European
Cultural
and Creative
Industries
Alliance

The Indian Luxury Market: Opportunities and Challenges

Armando Branchini

Executive Team President, **European Cultural and Creative Industries Alliance** *(created by Circulo Fortuny of Spain, Comité Colbert of France, Fondazione Altagamma of Italy, Meisterkreis and Wolpole of the UK)*

Executive Director, **Fondazione Altagamma**

Delhi, December 21, 2011

The Challenges:
the market is still impervious for international brands

A lot has still to be done in order to establish better *free and fair* trade relationships among India and other countries.

The Challenges

Two main issues about Luxury goods Market in India:

1. Tariff barriers
2. Non tariff barriers

European
Cultural
and Creative
Industries
Alliance

Tariff barriers

1. On addition to the « Basic Duty » which is the external rate, 3 other duties (!) → « hidden duties »
2. Complicated & cascading system of duties increasing the actual rate of duty to be paid at the entry to the market.

64.02, 64.03, 64.04, 64.05	Calculation basis	Footwear	
CIF value			**100,0**
Basic Duty	**CIF Value**	**10%**	**10,0**
Countervailing duty (majored ofl'Education Cess) - Abattement (calculated on MRP)	Maximum Retail price basis (MRP) & Abatement on MRP (40%)		22,2
Education cess	Value(Basic Duty + Additionnal Duty)		1,0
Additional Duty	Value(CIF+Basic Duty+Additional Duty+ Education cess)		5,3
Total Duty			**138,5**
Actual duty rate	**Total Duty rate linked to MRP**	**38,5%**	**38.5**

European
Cultural
and Creative
Industries
Alliance

Recent Developments

For fashion and leather goods, the average « Basic Duty » is 10%, but the actual final rate is much higher averaging 24% to 28% of CIF price (which may still vary according to HS code and Maximum Retail Price).

HS code		Min	Max	
42	Leather goods	22%	26,80%	
64	Footwear	*33% **	*39% **	Additional Duty based on MRP
61-62	Clothing	*22% **	*33% **	Additional Duty based on MRP
71.13	Fine Jewelry	17%		Additional Duty of 5% is levied on products sold under a 'brand name'
71.17	Fancy Jewelry	16%		
91	Watches	*36% **		Additional Duty based on MRP
90.04	Sunglasses	22%	27%	
* Total duty rate may vary according to MRP (Maximum Retail Price)				

Over the past years, **although India has been gradually decreasing its Basic Duty, it has increased the other duties and/or changed the calculation mode of duties thus keeping its trade barriers**

– Since 2006, as the Additional Duty levied on Footwear, Clothing and Watches is based on the Maximun Retail Price, *the higher the Retail Price, the higher the actual rate to be paid.*

– Since 2011, *the Additional Duty levied on Fine Jewelry sold under a brand name amounts to 5%* vs. 0% for products sold without a brand name.

European
Cultural
and Creative
Industries
Alliance

Tariff barriers

It would 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.

European
Cultural
and Creative
Industries
Alliance

Tariff barriers

It would be more legitimate to consider an increase in the abatement on MRP to 70% instead of the present one around 30-40%, while keeping the MRP system, so that it matches the reality of imported products cost structure.

Non tariff barriers

In 2006, the Union Government authorized Foreign Direct Investment up to 51% in the monobrand 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 create new high-level employment.

What can luxury goods companies do today to reach Indian Consumers?

1. Sell to Indians, but outside India! (Hong Kong, Singapore, Thailand, Malaysia, UE,…)

2. Sell in India, but at *subsized prices*, with strong negative impact in their *profits & losses*

European
Cultural
and Creative
Industries
Alliance

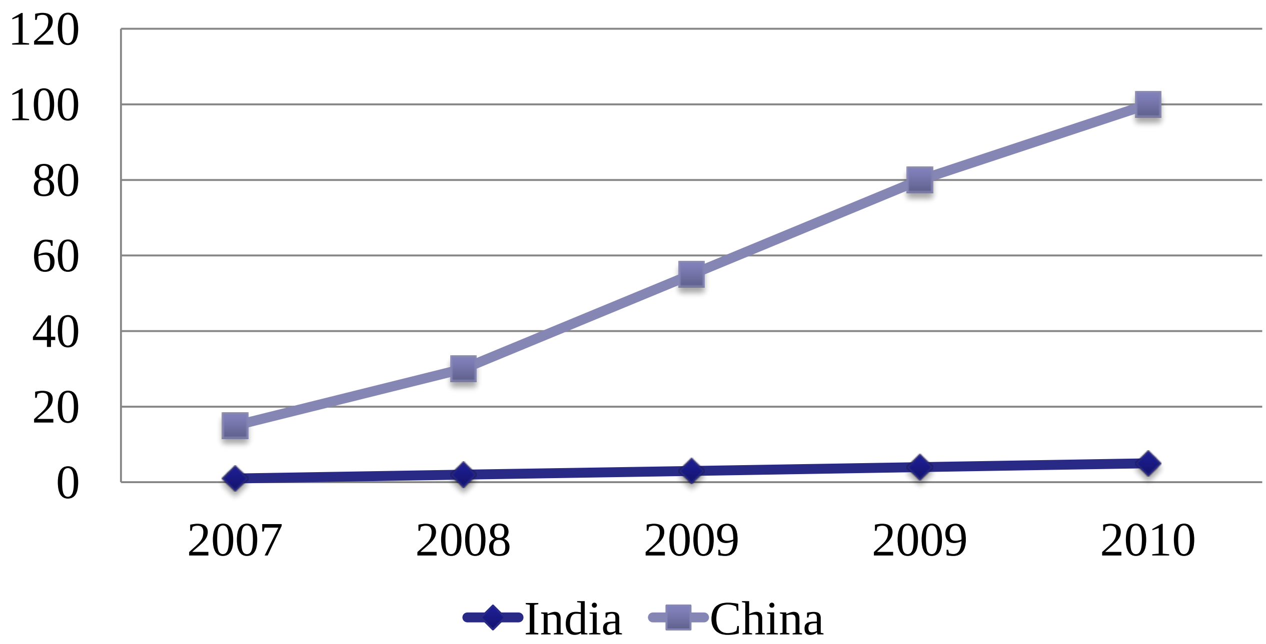
An open market makes the difference !

India and China Luxury Goods markets: a comparison

European
Cultural
and Creative
Industries
Alliance

European Fashion Companies average

Retail Sales Index Growth China/India



European Cultural and Creative Industries Alliance

Network Evolution China/India

Year 2011 in China

Italian Luxury Brands have doors in a no. of cities which is 2 times the no. of 2007 . Brands in the first cluster account for 30 cities up.

Year 2011 in India

Doors in just 3 cities. (1 city in 2007, 3 cities in 2011).

European
Cultural
and Creative
Industries
Alliance

Store Component Index China/India

Average ***Capex /sqm*** is at least 25% higher in India than in China

Average ***Rental/sqm*** is quite similar in India and in China

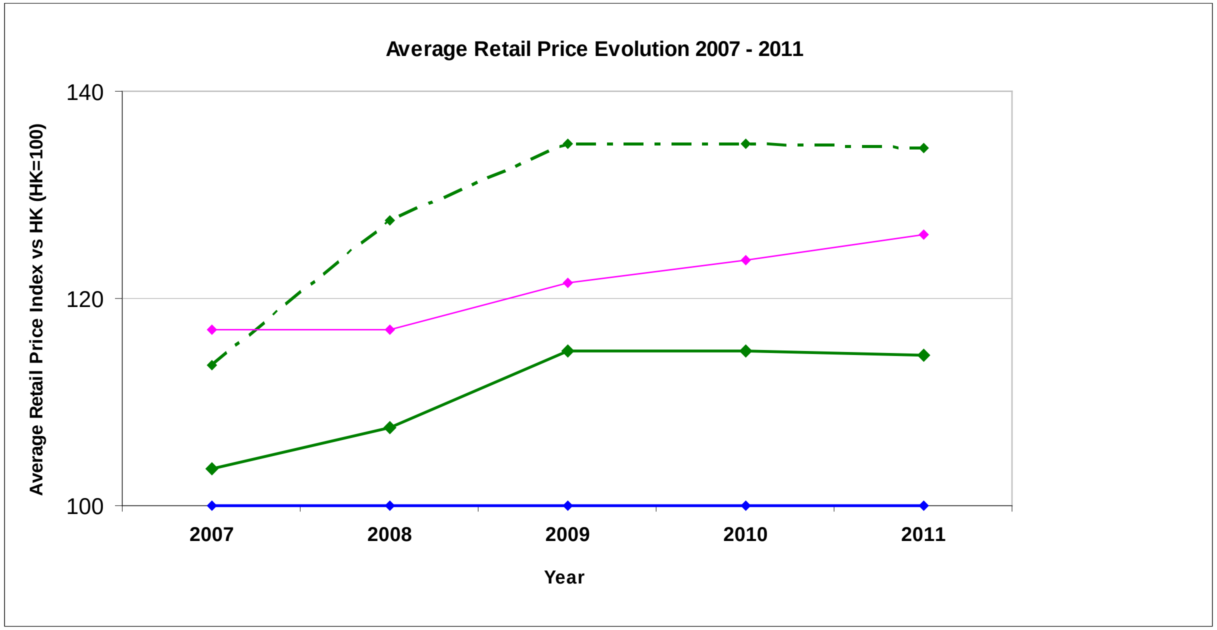
Average ***Payroll/Retail Staff*** is quite similar in India and in China

In India costs are *unrealistically high vs return on investment*, preventing investment and development

European Fashion Companies average

European Cultural and Creative Industries Alliance

Average Retail Price Evolution HK / China / India



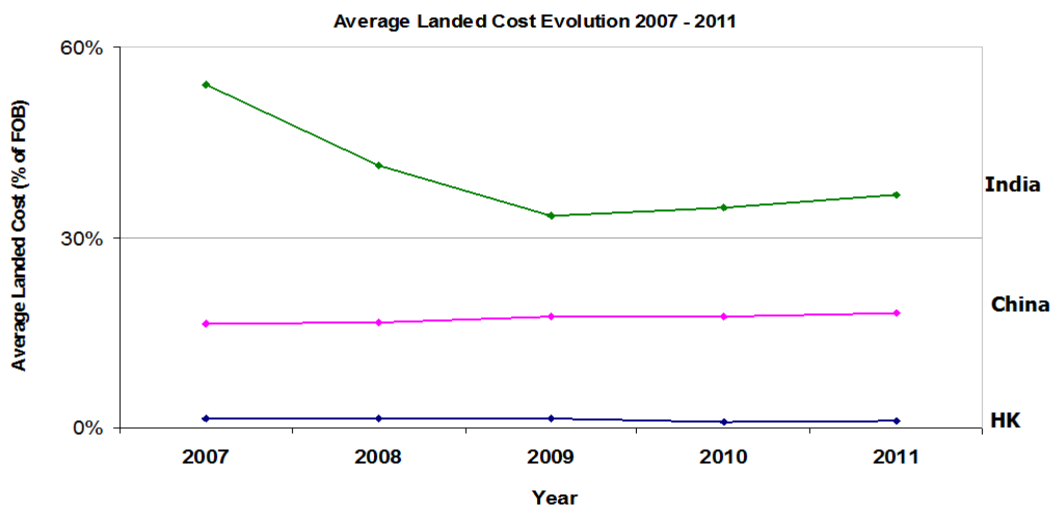
Using HK as a base index, India average retail price is approx. 12% higher, supported by 20% FOB subsidies from the Brand, and subsequently 10% lower than China
However, without FOB subsidies, India retail price would be 8% above China

Retail prices include 17% VAT for China and 12.5% VAT for India. No VAT for Hong Kong.

European
Cultural
and Creative
Industries
Alliance

European Fashion Companies average

Average Landed Cost Evolution HK / China / India



India's high duties based on retail prices, would leave the Brand uncompetitive if the brand did not manage through it's own subsidies, which make it effectively competitive within the markets of influence and regionally, Singapore, Dubai and UE

Remark:

1. HK: No Duty with 1% additional cost
1. China: +18% Landed Cost (Duty + additional costs)
2. India: +37% Landed Cost (Duty + additional costs)

European
Cultural
and Creative
Industries
Alliance

The great opportunity we have now

On Dec 10th, 2010 India and the European Union started a negotiation for a *Free Trade Agreement*.

In these months we have the concrete opportunity of

- eliminating non tariff barriers in India,
- eliminating tariffs+countervailing duties

for luxury goods.

LET’S TAKE THIS OPPORTUNITY!