Experts say uniform tariffs on imports from all neighbouring countries will be quite simple and easy to administer. If need be, sensitive items can be allowed at higher duty.

India’s country liquor (or arrack) industry is known for chaotic business, and estimated at Rs 220 billion, with annual volume sales of over 200 million cases. Of course, the India-made foreign liquor (IMFL) sales are pegged at around 150 million cases, and growing at 8 to 10 per cent annually.

Manufacturers of country liquor will soon have to adhere to common standards almost similar to that of branded spirits. The Bureau of Indian Standards (BIS) may prescribe fresh manufacturing norms for country liquor.

IMFL and country-made liquor account for the bulk of alcoholic consumption. Of course, there is an upper crust that demands and gets the choicest of scotch.

Scope for growth

The per capita consumption of wine in India is a meager 0.006 bottle compared to 0.5 bottle in China, 56 in France, 55 in Italy and 36 in Spain. Indian wines are growing annually at the rate of 30 per cent. Liquor consumption in India increased by 106.67 per cent between 1960-72 and 1994-96. Wine consumption recorded a 14 per cent growth in 2003-04 to reach 490,000 litre cases against 430,000 cases the previous year. Currently, the Indian wine market is estimated at one million cases per year and is expected to grow at 20 per cent annually. By 2012, the figure is expected to touch five million cases.

The total liquor industry is worth Rs 20 billion. IMFL accounts for only a third of the total liquor consumption in India. Most IMFLs are cheap and priced below Rs 200 per bottle. Whisky accounts for 60 per cent of the liquor sales, while rum, brandy and vodka account for 17 per cent, 18 per cent and 6 per cent, respectively. MNCs’ share is only 10 per cent and their presence is felt in the premium and super-premium ranges.

In January 2008, there were over 2826 wholesale outlets and 110,374 retail outlets (of which 53,440 are for country liquor) in the country. The population per retail outlet in India is approximately 9000, whereas population per retail outlet globally ranges from 94 in Peru to 2122 in South Africa.

Market leader

By: Dr I. Satya Sundaram
pet bottles. The advantage of pet alcoholic beverages are being sold in India is gaining importance. Alcohol producers in Asia in terms of expected growth rates. The beer segment is banking on huge potential primarily driven by the increasing purchasing power and the expected deregulation of the segment.

Beer consumption in India went up more than 90 per cent between 2002 and 2007. The total beer market in India is around 136 million cases of 7.8 litres each, and is growing by more than seven per cent annually. The growth in beer consumption is attributed to certain factors like growing middle class, reduced taxation, market liberalisation and arrival of international brands.

In 2007-08, beer consumption was up by 14.5 per cent. This happened for the third year in a row. Beer shipments touched 158 million cases (of 7.8 litres each) in 2007-08 up from 137 million cases in the previous year.

Vijay Mallya’s United Breweries holds a grip over the Indian beer market with Kingfisher, Kalyani and Sandpiper brands. With 137 million cases (of twelve bottles each), it enjoys 45 per cent market share. Of course, it is facing tough competition from MNCs. Other global brands such as Pilsner Urquell, Heineken, Carlsberg and Beck’s have managed a 12 per cent market share.

Heineeken, Carlsberg and Budweiser cater to only 30 per cent of the market—the mild beer segment. For the remaining 70 per cent of the volume in strong beer, the new entrants have launched multiple brands that are priced competitively.

To push retail sales, Indian beer manufacturers are laying stress on packaging and shelf space. They are introducing cans in the Indian market. For instance, Cobra Beer is planning to introduce 500ml cans across beer categories in 2008. It is realised that packing beer in cans would be good for exports also.

Asia-Pacific Breweries Ltd, the makers of Tiger beer too is planning to set up canning lines in its breweries by early 2009. Liquor major United Breweries already sells canned beer. The company declares canning has enhanced sales thanks to changing life styles of the consumers.

The beer cans segment has been growing phenomenally over the past few years. In 2007-08, the segment grew by 50 per cent and contributed to over 10 per cent of the revenues. On an average, a canning line requires an investment of Rs 10 million. India imports packaging material for cans. Beer makers are now looking forward to sourcing the canning material domestically. This would also reduce the average cost of a can.

**Price trends**

In 2007, global liquor giants Diageo and Groups Pernod Ricard dropped prices of their front-line Scotch whiskies by 10 to 30 per cent. Prices of Diageo’s Johnnie Walker and Seagram’s Chivas Regal have fallen below Rs 1000 per bottle of 750 ml in select markets of the country. Another major brand Bacardi
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has also cut rum prices between Rs 500 and Rs 1500. This is the result of renewal of additional custom duties and internal price mechanisms of the companies.

Liquor companies may raise prices, thanks to the hike in the cost of molasses—a byproduct of sugar which is used to make potable alcohol. The prices may go up by 15 to 20 per cent because of lower molasses production. The manufacturers feel that the government should consider ban on export of molasses or allow duty-free import. Molasses prices have almost doubled from Rs 190 a quintal in November 2007 to Rs 375 in May 2008. Also, in 2007, 2.5 million tonnes of molasses was processed to make ethanol for spiking with motor fuel.

In India, the tax rates for liquor are ludicrous. The five-star hotels buy liquor at duty-free rates (up to a percentage of their dollar earnings) but sell them to customers at even 1000 per cent mark-ups. Considering the benefits of moderate drinking, a gentle push in consumption is welcome. Increasing volumes of wine sales would offset any notional loss of revenues. After all, the drinkers should opt for the least harmful alcoholic beverages.

But, there is no attempt to reduce the tax burden. Maharashtra levies 150 per cent customs duty, 200 per cent excise duty, 7 per cent octroi, 25 per cent supply chain margins and 20 per cent value-added tax, and Delhi has hiked the annual registration fee for liquor brands from Rs 2 lakh to Rs 5 lakh. The strong beer segment is extremely price-sensitive. In the mild beer segment, most companies are trying to see whether they can claim a premium. Canon, Baron’s, Palone and Armstrong are priced in the Rs 67-72 range compared to Rs 65 for Kingfisher Strong.

**Measures initiated**

Scientists speak of the beneficial effects of liquor. Not only red wine but also white wine beer and hard liquor appear to protect against mental decline in older women. Studies reveal benefit of moderate drinking. Some studies, however, say that over-enthusiasm is unwarranted as more focused and controlled studies should be done.

Researchers are trying to make white wine as healthy as red. Efforts are on to boost the antioxidant content of the alcoholic drink so that it has health benefits similar to red wine. Red wine contains higher levels of anti-oxidants called polyphenols which are said to lower cholesterol, protect heart and prevent cancer. Polyphenols, found in the skins of grapes, are left on as the pulp ferments when making red wine, but these are taken off for white. Scientists now realise that they could preserve the polyphenol content of wine grapes just by leaving the skins to ferment with the pulp for a relatively short time—about 18 hours—and by the addition of a limited amount of pure alcohol.

In the case of foreign liquor companies, the government permits 100 per cent FDI in manufacture of potable alcohol, but licences have to be issued by the state government concerned under the Industrial (Development & Regulation) Act 1951.

It is generally believed that foreign companies face delays after getting approval from the centre. The states take a long time to issue licences. The government’s intention is clear: by putting an end to the licence regime, it would end adhochism among states and attract new investors.

There is a feeling that the domestic liquor industry is unduly protected. In July 2007, the government took a decision to exempt additional duties of customs on imported liquor and wines and raise the basic duty of customs on them from 100 per cent to 150 per cent. It also decided to deepen the duty cuts on import of select items from Bangladesh, Bhutan, Maldives and Nepal. The decision to cut duty on wines and liquor was taken under pressure from the European Union (EU) and the USA.

Experts say uniform tariffs on imports from all neighbouring countries will be quite simple and easy to administer. If need be, sensitive items can be allowed at higher duty but uniform tariffs on most items across the board for imports from all SAARC countries would be beneficial.

The US may appeal against the
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clean chit given by the WTO panel to India’s additional import duties on foreign wine and spirits. The EU may also revisit a similar case against India which it suspended in 2007. India levies 150 per cent basic customs duty on imported liquor. The duty is compliant with WTO norms. On July 4, 2007, India slashed additional duties on imported liquor. Prior to this, the effective import duty was as high as 550 per cent. Following the cut, the EU suspended its complaint, but the US persisted.

The government is planning to do away with the licence requirement for manufacture of potable alcohol. At present, companies need licences from the state governments for manufacture of potable alcohol, whereas there is no such requirement for industrial alcohol. Many states favour de-licensing for the potable alcohol industry. Scrapping the licencing requirement would boost manufacture of beer, wine, whisky, rum, brandy and other alcoholic beverages.

Viniculture is facing the problem of shortage of skilled labour. The country’s first ever wine institute will be set up in Narayanagaon, about 80 km north of Pune—a region considered as the hub of wine production in India. Australia-based University of Adelaide and India’s largest wine maker Champagne India have signed a memorandum of understanding to set up the institute. The Indian Institute of Vine and Wine will be set up with an investment of Rs 1000 million. It will offer diploma, degree and postgraduate degrees. Estimates reveal that the Indian wine industry will require some 10,000 viniculturists, 5000 winery operators, 1000 wine makers, 2500 wine marketing executives along with 500 wine experts over the next five years.

The Planning Commission Panel has recommended that the state governments may grant more licences for setting up breweries, wineries, distilleries, and imported and country liquor manufacturing facilities. As this sector is facing enhanced competition, it should lay stress on greater efficiency and effective utilisation of farm produce like molasses, barley, grain sorghum and other waste starch products. The panel felt that decisions like investment and location of a distillery or a brewery should be left to the entrepreneur. It has also recommended that new licences be based on installed capacity, availability of raw material, requirements of individual states and scope for exports.