Voluntary _ Public

Date: 12/14/2012

GAIN Report Number: IN2162

India

Post: New Delhi

Wine Market Update 2012

Report Categories:

Agriculture in the Economy
Beverages
Wine
Product Brief

Approved By:

David Williams

Prepared By:

Dhruv Sood

Report Highlights:

After a period of steady growth from 2000 to 2010, India's wine production dropped 15 percent in 2011 and improved slightly in 2012 to 11.5 million liters (1.3 million cases). Unsold stocks of wine following the Mumbai terror attacks in 2008 led wineries to procure fewer grapes and growers have shifted to alternate crops over the past four years as prices dropped. India has a number of strong demographic factors that bode well for the long-term development of the industry, but growth is hampered by a complex domestic system of excise, licenses and fees that increase the cost of imported and domestic wine significantly and make it difficult for small wineries to market outside of their home states. It appears that growth in the consumption of wine has been limited since 2007, but a committed group of enthusiasts continues to promote wine. Some local wineries are working to produce less

expensive and sweeter wines that are better suited to Indian consumer preferences in an effort to expand the market. Lower domestic production and persistent promotion efforts appear to be yielding results for imported wines; imports increased 75 percent to a record 4.4 million liters (500,000 cases) in 2011 and are on pace to match that level in 2012 despite a weakened rupee.

Production Background:

India's first winery was established during the 1980s and by 2000 there were just six operating wineries. Production subsequently expanded rapidly, peaking at an estimated 13.0 million liters (1.4 million cases) in 2010, before dropping in 2011 and 2012. Wine grape production takes place in the state of Maharashtra in the higher elevations around Nashik, Sangli and Pune and the state of Karnataka in the Nandi Hills near Bangalore. Maharashtra accounts for about two-thirds of domestic wine production. The state of Goa, a former Portuguese colony, produces an estimated 300,000 liters (33,300 cases) of port wine, but does not produce grapes. While India is located in the northern hemisphere, due to high temperatures followed by heavy monsoon rains from April to September, grapes are on a "fall/spring" cycle and mature during the somewhat cooler winter months before harvest during February and March.

There are no official production statistics, but state excise data, where available, coupled with industry estimates give a fairly reliable indication of recent production levels. Excise data from Karnataka indicate that the state produced 2.9 million liters (322,200 cases) during Indian fiscal year (IFY April/March) 2010/2011 and 3.2 million liters (355,500 cases) during IFY 2011/12. Excise data from the Sangli area of Maharashtra indicate that production was 641,000 liters (71,200 cases) in IFY 2010/11 and 233,000 liters (25,900 cases) in IFY 2011/12. Industry sources estimate total wine production at 11.5 million liters from 2,000 hectares of grapes in 2012. This estimate is consistent with an estimated grape yield of 10 metric tons per hectare and a standard liquid yield of 570 liters per ton of grapes. The main varieties cultivated in India are Cabernet Sauvignon, Shiraz, Merlot, Pinot Noir, Chenin Blanc, Sauvignon Blanc, Chardonnay and Ugni Blanc.

Governments in the producing states of Maharashtra, Karnataka and Goa have taken steps to support the domestic wine industry by reducing or eliminating excise duties on wines produced in state, easing distribution restrictions and providing fiscal incentives to establish wineries and vineyards. These states have also imposed stiff excise taxes on imported wines and wines from other states. In addition, Maharashtra has eased the licensing requirement and regulations for establishing wineries and wine retail outlets and established two wine industrial parks to facilitate investment in the industry.

Domestic Wine Production Drops

After a decade of steady growth, wine production dropped from 13.0 million liters in 2010 to an estimated 11.0 million liters (1.2 million cases) in 2011 and improved to 11.5 million liters (1.3 million cases) in 2012. India's Grape Processing Board, an industry trade association, indicates that there are 72 wineries in India. However, a third or more of these wineries are not producing or producing below capacity. Some wineries have abandoned their brands and are selling grape juice to larger wineries for further processing.

The industry is hopeful that production will increase in 2013 and annual growth will resume, albeit at a slower pace. One winery has established itself as the industry leader and accounts for an estimated 50-60 percent of production and sales. A few large corporations have made small investments in the industry. Industry sources indicate that there are 10 larger or corporate wineries and the balance are smaller independent wineries with the capacity to produce 100,000 to 500,000 liters annually, some of which are operating below capacity and/or producing juice for larger wineries. Wineries are working to diversify their income through tourism, restaurants and marketing strategies based on direct mailing, wine of the month clubs and other direct-to-consumer outreach. Gross sales of domestic wine are estimated at $40 million (Rs. 2.0 billion). With time, corporate investment and successful larger wineries could help to expand the market for wines and create better opportunities for the industry as a whole.

Several factors appear to have contributed to lower wine production during 2011 and 2012. Some of these issues can be addressed with alternate marketing or production strategies while others are persistent policy or structural issues that are likely to hamper the industry for the foreseeable future.

- A number of wineries focused on developing dry European-style wines. However, many Indian consumers prefer sweeter, less-expensive wines with a higher alcohol content. Consequently, some wineries are now working to change their strategy by developing sweeter wines with an emphasis on low-margin, higher-volume sales. Wineries are hopeful that the inexpensive wines will expand the wine market and eventually lead consumers to drier wines.

- A drop in tourism following the Mumbai terrorist attacks in November of 2008 resulted in reduced demand for wine just as many wineries were expanding their operations. As a result, some wineries were left with stocks of unsold wine weighing on their balance sheets. Large wine stocks led to reduced demand for grapes and a significant reduction in wine grape prices during 2009 and 2010. Wineries only produce an estimated 15 percent of their own grapes and source the balance of their grape supply from local farmers. When demand slowed, wine grape prices dropped, prompting farmers to replace their wine grapes with higher yielding table grapes or other crops. According to some estimates, wine grape area has dropped from 3,600 hectares to 2,000 hectares over the past four years. The industry is encouraging farmers to work more closely with wineries to better inform future planting decisions.

- High land costs and state-level “land ceiling” laws that limit the size of farms make it difficult for wineries to own enough land to produce their own grapes.

- India’s complex state excise taxes and label registration fees afford producers a high level of protection from imported wine or wine produced in other states, but make it very costly, especially for smaller wineries, to market their wines outside the state of production. Some larger wineries have merged or started producing wine in both Maharashtra and Karnataka in an effort to tap markets in India’s two largest wine-producing states without having to ship wine between the two states.

- Smaller wineries have difficulty attracting distributors for their brands. There are relatively few wine distributors in India and most carry wines produced by the larger wineries and have limited interest in carrying wines from smaller wineries.

- India’s laws effectively prohibit the advertising of alcoholic beverages, leaving wineries with limited options for promoting their products to consumers.

- A 20 percent devaluation in the rupee over the past year has increased the cost of imported equipment and inputs such as cork, bottles and other inputs sourced from abroad.

Production, Trade and Availability

The following tables are an attempt to quantify the supply and demand situation for the Indian wine sector. Stock and consumption data are not available and estimates vary widely. Hence, the analysis in this table is limited to an estimate of “domestic availability” which combines stocks and consumption to arrive at an estimate of the amount of wine that is available for consumption.

Table 1. India - Domestic Availability of Wine (1,000 liters)

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Production \1	4,725	5,850	8,550	11,250	11,700	12,600	13,000	11,000	11,500
Imports \2	874	1,421	1,836	3,067	3,307	1,795	2,551	4,439	4,400*
Annual Supply	5,599	7,271	10,386	14,317	15,007	14,395	15,551	15,439	15,900
Less									
Exports \2	280	483	752	1,050	1,732	2,093	696	1,114	1,100*
Equals									
Domestic Availability	5,319	6,788	9,634	13,267	13,275	12,302	14,855	14,325	14,800

1\ FAS Mumbai estimates, includes an estimated 300,000 liters of port wine produced in the State of Goa
2\ Official data from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code 2204
*Based on the annualized rate of respective 2012 exports and imports through August of 740,000 liters and 2.9 million liters.

Table 1a. India - Domestic Availability of Wine (1,000 cases)									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Production **1**	525	650	950	1,250	1,300	1,400	1,444	1,222	1,277
Imports **2**	97	158	204	340	367	199	283	493	488*
Annual Supply	622	808	1,154	1,590	1,667	1,599	1,727	1,715	1,766
Less									
Exports **2**	31	53	84	116	192	232	77	123	122*
Equals									
Domestic Availability	590	755	1,070	1,474	1,475	1,366	1,650	1,592	1,644

1\ FAS Mumbai estimates, includes an estimated 33,300 cases of port wine produced in the State of Goa
2\ Official data from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code 2204
*Based on the annualized rate of respective 2012 exports and imports through August of 82,200 cases and 322,200 cases.

A Small Wine Culture Develops

India is the world's largest whisky market and has over 200 million consumers of hard liquor, most of whom are men. Indian consumers prefer and are accustomed to drinks with relatively high levels of alcohol, putting wine at a disadvantage. In addition, large numbers of Indians do not drink alcohol for religious reasons. Wine, other than Goan Port and homemade wine, was largely unavailable to all but a few Indian consumers until recently. A small but enthusiastic group of wine producers, educators and consumers is working to increase the consumption of wine among drinkers of hard liquor as well as attract new consumers of alcoholic beverages. Women have traditionally shunned alcoholic beverages, but represent a potential new market for the wine industry. In addition, 100 million consumers will reach the legal drinking age of 25 (in most states) over the next five years.

The Indian wine drinking community is estimated at two million consumers who, along with expatriates and foreign tourists, will drink an estimated 10 million liters of domestic wine, three million liters of imported wine and 300,000 liters of port in 2012 for a total of 1.5 million cases. There are numerous media reports and studies that indicate the Indian wine market has grown at heady rates over the past few years. However, the data in Table 1 indicate that the availability of wine for consumption has hovered in the range of 12.3-14.9 million liters since 2007, suggesting that there has been, at best, limited growth in consumption over the past six years.

Wine drinkers are drawn largely from the estimated 20 million upper income consumers (two percent of the population). These consumers tend to have rising levels of disposable income, greater exposure to foreign foods through travel and a willingness to try new products. Other factors bode well for the development of the wine market such as high levels of education, a young population and fluency in English. A growing awareness of health issues is causing some consumers to switch to wine from drinks with higher alcohol content. In Delhi and Mumbai, serving wine at dinner events is becoming more common and wine consumption is considered a sign of status for some. Given high costs, imported wines are typically consumed on special occasions or given as gifts. Red wine is the most popular wine, accounting for 45 percent of consumption, followed by white wine at 40 percent, sparkling wine at 10-15 percent and rose at 1-5 percent.

Wine is primarily an urban drink and the states of Maharashtra (home to Mumbai) and Karnataka (home to Bengaluru), the Delhi metro area and the tourist destination of Goa account for an estimated 75 percent of wine consumption. The states of Andhra Pradesh, Assam, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal are the next largest consuming areas, but consumption levels are low.

Retail and Sales Options

An estimated 50 percent of wine is sold through restaurants, bars, hotels and pubs. Hotels ranked at three stars and above and some restaurants have the ability to acquire wine (and other products ranging from equipment to food) free of federal tariffs (hotels are still subject to excise taxes and other local fees) based on the amount of their hard currency earnings. The number of four and five star hotels is increasing and travel for both tourism and business is robust. Unfortunately, hotels do not typically pass the savings (from not paying the federal tariff) on to consumers because they use the margins to cover the high cost of obtaining and maintaining alcohol licenses. If hotels were able to pass these tariff savings on, they could serve as a gateway to introducing consumers to quality affordable wines. Hotels typically rely on local importers and distributors for their supplies, but will occasionally make recommendations to importers based on direct contact with wineries or import directly. Hotels tend to operate on annual contracts with specific suppliers and some have centralized procurement operations. Only a few hotel chains have sommeliers. There are a few local wine academies that provide training to hotel staff and others interested in learning more about wine.

Retail accounts for the bulk of the balance of wine sales. Traditionally, wine has been sold through thousands of small “wine shops” which are essentially liquor stores carrying a range of alcoholic beverages. These stores rarely have air conditioning and do not market wine or other beverages beyond carrying signage or other promotional materials. Additionally, acquiring a retail license can be difficult and expensive, which limits the opportunity to open new stores thereby restricting growth in the retail sales channel. Some states and cities (Maharashtra, Goa, Haryana, Karnataka, and Delhi) have allowed the sale of wine in supermarkets. India’s modern retail food industry is beginning to develop and could serve as a new outlet for exposing consumers to wine. Most modern retailers rely on subcontractors who hold liquor licenses to operate their wine shops.

A few wineries and importers have developed programs to sell directly to consumers through wine of the month clubs, subscription services or the internet. These marketing approaches enable smaller wineries and importers to bypass traditional distribution systems and better target consumers based on their wine interests.

How fast will the market grow?

It is not clear if the wine market will soon resume the heady growth it enjoyed up until 2007. As outlined above, there are a number of factors that point to the possibility of future growth. However, the market for domestic and imported wines is constrained by excise taxes, licensing processes, complex distribution procedures, poor handling and storage options, competition from whisky and limited advertising options. Additionally, the domestic industry will have to encourage potentially skeptical farmers to replant their vineyards if production is going to expand. Given the continued enthusiasm within the wine community, it seems likely that the market will expand over the next few years, but at a modest rate. The domestic industry will likely consolidate further with some smaller wineries leaving the industry. Wine imports have increased despite a weak rupee over the past year and modest, if variable, growth seems possible for imported wines within the current policy and domestic supply environment.

Access to reasonably-priced quality wines is considered by some to be the key to speeding the development of a wine culture in India. Some wineries, instead of producing dry European-style wines that sell for eight to ten dollars per bottle, are working to produce sweeter wines that sell for two to three dollars per bottle with higher alcohol content, screw tops, smaller bottles and convenient packaging. The intent is to better meet the expectations of the Indian palate and broaden the appeal of wine to more moderate income consumers. Better access to affordable imported wines would likely help to increase consumer demand for both imported and domestic wines.

Imports on the Rise Again

India's wine imports climbed steadily through 2008, reaching 3.3 million liters (367,000 cases), before dropping to 1.8 million liters in 2009 (199,000 cases) following the Mumbai terror attacks. Imports have increased steadily since then, climbing to a record 4.4 million liters (493,000 cases) valued at $22 million in 2011. Imports through August of 2012, the most recent month for which official data are available, had reached 2.9 million liters (322,200 cases), on pace for 4.4 million liters during 2012.

Some within the industry have questioned the accuracy of India's import data provided in Table 2, citing the potential for grey trade, re-exports and shipments that do not clear bonded warehouses due to inadequate financing or preparation on the part of smaller importers. As a check, export data from major suppliers are provided in Table 3. Given the issues that some have raised, the expectation would be for "export to" data to exceed imports and that has been the case for most years, suggesting that official import data provide a reasonably accurate measure of the volume of wine entering Indian commerce. However, for 2011, "export to" data suggest that imports are essentially unchanged from 2010, while the official import data point to a significant increase in imports. Industry sources had varied opinions about this increase, but some indicated that they were not surprised by the increase given the growth in their import business.

France, Italy and Australia are generally the largest exporters of wine to India. Transshipment and consolidation points such as Singapore, the UAE and the United Kingdom have also emerged as important suppliers. While there are no preferential tariffs for bulk wines, Indian wineries also import variable quantities of bulk wine for blending with domestic wines or bottling in India. Assuming that these wines are marketed as domestic wines, they enjoy the same state tax benefits as locally produced wine. The European Union is currently engaged in negotiating a free trade agreement with India. While it is not yet clear if EU wines will gain preferential access to the Indian market as a result of these negotiations, a significant reduction in tariffs for EU wines would almost certainly lead to greater imports of wine from the European Union.

A few wineries are working to develop international markets for Indian wine. Exports peaked at 2.1 million liters (232,000 cases) in 2009, but dropped significantly in 2010 and 2011 (see Table 1). Some Indian wines have done well in international competitions and the industry is beginning to participate in international trade shows. India's largest winery has had some success in the Japanese market and Europe. Exports through August of 2012 had reached 739,000 liters (82,100 cases), on target for exports of 1.1 million liters (122,000 cases) in 2012.

Table 2. Indian Imports from Major Suppliers (1,000 liters)

	Exporter	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
1	France	785	971	1,023	566	612	1,318
2	Australia	288	821	568	226	362	422
3	Italy	228	283	305	245	361	399
4	Singapore	6	26	65	130	186	322
5	United Kingdom	109	141	130	97	149	254
6	United States	100	102	129	125	103	245
7	United Arab Emirates	23	20	22	38	24	237
8	Germany	61	36	42	16	54	198
9	South Africa	27	344	605	48	78	147
10	Chile	42	95	97	97	147	147
11	Spain	20	36	88	45	48	69
12	New Zealand	7	39	36	44	37	53
13	Argentina	44	47	28	25	17	18
14	Others	95	106	168	92	372	611
	Total	1,836	3,067	3,307	1,795	2,551	4,439

Official data from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code - 2204

Table 3. Exports to India from Major Suppliers (1,000 liters)

	Exporter	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
1	France	881	1,125	906	879	587	640

2	Australia	632	1,335	1,054	451	722	611
3	Italy	255	336	277	191	348	391
4	Chile	104	176	180	143	187	242
5	Singapore	37	26	75	160	215	221
6	United States	135	250	207	135	246	207
7	Spain	62	105	109	95	137	156
8	South Africa	48	516	0	54	152	124
9	United Kingdom	52	45	70	37	44	56
10	Argentina	90	55	41	40	39	50
11	New Zealand	9	25	20	24	36	48
12	Germany	98	118	77	38	78	44
13	Portugal	62	69	60	28	40	40
14	Others	96	5	20	21	14	18
	Total	2,559	4,186	3,096	2,295	2,844	2,848

Official country export statistics as reported to the Global Trade Atlas for Harmonized Tariff Schedule code – 2204

Tariffs, Taxes and Distribution Policies

Licensing, excise and distribution policies for alcoholic beverages, including wine, are the responsibility of individual states. In addition to a federal import tariff of 150 percent and a special additional duty of 4 percent, imported wines must grapple with the varied complex domestic marketing and tax procedures in each state. This report provides a summary of some of the key issues facing imported wines and examples of some state procedures and policies. Providing a complete overview of Indian state liquor policies is beyond the scope of this report. Potential exporters should work closely with their importers to determine the effects of these policies on the pricing and distribution of their products. Experienced distributors of alcoholic beverages work through these policies regularly.

A. Federal Tariffs—A Brief History

In April 2001, the federal government allowed the importation of wine for general consumption, placing it on "Open General License." Previously, imports were effectively banned aside from a few exceptions for the tourism industry.

On July 3, 2007, in response to issues raised at the World Trade Organization, the Government of India removed the additional import duty of 20-75 percent which, depending on the landed value of the wine, was applied in addition to the base tariff of 100 percent. In turn, the Government of India raised the import tariff on all wine to 150 percent, equivalent to the bound level established during the Uruguay Round or the World Trade Organization.

When the federal government established an import tariff of 150 percent in July 2007, it suggested that state governments could impose excise duties and taxes on imported wines and liquors similar to the applicable taxes being levied on domestically produced wines and liquors.

B. An Exemption from Federal Tariffs – the 'Served From India Scheme' (SFIS)

The 2002-07 Export Import Policy amendment announced on March 31, 2003, allowed hotels (three stars and above) and other service providers in the tourism sector a duty-free import entitlement equivalent to five 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 ($20,000). The goods imported against the entitlement are meant for in-house consumption and are strictly nontransferable. The scheme waives the federal tariff of 150 percent, but does not eliminate state excise taxes.

In 2011, the Ministry of Commerce and Industry relaxed the policy slightly, making large firms and chains eligible for a duty free import entitlement based on the foreign exchange earnings of at least Rs. 1.0 million ($20,000) in the current financial year in lieu of a three-year average. For independent restaurants and hotels, the threshold was set at Rs. 500,000 ($10,000).

Hotels and restaurants often use this scheme for products that are subject to high federal tariffs or are not available in India. Wine is commonly imported under this scheme and, while data are not widely available, the domestic wine industry maintains that half of all Indian wine imports take place under this scheme. Imported wine is typically stored in bonded warehouses from which importers and distributors supply hotels.

C. Food Safety Standards, Labeling and Clearance

The Food Safety and Standards Authority of India (FSSAI) has specified requirements for the labeling of wine and other alcoholic beverages. This section provides an overview of labeling and food safety requirements for wine, but should not be viewed as a definitive listing of requirements. These requirements are subject to change and exporters should work closely with their importers to ensure that they meet local labeling and food safety requirements. Over the past two years, FSSAI has repeatedly provided a three-month extension allowing importers of alcoholic beverages to make specific "minor" labeling changes at the port of entry. The most recent extension was granted during October 2012 and is valid for three months. See IN2146 for more details. While there is no official process of approving labels prior to shipment, an importer may be able to work with a local FSSAI office to obtain feedback concerning a proposed label.

FSSAI Labeling:

- Addresses -- Current labeling requirements state that the name and addresses of the producer, importer and bottler must be included on the label. However, some imported wine has been sold without this information and foreign trade groups have raised concerns about this provision. This may be simplified in the future.

- Dating -- The date of manufacturing or packing is required on the label. This provision is reportedly under review and may be modified for alcoholic beverages. Best before dating is not required for wine and liquors. Wine is exempt from the requirement that 60 percent of a product's shelf life remains at the time of import.

- Ingredients -- Wine is not specifically mentioned or exempted from the requirement to list a product's ingredients--exporters should work closely with their importers to ensure that they do not run afoul of ingredient labeling requirements. Alcoholic beverages are exempt from nutritional labeling. If wine contains additives or preservatives, these products must be listed. The only specific additive for which a limit has been established is sulphur dioxide at 450 parts per million.

Department of Consumer Affairs Labeling: FSSAI was formed recently as a centralized food regulatory authority. However, the Department of Consumer Affairs still has provisions that govern the food industry. Bottled-in-origin wines are subject to the labeling provisions of the Standards and Weight and Measures (Packaged Commodities) Rule, 1997, when imported into India. Compliance with this rule should be ensured before the import consignment is cleared by customs. The labeling declaration on a wine bottle should include:

- Name and address of the importer.
- Generic or common name of the packaged commodity.
- Net quantity in terms of standard units of weights and measures. In the case of wine, the unit is milliliters or liters.
- Month and year in which the commodity was manufactured, packed, or imported.

In addition, the Standards and Weights and Measures (National Standards) Rules, 1988, state that the alcoholic strength must be declared on the label as a percentage of volume with the symbol "% Vol."

Import Clearance Procedures: General requirements for the clearance of imported wines follow. These procedures are subject to change and exporters should work closely with their importers to make sure that they meet the necessary requirements.

- Two Samples for each wine variety or flavor are collected for testing from the first five consecutive consignments by the FSSAI inspector or, in ports where FSSAI inspectors have not yet been deployed, the Port Health Officer. Consignments are held until test results are available. If the test results comply with FSSAI requirements, the shipment is released.
- If the first five tests conform to FSSAI requirements following testing at an FSSAI approved laboratory, the sampling regime may be reduced to 5 to 20 percent of future consignments. However, importers report that inspectors often continue to sample 100 percent of shipments rather

than moving to a reduced sampling regime.

- Imports must comply with labeling and packaging requirements.
- Imports must also comply with requirements as stipulated by various state governments for alcoholic beverages.

D. Factors Affecting the Distribution of Wine

Once imported wine completes the import clearance process, the importer stores the wine at a Customs bonded warehouse that is publically or privately owned. Wines may be stored in these warehouses for up to a year. Storage can be extended for three months subject to the payment of interest on the unpaid tariffs. If the wines are sold under the SFIS scheme to a hotel or restaurant, they are released from the warehouse free of the federal tariff of 150 percent. If the wines are sold to retailers or other firms that do not participate in the SFIS scheme, they pay the federal tariff before entering Indian commerce. The importer or distributor (most importers are also distributors) now begins the process of moving the wine through the distribution, licensing and excise systems that vary by state. A discussion of some of the key factors affecting wine distribution along with a discussion of some state-specific requirements follows.

Storage: Imported wines and all other alcoholic beverages must be stored in a government- approved bonded warehouse or excise department bonded warehouse. Importers can keep the imported wine in an excise approved warehouse after paying the import duty. Wines can be released from the bonded warehouse for distribution only after the distributor meets all the mandatory requirements of the state where they plan to market the product.

Licenses: Licensing procedures vary by state; some states prohibit the sale of alcohol, some ban the sale of alcoholic beverages and others have state-run monopolies that control the distribution of alcohol. In general, importers, distributors, retailers, restaurants and hotels must have a license to handle alcoholic beverages. In some states, licenses are further delineated to allow for things like room service sales of alcohol. Licenses are typically subject to annual renewal fees. State licensing and distribution structures are outlined in the Table 4.

Table 4: State Licensing and Distribution Structures

Structure	Description	States
Open Markets	A business may apply for a license at a set fee, provided that licenses are available. In some states new licenses have not been available for many years.	Maharashtra, West Bengal, Goa, Assam, Meghalaya, Arunachal and Tripura

Auction Markets	Licenses are auctioned to the highest bidder.	Uttar Pradesh, Rajasthan, Madhya Pradesh, Bihar, Punjab, Haryana and Chandigarh.
Government Controlled	The government controlled markets have different models. Karnataka is the most open state, with the lowest trade margins. Whereas, in Delhi, Kerala and Tamil Nadu retail shops are run by the state government.	Tamil Nadu, Delhi, Kerala, Andhra Pradesh and Karnataka.
Prohibition States	Sales of alcohol are prohibited	Gujarat, Manipur, Mizoram and Nagaland.

Brand/Label Registration: Importers or distributors are required to register the brand (and label in some cases) with the state excise department for marketing the brand and/or label in the state. The state excise department charges a fixed registration fee, and the registration has to be renewed every year. In some states, importers are also required to declare the maximum retail price (MRP) for the wine at the time of registration.

At the time of registration, the state excise department provides guidelines on specific labeling requirements for sale. State specific labeling regulations may include:

1. 'Alcohol Consumption is Injurious to Health' in English (and local language in some states)
2. 'For Sale in the state of xxxxxxx only'.
3. Maximum Retail Price (MRP) Rs. xxx.xx only.

Transport Permits: After receiving an order from a licensed buyer, the licensed distributor applies for a transport permit from the excise department. Permits are typically issued after payment of state excise tax, sales tax (value added tax) and other applicable taxes.

Advertising: The Government of India has banned direct and surrogate (sponsorship of events) advertising promoting the consumption of liquor including wine. Most liquor and wine promotions are done through on-premise promotions such as wine tastings, sponsorship of small cultural event and point-of-sale promotions.

Excise, State Fees and other Taxes: Each of India's 28 states and eight union territories wields considerable control over the taxation, marketing, storage and distribution of alcoholic beverages including wines. As noted in Table 4, four states ban the sale of alcoholic beverages completely. Excise revenue from sales of alcohol is an important source of revenue (in some states it is the major source) for funding state-level projects and services. Revenue from sales of hard liquor is the primary target of state tax regulators, but wine is often subject to the same requirements as other alcoholic beverages.

The domestic wine industry says that 50 percent of all imported wine enters India duty free (The wine enters under the SFIS scheme detailed above.), which may well be accurate in so far as it relates to the federal tariff of 150 percent. However, in many states, especially producing states, imported wines are subject to stiff excise taxes or maximum retail pricing (MRP) requirements that increase the cost of wine significantly. Domestic wines are subject to the same requirements except in some wine producing states. While bilateral efforts to lower India's federal tariff could help to improve market access for imported wine, changes in federal tariffs could be countered by changes in state excise policy.

Summaries of fees and costs for key consuming states follow. These are not complete summaries of the fees and procedures facing imported wine and additional taxes and fees may be applied. For more information, readers can visit state websites by following the hyperlinks associated with each state name at the start of its respective paragraph. Exporters should work closely with their importers and distributors to ascertain how these fees will affect the retail value of their wines.

A. **Karnataka**: The Karnataka State Beverages Corporation Limited (KSBCL) is the state-run monopoly distributor. Under the present excise policy, all manufacturers, suppliers and importers who want to sell alcoholic beverages in Karnataka, whether produced in state or elsewhere, must sell through the KSBCL. Similarly, all retailers, restaurants and hotels have to purchase from KSBCL. The KSBCL has fixed its margin at 0.5 percent and the retailer margin at 10 percent. KSBCL also charges the importer seven percent of the landed cost as a distribution fee and an import fee is charged per bulk liter (See table 5). The label registration fee for imported wine is Rs. 10,000 ($192) per year. Fees are reduced for wines produced in state.

Table 5: Federal Tariff and Excise Calculation for the State of Karnataka

Karnataka	
	Rupees ($1.00 = Rs. 52)
A. Supplier's Manufacturing cost (MC) per bottle (750 ml) *Rs. 300.00 for 1,000 ml bottle*	225
B. Insurance	10
C. Freight	65
D. CIF Assessable Value (A+B+C)	300

Federal Tariff and Fees	
E. Customs Landing Charge – 1 percent of (D)	3
F. Federal Tariff, 150 percent of (D+E)	455
G. Special Additional Duty of 4 percent of (D+E+F)	30
Commercial Fees	
H. Clearing Charges 5 percent of (D+E+F+G)	39
I. Warehousing Charges	25
J. Total Cost Ex-Warehouse at Port (D+E+F+G+H+I)	850
State Excise and Fees	
K. Excise Tax / Special Fee** - Rs. 47 per bulk liter	35.25
L. Additional Special Fee – Rs. 300 per bulk liter	225
M. Import Fee – Rs. 300 per bulk liter	225
N. KSBCL Margin – 0.5% x (J)	4.25
O. KSBCL Distribution Fee – 7% x (D)	21
P. Retailer Margin – 10% x (J+K+L+M+N+O)	136
MRP = Federal Tariff + Excise Tax + Addl. Special Fee + Import Fee + KSBCL Margin + KSBCL Distribution Fee + Retailer Margin + Declared Price***	
MRP = 455 + 35.25 + 225 + 225 +4.25 + 21+ 136 + 600***	
MRP = Rs. 1,700 ($33)	
** Excise duty / Special Fee is based on a five slab fee structure *MRP between Rs. 400 & 750 – Rs. 9 per bulk liter* *MRP between Rs. 751 & 1,200 – Rs. 15 per bulk liter* *MRP between Rs. 1,201 & 2,500 – Rs. 36 per bulk liter* *MRP between Rs. 2,501 & 3,000 – Rs. 47 per bulk liter* *MRP above Rs. 3,001 – Rs. 49 per bulk liter*	
*** Declared Price reflects the CIF value of the wine plus any importer margins to cover overhead, city taxes, sales taxes, label registration costs and other fees.	

B. **Andhra Pradesh**: The Andhra Pradesh Beverages Corporation Ltd. (APBCL) is the monopoly distributor of alcoholic drinks in the state of Andhra Pradesh. All manufacturers, suppliers and importers who want to sell alcoholic beverages in Andhra Pradesh, whether produced in state or outside, must sell through the APBCL. Similarly, hotels, restaurants and retailers must purchase from the APBCL. The APBCL has fixed its margin at 21 percent for wines priced up to Rs. 2,000 ($38) per case proof liter and 11 percent for premium wines priced above Rs. 2,000. Other taxes include a 70 percent sales tax and an excise tax of 22 percent.

C. **Maharashtra** : Maharashtra is the biggest wine producing and consuming state in the country. In

2007, when the federal tariff was reduced (see section on the history of the federal tariff), Maharashtra increased its excise rates significantly. The excise policy was revised again in 2009 and now follows a three slab fee structure (see Table 6) based on the manufacturing cost of imported alcohol. The government charges a "special fee" applicable for foreign liquor (spirits) and wine imports into Maharashtra which is similar to an excise tax on imported liquor.

To promote wine manufacturing, the Government of Maharashtra exempted wines produced in the state from grapes produced in the state from state excise fees from 2001 to 2011. The exemption has been extended through 2021 and provides a significant competitive advantage for wines produced and sold in Maharashtra. However, smaller wine producers often find it difficult to market their wines outside of the state due to the excise and label registration policies in other states.

Table 6: Federal Tariff and Excise Calculation for the State of Maharashtra

Maharashtra	
	Rupees ($1.00 = Rs. 52)
A. Supplier's Manufacturing cost (MC) per bottle (750 ml) *Rs. 300.00 for 1,000 ml bottle*	225
B. Insurance	10
C. Freight	65
D. CIF Assessable Value (A+B+C)	300

Federal Tariff and Fees	
E. Customs Landing Charge – 1% x (D)	3
F. Federal Tariff, 150% x (D+E)	455
G. Special Additional Duty of 4% x (D+E+F)	30
Commercial Fees	
H. Clearing Charges 5% x (D+E+F+G)	39
I. Warehousing Charges	25
J. Total Cost Ex-Warehouse at Port (D+E+F+G+H+I)	850
State Excise and Fees	
MRP = MC* x 2 + Excise Tax** + Federal Tariff + VAT***	
MRP = 600* x 2 + 225 + 455 + 375	
MRP = Rs. 2,255 ($43)	
* This reflects the importer's "manufacturing cost" which is different from the supplier's MC outlined in line A. Importers must build in an additional margin to cover overhead, taxes such as city octroi, licensing fees and any other costs or fees at this point in the calculation. In this example, we have selected an additional margin of Rs. 375 which has been added to the importer's manufacturing cost of Rs. 225 for a total of Rs. 600.	
** The excise tax or special fee is based on a three slab fee structure which is tied to the MRP. Importers must estimate an MRP to determine the appropriate fee, which is then added to the right side of the equation to determine the actual MRP. *MRP up to Rs. 900 – Rs. 400 per bulk liter* *MRP between 901 & 6,000 – Rs. 300 per bulk liter* *MRP above Rs 6,000 – 5 percent of maximum retail price*	
***Value Added Tax (VAT) in Maharashtra is 20 percent	

D. **Delhi:** Within the National Capital Territory of Delhi, distribution of alcoholic beverages is handled by various government-run organizations such as the Delhi Tourism and Transportation Development Corporation, the Delhi State Industrial Development Corporation, the Delhi State Civil Supplies Corporation Limited and the Delhi Consumers Cooperative Wholesale Store Ltd.
Permits to bring foreign or domestic wine into Delhi are issued after a distributor has verified that the special duty, assessment fee and vend fee have been paid. Under the 2012 Delhi Excise Rule, the licensing fee has been fixed at Rs. 600,000 ($11,538) per year and the label registration fee for wine at Rs. 5,000 ($96) per label. The city also charges an "import pass fee" of Rs. 5 (10 cents) per bulk liter.

E.**Haryana**: In Haryana, licenses are issued under auction to the highest bidder. Under the 2012/13 excise policy, the state government has introduced an additional import duty on wine of Rs. 4 (8 cents) per bulk liter in addition to the applicable excise duty of Rs. 3 ($0.07) per bulk liter on sweet wines up to 25 degree proof and Rs. 4 ($0.08) per bulk liter on sweet wines above 25 degree proof. The label registration fee is Rs. 10,000 ($192) per brand. For sales volumes below 10,000 cases in the financial year the license fee is Rs. 1,500,000 ($28,900) per year. For every subsequent sale of 10,000 cases, the fee is Rs. 1,000,000 ($19,200).

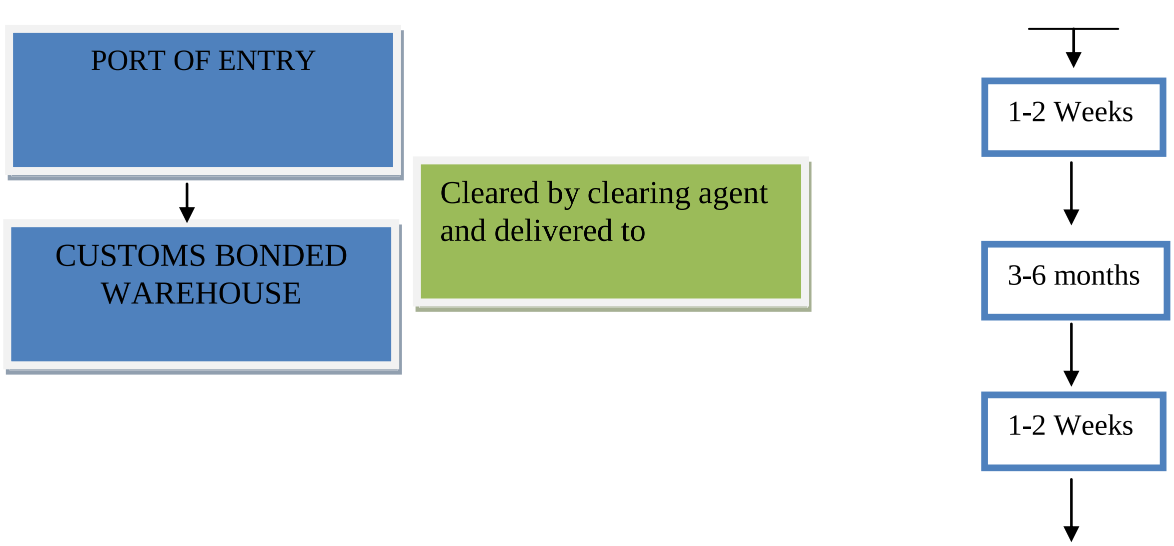
F. **Goa:** The license fee for wholesale vendors of imported wine is Rs. 25,000 ($480) plus an application fee of Rs. 5 ($0.10) per bulk liter.

Table 7. Excise Taxes and Label Registration Fees for the State of Goa

Maximum Retail Price	**Excise Tax on Imported Wines**
MRP between Rs. 510 and Rs. 1,100	Rs. 120 per bulk liter
MRP Rs. 1,100 and Rs. 2,000	Rs. 250 per bulk liter
MRP between Rs. 2,000 and Rs. 5,000	Rs. 450 per bulk liter
MRP above Rs. 5,000	Rs. 650 per bulk liter
	Label Registration Fee
MRP up to Rs. 500	Rs. 3,000 per label per year
MRP between Rs. 100 and Rs. 500	Rs. 12,000 per label per year
MRP above Rs. 500	Rs. 20,000 per label per year

$1.00 equals Rs. 52

Distribution Structure



Customs issues delivery order after duty is paid by importer

State Excise Department issues transport permit on payment of specific duty.

1-2 Weeks

Entry Strategy

Given the complexity of the domestic excise, licensing and distribution policies, the key to accessing the Indian market is identifying an experienced importer and distributor. There are only a few people in India who understand the complexities of wine distribution and a prospective importer should have staff with experience in this area. A key consideration for an exporter is understanding how their wines will eventually be priced for sale after all taxes and fees have been incurred, whether their wines will be sold via retail or the hospitality sector and how widely their wines will be distributed.

Estimates of the number of wine importers have varied from 50 to 80 over the past few years. A number of wine enthusiasts reportedly jumped into the business as imports were rising a few years ago, but some did not have distribution experience and transactions ultimately failed with volumes of unsold wine stranded in warehouses in some cases. The five largest importers account for an estimated 60-70 percent of imports, with the balance of active importers, perhaps 30 firms, each handling less than 10,000 cases per year. A number of importers began as distributors of alcoholic beverages other than wine and have added wine to their portfolios. Additionally, some Indian wine producers, in an effort to offer a full range of wine options to their customers, are importing wines that complement their domestic wine production.

The Indian wine market has garnered considerable attention over the past few years with many touting the rapid growth and imminent expansion of the market. Indian importers indicate that they receive a steady stream of inquiries from foreign exporters with interest in the Indian market. Many of the established importers already carry U.S. wines within their portfolios and prefer not to carry duplicate types of wine from the same country or state. Wineries from new regions or with new varieties may find greater interest among importers. If imports continue to grow, importers may begin to seek new brands.

The Office of Agricultural Affairs in Mumbai can provide a list of importers upon request. The best way to contact us is via e-mail at agmumbai@fas.usda.gov.

Trade Shows and Promotions

Most major wine producing countries are actively promoting their wines in the Indian market, either via trade associations or individual firms. Events are usually dinners or wine tastings and target importers, hotel food and beverage buyers and restaurants. These targeted promotions can help to expose prospective customers to the wines of a particular country or winery.

Trade shows have also been a popular vehicle for foreign wine exporters in recent years with a number participating in food shows such as Annapoorna in Mumbai or Fine Food in Delhi. While trade shows are an important tool in assessing market potential and establishing new contacts, to get the most out of a visit to India, exporters may want to consider combining a trade show visit with targeted meetings and/or a separate trade promotion for their wines. Wine exporter participation in food shows appears to have diminished over the past year. The following is a list of trade shows that may be of interest to wine exporters.

1. AAHAR International Food and Hospitality Fair - Annual show held during March in New Delhi, little or no wine exhibitor presence.

2. Annapoorna World of Food India -- Annual show held during September in Mumbai with limited wine exhibitor presence.

3. Fine Food India -- Annual food show held in New Delhi during December that actively works to promote wines as part of its show profile

4. Food Hospitality World -- Annual food show held three times a year in Mumbai (January), Bangalore (June) and Goa (October). The Focus is on the hotel and restaurant sector. Wine exhibitors have been limited, but the organizers are keen to increase the wine profile.

5. Food and Grocery Forum India -- Annual show generally held during December in Mumbai. The show does not currently have a wine presence.

6. India Hospitality Expo – Annual food and hospitality show held in Goa in September with little wine presence.

7. Ind Spirit—Biannual conference and exhibition held during March in Mumbai. The focus is on all alcoholic beverages including wine.

8. India International Food and Wine Show – Last held in 2009, returning in February 2013 in Gurgaon outside of Delhi.

9. Mumbai Wine Tasting Festival—Annual show in Mumbai that caters to consumers—more appropriate for brands with established local distributors.

10. Upper Crust Food and Wine Show - annual show held in Bangalore (September) and Mumbai (December). The shows are sponsored by "Upper Crust" magazine and cater to consumers. These shows might be appropriate for companies that are already established in India.

Points to consider as an approach to the Indian market:

- Survey potential opportunities for the wines in the market. The Office of Agricultural Affairs can assist new exporters in identifying market research firms who can do this survey.
- Recognize that India is large and diverse with varying state policies; consider whether you wish to enter the market by focusing on a particular city or region before expanding nationally.
- Consider whether you are willing to provide promotional funding to your distributor for your wines.
- Consider participating in a local food or drink show. Trade show samples are subject to the same requirements as imported wines and must be imported by someone who holds an import license.
- Examine all prospective distributors, and thoroughly research the promising ones through local industry and trade associations or a market research firm.
- Identify importers/agents with an established marketing network among the hotels/restaurants and retailers in various states.
- Recognize that distributors with fewer suppliers may be more adaptable and committed than larger distributors with multiple brands.
- Review the other wines carried by a distributor to avoid potential conflicts of interest with other companies and countries.
- Ensuring payment is another important consideration when establishing a relationship with an importer. Until a successful working relationship is established, exporters may wish to consider vehicles such as an irrevocable letter of credit. Alternatively, Indian importers are accustomed to operating without credit and may be willing to pay cash prior to shipment.

For more information:

The following reports may be of interest to U.S. exporters interested in India. There, and related reports prepared by this office, can be accessed via the FAS Home Page: www.usda.fas.gov by clicking on "Attaché Reports" and searching by the report number. Reports given below will provide additional information to exporters interested in Indian market.

Report Number	Subject
IN1104	FSSAI-Towards Implementing Food Safety Standards in India
IN1106	Export Certificate FAIRS Report
IN1186	India: HRI Food Service Sector Annual 2011
IN2059	India's Food Retail Sector Growing
IN2163	Exporter Guide Annual 2012
IN2164	Retail Food Sector Report 2012

For additional information, please contact:

Senior Agricultural Attaché
Office of Agricultural Affairs
American Consulate General
C-49, G-Block, Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051
Phone: 91-22-2672-4863
E-mail: agmumbai@fas.usda.gov