

Pernod Ricard | Submission to the House of Commons International Trade Committee inquiry on UK Trade Negotiations: Agreement with India

About Pernod Ricard

1. Pernod Ricard is the world's second largest producer of fine wines and spirits, and British brands like Chivas, The Glenlivet, Ballantine's Scotch whisky and Beefeater gin account for over 1/3 of our core, strategic global brands. We export over £1BN of British products to over 160 countries every year, employ over 2,000 people from Orkney to Plymouth, and support a further 10,300 jobs in a supply chain which includes agriculture, light industries such as glass, and service industries such as logistics.

India is a major market for us as both exporter and investor

2. India is now the third largest market by value for Chivas Brothers, Pernod Ricard's Scotch whisky producer, and the largest contributor to our volume growth in 2021. Net sales are growing at 29%. Our whisky exports take three forms: premium brands which we export in the bottle ("bottled in origin" or BIO), bulk Scotch for bottling in India (BII) and bulk Scotch used as an ingredient for Indian made Foreign Liquor (IMFL).
3. Pernod Ricard has had a base in India since 1996 and operates more than 30 bottling plants and two grain distilleries. We export Indian made products (mostly whisky) to 31 countries. Imported Scotch is a key ingredient for our Indian made Foreign Liquor. Two of our Indian made whiskies, Imperial Blue, and Royal Stag, are amongst the world's top 10 selling whiskies by volume.

Potential impacts of the agreement on our business

4. A UK-India FTA is probably the biggest single opportunity created by the UK's independent trade policy for our business. We see three particularly strong potential benefits, and these are detailed below in order of priority.
 - a. **Reducing the 150% customs tariff on imported whisky.** The customs tariff of 150% on imported whisky, split between a 50% tariff (Basic Customs Duty) and the new 100% Agricultural and Development Cess (AIDC), inflates the price of an already expensive imported product by 250%. High tariffs also damage domestic production since 60% of Scotch exported to India is bulk Scotch used to create Indian blends or is bottled in India (BII).
 - b. Our preferred solution is a tiered import duty structure which cuts customs duty for imported products above a certain value threshold over a defined period. This would protect Indian spirits at lower price points, whilst ensuring the continued growth of both imported and domestic spirits. Analysis conducted by the Scotch Whisky Association (SWA) estimates that market share for Scotch would grow from 2% to 6%, therefore leaving plenty of space to local products to benefit from a growing market. Tariff cuts should be accompanied by a safeguard clause to ensure that tariff elimination is not offset by increases in taxes at State level.
 - c. Eliminating Basic Customs Duty, a long-standing obstacle in UK-India trade, would be a highly symbolic breakthrough and a win for both sides in negotiations. It should be a priority for any interim deal between the two governments.
5. **Tackling barriers at State level.** Non-tariff barriers exist at state level for imported whiskies. These include tax discrimination in favour of local producers, state distribution monopolies that discriminate against importers by setting minimum prices at the distillery, sales restrictions (which have proliferated in the pandemic), restrictions on e-commerce, burdensome approvals, and inspections.
 - a. The regulatory landscape is complex. Under India's constitution, alcohol regulation falls within the competence of 30 or so States. These States rely on alcohol taxes as a significant source of revenue

(up to 30% of local government revenue in some cases) and take a wide range of approaches to alcohol regulation: ranging from prohibition to recent liberalisation of e-commerce.

- b. The UK should use the FTA to create a route map towards tackling market access restrictions at local level over the medium to longer-term. The negotiating objective should be to create mechanisms which can work with the grain of local initiatives to improve the business climate e.g., recent cuts to excise taxes in Maharashtra. Mechanisms could include provisions in the competition chapter or a spirits annex to promote regulatory good practice in areas such as development of e-commerce or best practice in taxation.
- c. The UK will need to resist arguments that the Federal Government is powerless to intervene in State-level issues, judge where progress is possible and shape a path to liberalisation over time. Close co-ordination with business will be crucial, as will readiness to demonstrate that changes will benefit India's prosperity and raise state revenues.
6. **Reversing the ban on sales of foreign products in military canteen stores.** The UK government should seek to reverse the ban in place since October 2020 on all imported products (including whisky) at 4000 military canteen stores in India, following an edict from the Defence Industry. The ban contravenes WTO rules and has shut Scotch whisky out of a high-profile market worth \$7.5m annually. This issue should be treated as a confidence building measure which lies within the gift of the Federal Government.

UK Government communication with business

7. We welcome efforts made by UK government so far to consult and communicate with business. It will be important to deepen this confidential communication as negotiations progress. The UK government will be in a stronger position to deliver a successful deal if officials seek businesses' views in real time on the detail of the negotiation text and tariff offers. It is encouraging that DIT officials seem to be applying lessons learned from the Australia deal and are more open to detailed co-ordination with business on regulatory issues.
8. Ahead of negotiations, the UK needs to have at its disposal the right data to show to the Indian side that the asks from our sector will be genuinely win-win and benefit Indian consumers, Indian manufacturers, and Indian tax collection. Pernod Ricard continues to provide this data.

Cultural Sensitivity and a deal that works for both sides

9. Cultural sensitivity is essential, given the varying approaches adopted towards alcohol in India. Prohibition is officially enshrined in the constitution, alcohol is banned in some states and there is wide public concern, particularly in rural areas, about excessive consumption. At the same time India is the world's largest whisky market with a booming local industry. Many States depend on alcohol for excise revenue.
10. Like others in the sector, Pernod Ricard respects cultural difference, continues to promote responsible consumption of our products and supports campaigns against excessive consumption and the growing problem of illicit alcohol, which threatens public health and state revenue.
11. The Indian government will negotiate hard, as is its right, and the UK will need to make a determined and fair case, based on data. The UK should also be prepared to make a fair and forward-looking offer where India has legitimate demands, including in cross-cutting areas like visas.