Duty/3	Duty/4
Beer (HS 2203)	100%	See /5	4%	150 to 264%
Wine (HS 2204-2206)	100%	See /5	4%	150 to 264%
Spirits/Alcoholic Bev. (HS 2208)	182%	See /6	4%	267 to 633%

/1: Basic Duty applicable on CIF value of the good
/2: Countervailing Duty (CVD): applied on the CIF Value plus Basic Duty
/3: Special Additional Duty : applied on the CIF value plus Basic Duty plus CVD
/4: Total Effective Duty = Total Basic Duty + Total CVD + Total SAD
/5: Applicable CVD: 75% for CIF value not exceeding $25 per case (case is package of total volume 9 liters of liquor)
50% or $37 per case whichever is higher for CIF value more than $25 but less than $40 per case
20% or $40 per case whichever is higher for CIF value exceeding $40 per case
/6: Applicable CVD: 150% for CIF value not exceeding $10 per case
100% or $40 per case whichever is higher for CIF value more than $10 but less than $20 per case
50% or $53.2 per case whichever is higher for CIF value more than $20 but less than $40 per case
25% or $53.2 per case whichever is higher for CIF value exceeding $40 per case