Liberalizing Liquor Trade in India

November 11, 2014

ABSTRACT

India has the fastest growing liquor market in the world. However, restrictive government policies continue to keep foreign liquor out of the country and limit liquor trade across states leaving domestic liquor price extremely high for Indian consumers. This policy paper will offer an analysis on India's liquor policies and their effect on people. This paper examines the issues facing the liquor industry in India and suggests liberalizing the sector for specific advantages to its various stakeholders.

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Executive Summary

India is one of the world's most restrictive places for trade and doing business. In 2014, it is ranked 110 out of 152 countries, in terms of economic freedom, by the Economic Freedom of the World Report. Its Freedom to Trade Index was 6.2 (highest score 10.0), 124 out of 152.[i] Doing business in India remains difficult for both foreign and domestic companies. The country was ranked 133 out of 152 countries by the World Bank this year in its Doing Business Score.[ii] Many studies have indicated trade barriers continue to be a major hindrance to India's development and prosperity, making trade liberalization and further deregulation critical to its economy.

Consumption of alcoholic beverages by Indian consumers predates British colonization and has often been suppressed by taxes and other restrictive policies. India has the world's fastest growing market for alcoholic beverages consumption. Restrictive policies at the federal and state levels are often carried out under the concern that alcoholic beverages should be heavily regulated to prevent public health and safety issues related to drinking. However, these policies have often proven to be defective and harmful to the Indian people. In fact, they have only fuelled more black market exchanges, corruption, price hike and raised more public health concerns due to prevailing cheap, extremely poor quality counterfeit products.

Liquor tariffs and taxes on liquor are high in India. Nevertheless, consumption of imported and domestic produced liquor has been on the rise over the past five years. It is observed that an average Indian liquor consumer pays five to six times the manufacturing cost. Liquor prices in India are significantly higher than 95 percent of the countries in the world. Furthermore, farmers and small businesses also suffer from heavy taxes and government intervention with the market. This report aims at analysing this issue by evaluating related policies and costs bared by critical stakeholders.

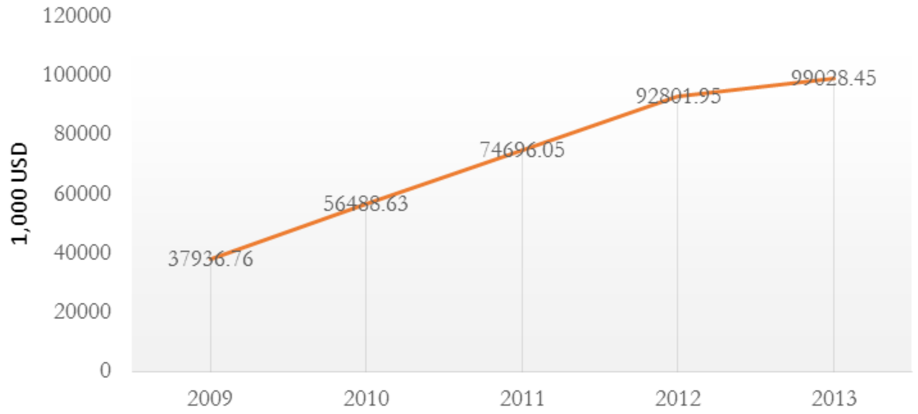
Background of Liquor Market in India

India has the world's third largest and fastest growing market for alcoholic beverages. The whiskey market—estimated at 300 million cases—is the largest in the world.[iii]The World Health Organization (WHO) reports that liquor consumption in India has been growing steadily since 2005. In the meantime, per capita consumption of alcohol beverages has increased from 3.6 litres to 4.3 litres between 2003 and 2010, 93 per cent of this growth comes from liquor (spirits).[iv]While tariffs on imported liquor remain high, domestic liquor manufacturing and sales are also enmeshed in a complicated network of laws and regulations on both the federal and state levels.

Indian Made Foreign Liquor (IMFL): Hard liquor that has incorporated imported raw material or borrowed the concept from foreign branded liquor are often termed as Indian Made Foreign Liquor (IMFL).[v] Among all IMFL, whiskey accounts for approximately 46 percent of total sales. Despite its origins, freedom to buy IMFL is restricted in some federal states.[vi] The southern states are often more heavily regulated in liquor manufacturing and distribution than the north. They are often available at retail outlets and privately owned bars. A licensing system is used by the federal states to control the number of private bars. Nevertheless, purchase of IMFL in southern Indian states including Kerala, Tamil Nadu, Karnataka and Andhra Pradesh still accounts for more than 60 per cent of total annual sale in the country.[vii]

Imported Foreign Liquor (IFL): IFL includes foreign produced liquor imported to India. IFL constitutes only a marginal share of the total alcohol consumption in India. Consumers of IFL are often rich and upper middle class people or international travellers. (Table 1) Duties on IFL are as high as 150 percent, a reason why its share of India's total liquor market is less than 3 percent. Despite the high custom duties on IFL and strict quotas on the amount of liquor travellers can carry into the country, whiskey imported has grown steadily over the years primarily driven by purchases from government, licensed retailers and manufacturers using IFL as raw materials for their own products.

Figure 1: India Gross Whiskey Imports 2009-2013



SOURCE: WORLD INTEGRATED TRADE SOLUTIONS (WITS) DATABASE, 2013

Country Liquor: Country Liquor, also called Indian Made Indian Liquor or (IMIL), is brewed and mostly sold domestically. Most of the country liquor is sold in northern states. Ethanol from molasses and grains are used in the north while palm and coconut are used in the south for producing the country liquor. The price of country liquor is much cheaper compared to IMFL and IFL; the reason it constitutes 48 per cent of the domestic liquor market. **(Table 1)**

Table 1: Affordability, Market Share and Geographical Accessibility of Liquor and Beer in India

Type	Pricing	Market Share (per cent)	Geographical Availability
IMFL	Affordable	36	Southern States
IFL	Luxury	3	Metropolitan Cities
Country Liquor	Cheap	48	Across India
Beer	Expensive	13	Urban Areas
Illicit Liquor and Other	Very Cheap	Not Available	Across India

Source: PHFI (2013)[viii]

Emerging Black Market: Restrictions on foreign liquor have led to a growing number of illegal liquor businesses in India. For instance, a state-wide ban on liquor sale in Gujarat, a state in western India, has given rise to wide-scale sales of spurious and cheap liquor followed by an increase in organized crimes in areas where demand is high.

More money is invested to employ more policemen and personnel to maintain public safety where black markets prevail. In 2013 alone, around 1,305 liquor smugglers were arrested in Greater Noida, a town in Northern India with a 1,00,000 population, 48 kilometres from New Delhi. In the meantime, 32,000 litres of smuggled liquor was seized and a large amount of fine has been collected. [ix]

The black market in liquor is so large that it creates great uncertainty for the economy. It is impossible to estimate the size of this market. However, tax burden generated every year from this can be remarkable. Fines and penalties collected through the illegal trade are difficult to track. Liquor obtained through the black market can sometimes be of unpredictable quality and can even cause serious chronic illnesses.[x]

Problems with Current Liquor Policies and Restrictions

- **High Taxes on Foreign and Domestic-Produced Liquor**

In 1947, Article 47 of the Constitution under the Directive Principles of State Policy stated that *The State shall regard the raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties and, in particular, the State shall endeavour to bring about prohibition of consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health.*[xi] Even though implementation of this Article differs from state to state, it is constantly used as a moral and legal foundation for restrictive policies.

According to the law, alcohol is a sensitive *state subject* so that Imported Foreign Liquor (IFL) shall be heavily taxed and regulated by federal government. The current system of taxation on imported spirits including BIO (Bottled in Origin) and BII (Bottled in India) dates back to2001. Imported spirits are taxed at both the federal and the state levels. As a result of a case against Indian's liquor policies at WTO filed by the European Union, the country has removed some of its barriers to liquor imports. However, it later introduced new restrictive measures.[xii] **Today average customs duties on IFL remain as high as 150 per cent, down from 450 to 700 per cent in 2000. In addition, federal/state taxes can push total taxes to around 550 per cent high (exact number might vary by states).**

Liquor trade between states is also difficult and costly. Taxation levels and accounting methods vary significantly from state to state. India is often referred to as 29 separate markets, all of which have their own tax systems and chose to issue their own regulation upon liquor industry.[xiii] **Punjab, a federal state, for instance, levies a high tax towards liquor produced in other states in order to protect local manufacturers from competition.** Protection of local liquor businesses generates significant tax revenue for local governments every year. For instance, the governments of Tamil Nadu and Kerala generated around 3,400 million USD and 1,300 million USD out of liquor businesses respectively during the year 2012-13.[xiv]

- **Regulatory Barriers Challenging Liquor Trade**

Discriminatory regulations such as the Food Safety and Standards (Packaging and Labelling) Regulation established by Food Safety and Standard Authority (FSSA) since 2011 has led to great loss to foreign manufacturers, domestic importers and consumers. [xv]

In June 2014, over 60 shipments of Scotch whiskey bottles were stopped at the customs for not listing malted grain, water and yeast as ingredients. This sudden action of authorities has resulted in loss of millions to foreign manufacturers and created a blockage of supply to the Indian liquor market. An individual private retailer claimed to have lost Rs 3 crore (USD 488,400) given that eight of his containers were stopped at customs. Importers of many bigger brands stand to lose more. Since India's liquor industry serves as a hub for importers from neighbouring countries including Bangladesh, Nepal and Sri Lanka, the influence has also spilled to these neighbouring countries leading to further shortages and price hikes. [xvi]

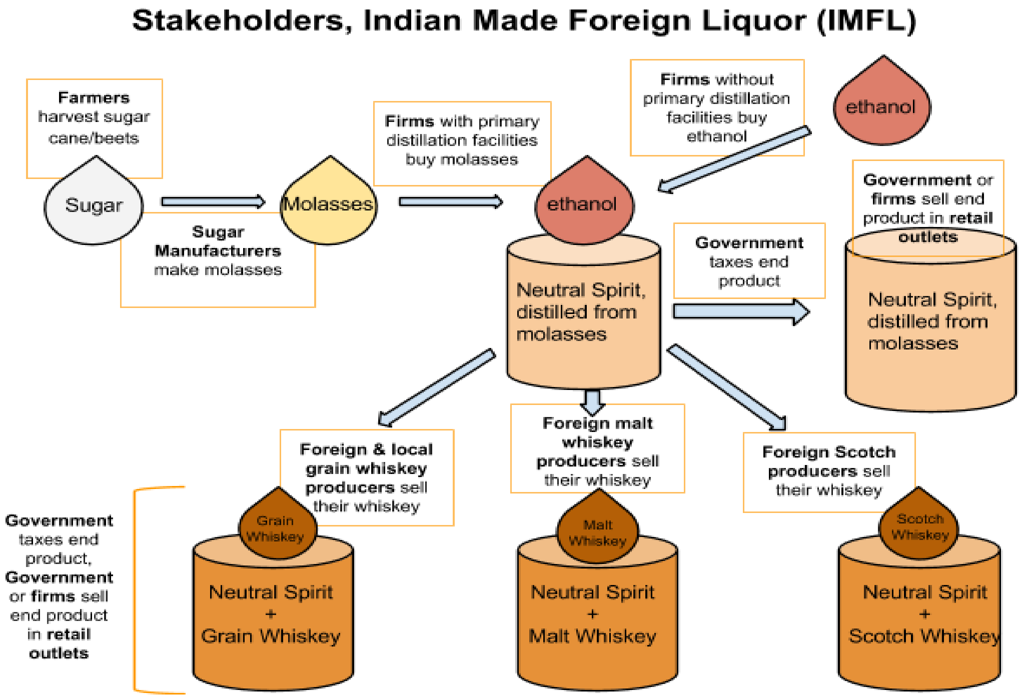
However, this is only one of the contentious aspects of the labelling rules. Intricate provisions and a lack of transparency in custom procedures have also seriously disrupted the market. One provision states that *the particulars of declaration required under these Regulations to be specified on the label shall be in English or Hindi in Devanagari script*. As a result, cases labelling "Prodotto di Italia" instead of "Product of Italy" would be rejected at customs. [xvii]

Furthermore, consignments have also been blocked when labels only carried brand names instead of explicitly stating "manufactured by", or even when "produced by" are presented in a different language other than English. Because this is not an internationally common practice it would be difficult and costly for manufacturers to come up with a special production line only for India.

Stakeholder Analysis

The regulatory barriers to liquor industry are highly complex. The value chain of India's liquor industry involves a number of stakeholders and has an extensive economic and social impact. **(Figure 2)**

Figure 2



Farmers

Liquor manufacturers in India predominantly use ethanol distilled from molasses, which is a by-product in sugar manufacture. Procurement of this raw material plays a crucial role in IMFL and Country Liquor production in India. Therefore, sugarcane farmers, molasses producers, and alcohol distilleries are important stakeholders in India's liquor production chain.

Around 35 million farmers in India (about 3 per cent of India's population) live on sugar cane cultivation. Another 50 million workers, mostly from rural areas, are also engaged in sugar related industries.[xviii]In sugarcane cultivation one of the major policy decisions undertaken by the Union Government is fixing the fair and remunerative price (FRP). Subsequently, some state governments also fix their price, i.e. state advised price (SAP). This pricing mechanism is justified by its supporters to help farmers get a better price for their cane production.

However, over the last years, sugarcane farmers have been at the mercy of sugar mills, which are invariably controlled by politicians. The prices are determined by the political party that has the most clout. Sugar mills across the country formed cartels and refused to pay a remunerative price. The Ministry of Agriculture has acknowledged in Parliament that the average monthly income of a farming family in India is less than Rs 2,400. Strikes were held at sugar mills across the country.

Sugar (molasses) Producers

In contrast, the life of sugar producers seems to be much easier than the farmers. Major sugar producers often have a strong lobbying power. Earlier this year, the Indian government decided to double its sugar import duty in an attempt to strengthen the country's heavily indebted milling industry. Consequently, domestic sugar prices increased dramatically.[xix]

Moreover, to help mills saddled with large sugar stockpiles, an Rs 3,300 (USD 55.72) a tonne subsidy for production of up to 4 million tonnes of raw sugar was also issued in the 2013/14 and 2014/15 seasons. To avoid international complaints, the subsidy was later cut to Rs 2,277 (approximately USD 38) per tonne.[xx] **(Table 2, 3)**

Table 2: Number of sugar factories in operation in India, listed by state

Serial Number	State	2007-08	2008-09	2009-10	2010-11	2011-12
1	Andhra Pradesh	38	35	35	37	37
2	Assam	-	-	-	-	-
3	Bihar	8	9	9	10	11
4	Chhattisgarh	1	1	3	3	3
5	Goa	1	1	1	1	1
6	Gujarat	18	18	18	19	19
7	Haryana	14	15	14	14	14
8	Karnataka	51	50	54	59	58
9	Kerala	-	-	-	-	-
10	Madhya Pradesh	8	10	11	13	13
11	Maharashtra	172	147	143	167	170
12	Odisha	6	5	4	5	5
13	Puducherry	2	1	2	2	2
14	Punjab	16	16	15	16	17
15	Rajasthan	1	1	1	1	1
16	Tamil Nadu	37	37	40	44	43
17	Uttar Pradesh	132	132	128	125	124
18	Uttarakhand	10	10	10	10	10
19	West Bengal	1	1	1	1	1
	All India	516	489	489	527	529

Source: Directorate of Sugarcane Development, Government of India, Ministry of Agriculture, 2012[xxi]

Table 3: Sugar mills in the country including closed ones and refineries, listed by sectors[xxii]

Sector	Number of Factories
Private	298
Public	62
Cooperative	324
Total	684

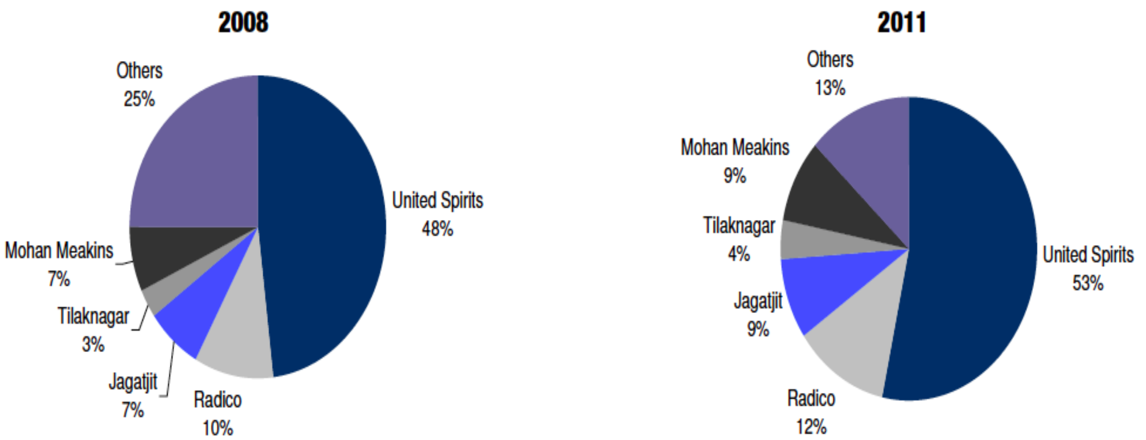
Source: Department of Food and Public Distribution, 2012

Distillers and Distributors

Indian liquor, especially IMFL, is made by distilleries that produce ethanol from molasses. The alcohol industry is subject to heavy regulations. Liquor producers have to acquire numerous licenses (separate for production, bottling, distribution) in every state in which they wish to operate. There are also a number of taxes including excise duty, sales tax and value added tax that impact the pricing of liquor to a great extent.

Due to these entry barriers for foreign businesses (i.e., businesses from a foreign country or foreign state), domestic liquor producers often remain strong monopolies in the market. Brands with a strong sub-segmentation strategy are likely to maintain their dominance in the market, as brand-building capacity is limited for small and medium size businesses due to a ban on liquor advertisements across the country. While production of country liquor is closely related to domestic sugar production, profitability of IMFL also sometimes depends on the price of Imported Foreign Liquor.[xxiii] For instance, manufacturing of IMFL whiskey uses sizable imported malt based liquor for blending; a reason that import of foreign produced whiskey has continued to grow over the years. As a result, the high cost of customs duties is borne also by the domestic IMFL producers before it is transferred onto the consumers. **(Figure 3)**

Figure 3. Market share of incumbents remains relatively intact due to strong entry barriers



Source: ShirishPardeshi and Anuruddh Joshi (2012)[xxiv].

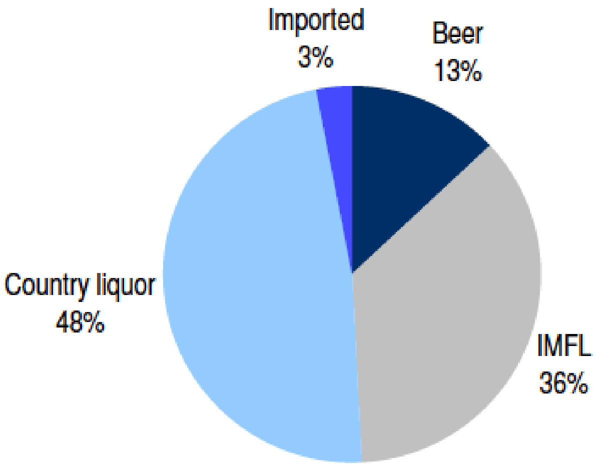
These major producers of IMFL have negligible or no governmental role in production (government owns 0.01 percent of United Spirits Ltd [xxv] and 0.02 percent of Radico Khaitan Ltd [xxvi]). However, dominant position in the market still gives them strong lobbying power.

Federal state governments and related agencies such as the **Food Safety and Standard Authority (FSSA)** also play a crucial role in the market. Liquor policies ranging from customs duties, labelling regulations, licenses and prescription of quotas to domestic sales taxes were implemented to ensure fiscal revenue and to protect local businesses.

Imported Foreign Liquor

Imported foreign liquor (IFL) constitutes a very small portion of the Indian liquor market. Despite the fact that WTO and foreign governments have worked with India through multilateral and bilateral channels progress to reduce trade barriers to consumer goods, imports remain slow.

Figure 4. Liquor industry break-up



Source: ShirishPardeshi and Anuruddh Joshi (2012)

Consumers

Households' expenditure on alcoholic beverages is on the rise. As indicated earlier, the majority of consumers are choosing country liquor or IMF due to the high prices of imported foreign liquor. A lack of competition in the liquor industry also results in fewer consumer choices and lower product quality.

Table 4. Consumer expenditures on alcoholic beverages

Rs Billions	1995	2000	2002	2004	2006	2007
Alcoholic drinks	36.7	85.6	145.0	186.6	244.2	275.0
- **Spirits**	24.2	54.5	91.8	119.1	156.6	176.5
- **Wine**	3.9	9.0	15.5	20.1	26.3	29.8
- **Beer**	8.6	22.1	37.7	47.4	61.3	68.7

Source: Euromonitor International, 2012

Cost Analysis

We estimate the cost to consumers mainly comes from three critical aspects:

- **Heavy Customs Duties and Taxes**

Cost on the production and distribution side can be hard to track given that the IMFL industry is largely controlled by the state with interventions from different lobby groups whose information is undisclosed. However, it is not hard to see the cost from the consumption side.

The most indicative data available now is the National Sample Survey Organization (NSS0)[xxvii] which gives households' monthly expenditure on intoxicants across the country. The 'intoxicants' surveyed primarily include the following products: ganja, toddy, country liquor, beer and foreign/refined liquor. This gives us information roughly on how much people here are spending on liquor.

In general, there are more liquor consumers in rural areas than in urban areas. **(Table 6)** Value of consumption (in Indian Rupees) of intoxicants per person for a period of 30 days for all fractile classes of Monthly Per Capita Expenditure (MPCE) varies from state to state.[xxviii] The average spending in states like Chhattisgarh and the National Capital Region of Delhi is much lower than the rural national average but is significantly higher than the urban national average.

Table 5: Estimate of the percentage of households consuming intoxicants between 2004-05 and 2011-12 in India

Intoxicants	Rural	Urban
2004-05	16.3	10.3
2009-10	16.5	9.5
2011-12	18.4	12.6
		Source: National Service Scheme (NSS), 2011-12

Table 6: Value of consumption (in Indian Rupees) of intoxicants per person for a period of 30 days for all fractile classes of Monthly Per Capita Expenditure (MPCE)

State	Rural	Urban
Andhra Pradesh	35.40	27.78
Bihar	4.83	9.58
Chattisgarh	9.53	23.20
Delhi	6.69	17.04
Goa	5.92	5.74
Gujarat	1.42	6.08
Haryana	6.71	12.91
Himachal Pradesh	23.41	25.85
Jammu and Kashmir	3.39	4.02
Jharkhand	13.98	9.53
Karnataka	18.58	23.53
Kerala	25.59	24.74
Madhya Pradesh	7.73	7.29
Maharashtra	7.30	8.48
Odisha	5.44	6.73
Punjab	20.14	22.10
Rajasthan	9.00	14.03
Sikkim	40.33	35.37
Tamil Nadu	19.92	18.63
Uttar Pradesh	4.56	5.75
Uttarakhand	19.01	21.49
West Bengal	5.16	8.06
All India	10.46	13.36

Source: NSS, 2011-12

The federal states exert authority over all the three categories of liquor available in India. The impact of taxes and other restrictions are borne by the consumers. It is estimated that **country liquor** constitutes the largest segment of alcohol sales in India. Consumption is especially high in the northern federal states where taxes on liquor are comparatively lower. In the case of IMFL, the federal states which control production and retail have a slew of taxes and other charges which inflate prices. Liquor taxes in Kerala, one of the states with the most restrictive liquor regulations, for instance, includes a warehouse margin, labelling charges, shop margin and sales tax. Taxes in these states would usually multiply liquor prices by five to six times.[xxix]

IFL is the costliest liquor category for the consumer. The flat rate of 150 per cent domestic customs duty on liquor increases prices consumers pay significantly. The effect of tariffs on imported liquor on consumers is given in table 7. The table shows the impact of basic customs duties on IFL, as well as the effect of domestic taxes, which further inflates the price. For whisky, consumers end up paying approximately five times the average import price. In states where taxes are extremely high, the liquor price can go way beyond national average. Foreign Direct Investment in liquor through the automatic routes remains less exploited due to high state level taxes and intricate license systems nationwide.[xxx]

Table 7: Average price of Imported Liquor Before and After Tax in India, listed by type and country of origin

Product Name	Average price of Imports (Rupees)	Average price of Imports (USD)	After Import Tariff (In Rupees)	After Import Tariff (USD)*	After Federal State Level Taxes (In Rupees)	After Federal State Level Taxes (USD)
Beer (Mexico)	57.91	0.985	115.82	1.92	156.62	2.61
Rum (UK)	306.81	5.218	767.04	12.68	1755.64	29.26
Wine (France)	350.28	5.959	700.76	11.58	903.76	15.06
Whisky (UK)	461.52	7.849	1153.8	19	2213.98	36.89

Source: Calculated using data from International Trade Centre and Kerala State Beverages Corporation (KSBC)

*Exchange rate at I USD=60 Rupees Approximately

- **Shortage of Supply Due to Liquor Ban and Immediate Policy Changes**

Regulations and supply shortages also lead to price increases for consumers. For instance, in August 2, 2013, 36,000 bottles of whisky/vodka brands of Diageo (Johnny Walker Black) and Pernod Ricard (Absolut Vodka and Chivas Regal) were stopped at customs.

Manufacturers, as a result, reacted to it by holding back the release of fresh stocks. This led to an immediate shortage in supply and a price hike for liquor. Price for Johnny Walker rose from Rs 4,300 to Rs 4,600 and price for Chivas Regal increased from Rs 4,000 to Rs 4,400.[xxxi] India's29 federal states along with the Union Territories have different excise policies to determine the distribution and sales of wine and spirits in the country.

- A documentary by NDTV (a leading new channel in India) notes that an average buyer of foreign wine is forced to **pay 200-400 per cent of the global average price.**
- In star hotels in Kerala a bottle of foreign liquor is charged at **approximately six to seven times its international price.**
- The price of a pint could vary from Rupees 200 for a domestic brand to approximately Rupees 600 for a foreign brand in privately owned beer parlours across the country. **The number of such outlets selling imported brands is restricted. They remain in selected metropolitan areas of Mumbai and New Delhi.**[xxxii]
- State owned beer parlours **charge approximately three times the printed price on the bottle for domestically produced beer.**

- **Shadow Market**

The Constitution of India envisages that Article 47 of the Constitution shall form a part of the Directive Principle of State Policy. Government under this principal "shall endeavour to bring about the prohibition of the consumption except for medicinal purposes of intoxicating drinks". However, an analysis of India's biggest beer, wine and refined/foreign liquor drinking states and union territories on the excise revenue generated by these state paints a different picture.[xxxiii] Revenue from the Indian alcohol industry is large yet, for the most part, non-transparent and hard to be tracked from a balance sheet.

It is estimated that the federal state earnings from every individual liquor consumer is approximately Rupees 576 per year.[xxxiv] The combined earning of the states and union territories (excise) from alcohol beverages in the 2011 fiscal year is estimated to be 4.67 billion USD, accounting for about 16 per cent of their own tax revenues.

Reliance on liquor for tax revenue is more pronounced in the south than the north. In Puducherry and Andhra Pradesh, the annual tax burden per resident is around USD59 and USD31 [pl convert into rupees] whereas the average per capita income in India is USD 1,500.[xxxv] (Actual tax burden on frequent liquor consumers would be much higher).

Table 8: Tax revenue from liquor in major consumption states/per person

State/UT	Total Population	Total Tax Revenue (USD, in Millions)	Excise Revenue (USD, in Millions)	Excise as Percentage of State Revenue	Estimated Revenue Per Consumer
Daman & Diu	243,247	67.1	18.73	27.92	7.71
Andaman & Nicobar Islands	380,581	35.16	3.66	10.41	9.64
Arunachal Pradesh	1,383,727	153.06	5.09	3.33	3.69
Sikkim	610,577	131.68	4.18	3.18	6.87
Puducherry	1,247,953	175.86	73.2	41.63	58.72
Goa	1,458,545	445.82	15.43	3.46	0.11
Andhra Pradesh	84,580,777	9882.364	2659.79	26.91	31.50
Kerala	33,406,061	4397.01	279.02	6.35	8.36
Karnataka	61,095,297	7853.24	1608.62	20.48	26.37

India State Census, Open Government Data, 2011

Conclusion

Existing liquor policies in India are harmful to consumers and fuel corruption, cronyism and black-marketeering. Increasing liquor price and rising concerns over health issues led by poor quality of cheap liquor produced domestically reflects a serious problem with India's current liquor regime. **Taxes increase the prices for consumers who purchase IMFL up by five to six times.** Tariffs on liquor have made foreign liquor unaffordable to the majority of Indian consumers.

Moreover, heavy taxes and non-uniformity of policies at federal state-level have turned liquor businesses into the biggest cash cow for government. **It is estimated that the combined earning of the states and union territories (excise) from alcohol beverages in 2011 fiscal year is estimated to be around 4.67 billion USD, accounting for about 16 per cent of their own tax revenues.**

Longstanding government intervention in the liquor market has been a problematic approach which seriously disrupted the market economy. A feasible starting point for reform could be lifting controls and removing tariffs on IFL, which is growing as a preferred brand in India. Despite the high cost to import IFL, sales have grown by approximately 27 per cent since 2009. Therefore, concrete steps should be taken towards reducing duties and harmonizing regulations among federal states. We propose that the government phase out import tariffs on IFL[xxxvi] and build a common policy platform on which state-level liquor policies can be harmonized and liquor trade facilitated.

As a result, both consumers and businesses would benefit at large. Liberalizing liquor trade in India will inevitably increase the number of liquor producers and retailers in the market. Competition will incentivize production of liquor at reasonable market price with higher quality.

Nationwide accessibility of foreign produced liquor would also help to adopt best practices of these brands thereby encouraging healthy drinking practices among consumers. An open market for both foreign and domestic produced liquors will also enhance the economic environment and improve public health. Currently very few domestically produced liquors have a website which informs the consumers of the ingredients, origin and related health benefits/hazards of the types of liquor they are consuming.

Defects affecting the supply side of liquor have been evident especially in southern federal states where both production and merchandises of liquor are heavily taxed and regulated. Removing these regulatory barriers and allowing more small and medium businesses to enter the market would generate remarkable economic and social benefits.

Today, licences for selling IFL are only issued to a small number of retailers of specific categories or hotels and restaurants. It is often impossible for small/medium retail businesses with capital to enter the liquor market, as they are constrained by difficulties obtaining licenses for selling liquor.

In the meantime, sugarcane farmers and the sugar industry in India will also benefit from the reform. For instance, if malt whiskey is introduced into India, it could encourage procuring of grains directly from farmers. This happened in India earlier when Amrut distilleries introduced malt whiskey in the Indian market when they started procuring barley from farmers in Punjab and Rajasthan.[xxxvii] This in turn could also benefit cultivators of malt in India. Instead of leaving their fate in policy makers' hands, farmers should be able to adjust their production processes based on the change of market demand. Farmers would benefit from market mechanism and transparency.

Consumer and producer losses would be greatly reduced. Loss in government revenue from tariff and tax reduction can be partially offset by a reduction of administrative cost from tackling illegal trade. The federal state in India has a clear choice to reduce the illegal liquor trade fundamentally by allowing more legal businesses to enter and by encouraging more popular foreign branded products into the market. Only when liquor prices in India are dramatically higher than international standard do people turn to black market. It is in the country's best interest for state regulators to serve as facilitators and monitoring entities to ensure the functioning of a free market.

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[i] "Economic Freedom of the World 2014", Fraser Institute, 2014, http://www.freetheworld.com/release.html

[ii] "Doing Business 2015, Going Beyond Efficiency, Economy Profile 2015, India," The World Bank, 2014 http://www.doingbusiness.org/data/exploreeconomies/india/~/media/giawb/doing%20business/documents/profiles/country/IND.pdf

[iii] Refer Interview by Sonjoy Mohanty, General Secretary, International Spirits and Wine Association of India (ISWAI), https://www.youtube.com/watch?v=MDmf36umYCM, accessed on June 5, 2014

[iv]Kounteya Sinha, "Average Indian male consumes 33 litres of alcohol/year: WHO," Times of India, May 15, 2014 http://timesofindia.indiatimes.com/india/Average-Indian-male-consumes-33-litres-of-alcohol-/year-WHO/articleshow/35139360.cms; World Health Organization, http://www.who.int/en/

[v] There is no particular reason for calling it 'foreign liquor'. The most plausible explanation seems to be that these brands are considered as counterparts to the foreign liquor and hence they are called Indian Made 'Foreign Liquor'.

[vi] Partial prohibition measures imposed by the federal states include fixing age limits, restricting the quantity of liquor that a person can buy, observing dry days, permits and so on. A move from partial to complete prohibition has been difficult in most of the states. Only three states (Gujarat, Nagaland and Lakshadweep) have been claimed to be successful in implementingcomplete prohibition. However, data from the National Sample Survey Organization (NSSO) reveal that although implemented officially, it has been a difficult policy to carry out in practice and most of the above states have huge problems from illegal liquor availability and consumption. For the other states which have attempted implementing complete prohibition it was only a matter of time when these policies had to be revised largely because of the loss in the form of taxes for the respective federal state governments. Other problems include the rise of bootlegging and control of the sector by criminals.

[vii] In the southern states of Tamil Nadu and Kerala, IMFL is made available only through state controlled retail stores. On the other hand, in the northern states of Himachal Pradesh and Delhi, private vendors are allowed to participate in retail through a licensing system.

[viii] For a detailed discussion on types of alcohol refer Public Health Foundation of India (2013), Alcohol Marketing and Regulatory Policy Environment in India A Report- November 2013, Siri Fort: New Delhi, www.phfi.org

[ix] "1,305 liquor smugglers arrested in Greater Noida in 10 months," Zee News, January 18, 2013, http://zeenews.india.com/news/delhi/1305-liquor-smugglers-arrested-in-greater-noida-in-10-months_823770.html

[x]LeenaDhankhar, "Your favourite scotch may be a fake", Hindustan Times, May 09, 2013, http://www.hindustantimes.com/gurgaon/chunk-ht-ui-gurgaonsurvey-gurgaonfirst/your-favourite-scotch-may-be-a-fake/article1-1057304.aspx

[xi] This raises a question as to what can be categorized as intoxicating. As per the motor vehicles act (1988) of India, 30 mg of alcohol per 100 ml of blood is considered the permissible limit for driving a vehicle.

[xii] "Europe Equity Research Beverage (Food Producers & Processors/Personal Care & Household Products/Beer & Alcoholic Beverages) / UNDERWEIGHT/OVERWEIGHT," Credit Suisse, 27 September, 2012, https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=emfromsendlink&format=PDF&document_id=1000473291&extdocid=1000473291_1_eng_pdf&serialid=oun6%2bKXvmqM8LPKFz5bkTilydCe08R2p1Spo3jV5TOw%3d

[xiii] "Europe Equity Research Beverage (Food Producers & Processors/Personal Care & Household Products/Beer & Alcoholic Beverages) / UNDERWEIGHT/OVERWEIGHT," Credit Suisse, 27 September, 2012, https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=emfromsendlink&format=PDF&document_id=1000473291&extdocid=1000473291_1_eng_pdf&serialid=oun6%2bKXvmqM8LPKFz5bkTilydCe08R2p1Spo3jV5TOw%3d

[xiv] "Tamil Nadu earns revenue of over Rs 21,680 crore from liquor sale," Economic Times, May 14, 2013, http://articles.economictimes.indiatimes.com/2013-05-14/news/39256462_1_excise-revenue-nadu-state-marketing-corporation-crore; K. P. M Basheer, "It's all cheers for beverages corporation," The Hindu, April 12, 2013, http://www.thehindu.com/news/national/kerala/its-all-cheers-for-beverages-corporation/article4598781.ece

[xv] "FOOD SAFETY AND STANDARDS (PACKAGING AND LABELLING) REGULATIONS, 2011," Ministry of Health and Family Welfare, Food Safety and Standards Authority of India, 1 August, 2011 http://www.fssai.gov.in/Portals/0/Pdf/Food%20Safety%20and%20standards%20(Packaging%20and%20Labelling)%20regulation,%202011.pdf

[xvi]AarefaJohari, "Why India may soon run out of Scotch whisky and other premium liquors", Scroll.in, May 17, 2014, http://scroll.in/article/664184/Why-India-may-soon-run-out-of-Scotch-whisky-and-other-premium-liquors

[xvii] "FOOD SAFETY AND STANDARDS (PACKAGING AND LABELLING) REGULATIONS, 2011," Ministry of Health and Family Welfare, Food Safety and Standards Authority of India, 1 August, 2011 http://www.fssai.gov.in/Portals/0/Pdf/Food%20Safety%20and%20standards%20(Packaging%20and%20Labelling)%20regulation,%202011.pdf

[xviii] "Improving sugarcane cultivation in India," 1 May, 2009, http://wwf.panda.org/about_our_earth/about_freshwater/freshwater_resources/?162921/Improving-sugarcane-cultivation-in-India

[xix] Emiko Tarezono and James Crabtree, "India Doubles Duty on Sugar Imports", Financial Times, June 23, 2014, http://www.ft.com/intl/cms/s/0/c5200e0c-faca-11e3-8993-00144feab7de.html#axzz3EzmXfezn

[xx] "India restores rate of subsidy for raw sugar output," Reuters, June 12, 2014, http://in.reuters.com/article/2014/06/12/india-sugar-idINL4N0OT33R20140612

[xxi] "Production Statistics of Sugarcane, Directorate of Sugarcane Statistics, Government of India, Ministry of Agriculture, Department of Agriculture and Cooperation, December 2012, http://dsd.dacnet.nic.in/sugarcanestatistics.htm

[xxii] "Sugar and Sugarcane Policy, Department of Food & Public Distribution, Ministry of Consumer Affairs, Government of India, 11 December, 2012, http://dfpd.nic.in/?q=node/10

[xxiii]Refer for instance units like Ugar industries which is both a sugar manufacturer as well as an IMFL producer. The Ugar Sugar Works Limited, http://web.ugarsugar.com/

[xxiv]ShirishPardeshi and Anuruddh Joshi (2012), "India Consumer –Alcoholic Beverages Holding the Fort," AnandRathi, 18 April 2012

[xxv]http://www.moneycontrol.com/company-facts/unitedspirits/shareholding-pattern/US

[xxvi]http://www.moneycontrol.com/company-facts/radicokhaitan/shareholding-pattern/RK01

[xxvii] "Level and Pattern of Consumer Expenditure 2011-12, NSS 68th Round, NSS Report No. 555(68 /1.O/1), July 2011-June 2012," National Sample Survey Office, Ministry of Statistics and Programme Implementation, Government of India, February 2014

[xxviii] "The NSS concept of MPCE, therefore, is defined first at the household level (household monthly consumer expenditure ÷ household size). This measure serves as the indicator of the household's level of living. For the table given, Mixed Reference Period MPCE (or MPCEMRP) is used. This is the measure of MPCE obtained by the NSS Consumer Expenditure Survey when household consumer expenditure on items of clothing and bedding, footwear, education, institutional medical care, and durable goods is recorded for a reference period of "last 365 days", and expenditure on all other items is recorded with a reference period of "last 30 days"." A fractile class of MPCE is a segment of the population lying within two fractiles f1 and f2, which means that if Y be the household MPCE of any person falling within that fractile class, the proportion of population with household MPCE below Y will be between f1 and f2. (Refer NSS Report No. 555(68 /1.O/1) for these definitions).

[xxix] Refer taxes and price in the federal state of Kerala which follows such a policy. Kerala State Beverages Corporation Ltd, http://www.ksbc.kerala.gov.in/pricelist.htm

[xxx] C. H. Unnikrishnan, "Overseas companies face policy hurdles in Indian liquor market," Live Mint, May 15, 2008, Refer http://www.livemint.com/Companies/b0IECam262LRLftVHu3iMO/Overseas-companies-face-policy-hurdles-in-Indian-liquor-mark.html

[xxxi] Urvashi Seth and Aditya Anand, "Mumbai faces dry spell as customs holds back 36,000 bottles at JNPT," Mumbai Mirror, Aug 2, 2013, http://www.mumbaimirror.com/mumbai/cover-story/Mumbai-faces-dry-spell-as-customs-holds-back-36000-bottles-at-JNPT/articleshow/21537977.cms

[xxxii]https://www.youtube.com/watch?v=jYAl7gzoDfg

[xxxiii]RukminiS.,"India's Biggest Drinkers,"The Hindu, August 23, 2014, http://www.thehindu.com/opinion/blogs/blog-datadelve/article6344654.ece?css=print

[xxxiv]Avinash Celestine, "Why government imposes tax on liquors despite being big business," The Economic Times, July 8, 2012, http://articles.economictimes.indiatimes.com/2012-07-08/news/32578281_1_excise-revenues-liquor-tasmac

[xxxv] The World Bank, http://data.worldbank.org/indicator/NY.GDP.PCAP.CD

[xxxvi] A case for reducing import tariffs on liquor in India was one of the key points in the proposed European Union-India agreement for bilateral trade. Ever since this discussion began in 2007, India is yet to adopt a policy stand on liberalizing this sector. The tariffs which presently remain at a very high rate of 150 per cent was proposed to be reduced in a phased manner to 30 per cent. It has been argued that the reduction would take at least five years to be implemented in practice due to political and legal hurdles in India (Sonjoy Mohanty, 2014). However, the persistent absence of discussions in the media as well as recent retaliatory stands adopted

by the Indian government in trade deals with the EU indicates towards the possibility that such a reduction in tariff would take longer than intended.

[xxxvii]Poornima Mohandas, “Blend it like Amrut,” Live Mint, Mar 5, 2010
http://www.livemint.com/Leisure/gr38dzdMdPmjGGrpfEMnSJ/Blend-it-like-Amrut.html