EUROPEAN CULTURAL AND CREATIVE INDUSTRIES ALLIANCE

Main Issues about Luxury Goods Market in India

Many improvements have been made by Indian Government to open the market in the wake of economic reforms, i.e. the radical change of the tax system including the rationalization of tax structure, the progressive reduction in peak rates of customs duty and the introduction of value added tax.

Nevertheless, the points explained below should be taken into consideration in order to facilitate better trade relationships between our countries.

1 . Tariff trade barriers

Tariff levels

Even if it's true that basic customs duty has been lowered, this decrease has been compensated by additional duties. As for now, import taxes at the Union level are around 30 – 40% for luxury goods and 150% for wine and spirits. If you consider that additional taxes are then levied at the State level, the total amount of taxes on luxury products reaches prohibitive levels.

Besides, calculation of countervailing duties based on Maximum Retail Price (MRP) stands in the way of luxury brands implementation. According to WTO regulations, import taxes are levied on invoice prices, and not on Maximum Retail Price, as the importer may not have anything to do with the actual retail since there may indeed be various distributors in between. It would therefore make more sense to levy additional custom duties on the imported products on CIF (Cost Insurance Freight) price, as it used to be before 2001.

Imported products do not have the same cost structure as the locally manufactured products, so the amount of the abatement should not be the same. It would therefore be more legitimate to consider an increase in the rebate on MRP to 70% instead of the actual level of around 30-35%, so that it matches the reality of imported products cost structure.

If India wants to foster consumption of luxury goods and therefore attract revenues from developed shopping tourism and consumption, The Union Government should really look into reassessing the way it levies countervailing duties. The high level of duties induced by this system leads both to the increase of smuggled goods entering the country or a substantial level of transactions not being fully declared or accounted to the tax authorities, especially by opaque distributors or importers. The companies setting up wholly owned subsidiaries on the contrary want to work transparently complying with the government fiscal rules but do it at a disadvantage.

Import restrictions on wines and spirits

Many discrepancies subsist in the taxation on imported wines and spirits because of discriminatory measures imposed by some States. The European Union has complained about the fact to the WTO and the consultations on the dispute settlement have begun. A fair treatment for imported and local products should be insured in every State of India.

2. Non tariff trade barriers

Foreign Direct Investment

In 2006, the Union Government authorized foreign direct investment up to 51% in mono-brand retail business.

Our companies are nevertheless interested in a total opening of the retail for this segment (100% FDI). This measure would attract more investments in India and would be a good opportunity to develop local employment.

European Cultural and Creative Industries Alliance [ECCIA]

The European Cultural and Creative Industries Alliance is composed of the four major European luxury goods and creative industries associations, Fondazione Altagamma (Italy), Comité Colbert (France) and Walpole British Luxury (UK).

The European luxury industry is a key driver of growth and is of particular cultural significance to Europe as well as contributing to its overall health and competitiveness. Consumers agree: a survey carried out in September 2009 (TNS Sofres), showed that 69% of European consumers believe that the luxury industry plays an important role for the health and competiveness of the European economy.

European brands account for about 75% of the worldwide luxury market and among the top 25 worldwide luxury companies, 17 are from the European Union.

The personal luxury goods market remains a key driver of growth accounting for more than € 153billion in revenue in 2009 and employing, in 2008, approximately 800,000 people.

More than 60% of the luxury goods produced in Europe are exported outside the region and unlike most mass-market consumer goods producers, which outsource production to third countries, the European luxury goods sector continues to design and manufacture in Europe.

Its sustainable business model and drive for excellence has ensured the sector has proven resilient to the current recession and has created approximately 80,000 new jobs from 2004 to 2008. The industry's compound annual growth rate (CAGR) was above 8% from 2004 to 2008.

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