THE INDIAN PARADOX

India, with a population of 1.1 billion, is second only to China in numbers. The $ 738 billion (581bn Euro) economy, with a per capita income of $ 670 (523 Euro), is on a roll and should surpass the trillion dollar mark by 2011, then triple and overtake Germany by 2025.

I have no doubt that we can achieve almost 10% growth by 2012 if we do what is necessary," beams Montek Singh Ahluwalia, back from his stint at the World Bank and currently Deputy Chairman of the Planning Commission, the highest level governmental think tank and economic policy formulating body – and growth in a country this size interests producers everywhere,

With a burgeoning middle class of 250 million inhabitants, a large number of Indians have the right consumer profile to embrace wine as a lifestyle beverage; but only about 700,000 actually buy wine, compared to over 200 million drinking liquor, a total of 300 million cases of which were consumed last year. Rues Sanjay Menon, the most passionate and knowledgeable wine importer, states: "With per capita consumption of just one litre we might see the category grow to 250 million litres". Last year, however, no more than 5 million litres – of which 1.1 million were imported - were sold. This is the Indian Paradox.

Despite an annual growth of 25% over the past four years since the government announced free imports of wine and spirits, the average Indian still consumes less than a teaspoonful of wine per annum. Read 'free', though, as import without the earlier restrictions - not tax free. The import duties, known locally as customs duty, were once levied at around 260% a bottle, including a countervailing duty that marginally favoured higher priced wines.

2003, however, brought a windfall for hotels with foreign exchange earnings, 5% of which can now be earmarked for duty-free wines. Independent, stand alone restaurants were later given more generous privileges at 10%. The hotels with the largest quotas, however, often have mark ups as high as 500-700%, which does not encourage consumption.

Wine distribution is largely dictated by the sales and excise policy of each state. The states are not only allowed autonomy in formulating policy for the sale of wine and alcohol, they also have fiscal powers to impose additional excise duties. All of the 28 states and seven union territories operate as individual power centres that formulate their policy independently. In Delhi, for instance, an excise duty of Rs 150 per bottle (3 Euro) is levied on every bottle sold to restaurants irrespective of cost or quality. Moreover, the distributor must deposit a label registration at an annual charge of Rs 5,000 - 10,000 (90-180 Euro). The state of Maharashtra once charged an excise duty of Rs 100 (2 Euro) per litre for imported wines, but increased that to Rs 200 (4 Euro) in 2005, presumably to protect its domestic wine industry.

Each state also decides whether imported wine can or not be sold through the retail vend, a licensed retail wine and liquor shop for which annual charges are paid and whose numbers are restricted by the state. In Delhi such sales were not allowed until two years ago – and the much publicized policy of allowing the sale of beer and wine through supermarkets has yet to be implemented. Last minute intervention by the social, anti-alcohol lobby threw a spanner in the works. Mumbai and Bangalore are more progressive in this respect, however, and selectively allow such sales.

Most retails outlets, though, are in poor shape when it comes to wines, many of which gather dust in forgotten corners. In the whole of Delhi there is not a single store with proper wine storage or a trained staff. One has to travel to nearby Gurgaon, a satellite town inhabited by the new wave, computer fraternity to locate a decent wine shop. Lake Forest Wines is situated in one of the new-generation malls and boasts a good selection of Indian and Californian wines stacked properly in an air-conditioned environment. The proprietor, Neeraj Sachdeva, who also owns two such stores in California, comments: 'I want to expand my portfolio, but local laws do not permit me to stock all the Indian wines – and the prices quoted by the importers wines are ridiculously high". He imports his Californian wines directly.

India has predominantly been a non-drinking country and has even embedded this principal in the constitution. Section 47 of the Directive Principle of State Policy declares that "the State shall endeavour to bring about prohibition of the consumption - except for medicinal purposes - of intoxicating drinks". A majority of Indians not only shun alcohol, but also consider it taboo. No distinction is made between wine, beer and liquor or the possible health benefits of the former. Although the voting age was lowered to 18 a few years ago, the legal drinking age is still 25. The government is apparently ready to lower that to 21, yet fears a backlash and is reluctant to take a firm stand. This, in a country that downs 120 million cases of whisky, vodka, beer and other alcoholic beverages, is the Indian Paradox.

So why is it that 54 Italian producers descended on India in January this year when Vinitaly India was organized for the first time in Mumbai and Delhi? Why is it that the Latour, Margaux, Antinori, Gaja and Frescobaldi make India a regular stopover? Why is it that I am regularly asked by wine producers from all over the world to help them find a marketing channel for their products? It is the numbers!

The market is expanding at the rate of 30% for imported, 35% for domestic wines. This growth is not only sustainable, but could even be conservative if duties were lowered. With the economy booming, lifestyle changing as a large portion of the population travels abroad, interacting there with wine drinking friends and associates, people are ready for a change. It would be folly to assume that the whole middle class might be swooned by wine or change its drinking mores quickly, but one can safely predict the numbers to grow at the current rate or better. In 10 years the market could be twelve times today's size, reaching 60 million litres – and imported wines stand to gain market share as duties are lowered and they become more easily available.

Indian producers are also gearing up to meet this rising demand. Already, the protectionist policies have given them an edge - and they are growing at an even faster pace than imported wines. If they can improve quality, there is more than enough vineyard real estate to meet demand. Dr. Akash Rathore, author of the "Indian Wine Guide" writes that "every time I go to Nashik I find new wineries popping up. Those grape growers have strong political connections and will fight any change in fiscal policies to arrest their galloping sales."

The European Union has already complained to World Trade Organization about the unfair double taxation practiced by levying countervailing duties, but the Indian Government is not in a mood to relent. Dr Ajay Dua, Secretary at the Department of Industrial Policy and Promotion, states: "We will not discuss this with the WTO until the issue of Indian whisky is settled. We know that this topic will arise at the Helsinki Summit in October, but we shall oppose it." The WTO decided that Indian whisky cannot be called "whisky", thus upsetting the powerful Indian distillers, since it is made from molasses and not malted barley like Scotch. Another protectionist sentiment is echoed by D.P. Tripathi, former Secretary to the Government of India in the Foods and Processing Industry, who during his tenure took the decision to encourage the construction of a wine park near Nashik despite strong opposition. "Countries like the United States and France dole out huge subsidies to their farmers. We don't have such practices in India. The only way we can protect our farmers is by charging countervailing duties."

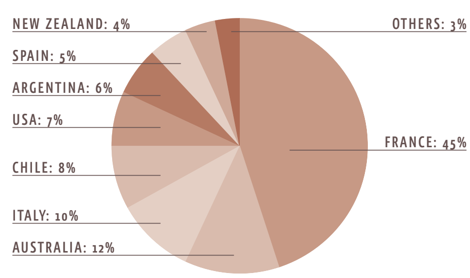
There is also pressure on the government to impose more reasonable duties on wines sold to hotels and to reduce them for retail channels – and lobbyists continue to push the government to simplify its tax procedures so that all duties be collected at one point and disbursed equitably to the States, an unlikely possibility in the near future.

Although import is open to all, the import channels seem to be clogged. The number of importers selling more than a thousand cases a year can be counted on the fingers of one hand - and 60% of all imports are done by just three companies: Brindco, Sansula and Global Tax-Free Traders. Another 25% is shared by a further ten. The balance is managed by fewer than thirty. It should come as no surprise that the top three are "old world" importers, once focused on liquor and later adding wine as a natural business extension. They are conversant with the import and distribution policies and know how to juggle their way through the government machinery. Further, they have established a sizable lead by constantly adding new wine producers to their portfolios and insuring their label imprints in the wine lists.

The new world importers are starting without that track history and only slowly getting their feet on the ground as they navigate through the labyrinth of policy and procedures; but midsize importers like Sovereign Impex, Hema Connoisseurs and SV Distributors in Mumbai are expanding fast and are expected to provide a bypass to the choking arteries of the supply chain. Several further importers are in the process of setting up shop.

Advertising in the wine magazines, newspapers and public events is prohibited in India. Surrogate advertisement, a common feature in the beer and liquor industry, has yet to catch the fancy of importers or wine producers. Therefore, promotions are limited to wine dinners, advertorials in newspapers or magazines and the occasional foreign junket for key buyers. As locating new and business hungry importers becomes critical for producers, wine Shows like IFE India in Delhi, Annapoorna India in Mumbai and Vinitaly India have become important vehicles for carrying out market surveys, having their wines tasted by potential customers and hopefully ending the quest for the right importer.

BENCHMARK DATA	
INHABITANTS:	1.1 BILLION
GNP:	$ 738 BILLION (581 BILLION EURO)
PER CAPITA INCOME:	$ 670 (523 EURO)
TOTAL WINE CONSUMPTION:	5 MILLION LITRES
PER CAPITA WINE CONSUMPTION:	0.0045 LITRES
LEGAL DRINKING AGE:	25



MARKET SHARE BY ORIGIN

SOURCE: SOURCE: INDIAN WINE ACADEMY, 2006