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India imposes a 162.5% effective levy on bulk Scotch imports from Britain

The customs dispute has held more than 80 containers at ports and undercut a key promise of the India-UK trade deal

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India is charging an effective 162.5% combined duty and tax on bulk imports of Scotch whisky from the United Kingdom, according to Reuters, as a dispute over customs classification threatens to reduce one of the main benefits promised under the two countries' trade pact.

The effective burden is higher than the 150% rate that applied before the agreement, Reuters reported on Wednesday, November 18, citing a government document and eight people with direct knowledge of the matter. The change matters for liquor companies that import Scotch in bulk, blend it in India and sell it into one of the world's largest whisky markets.

The dispute centers on bulk Scotch concentrates, not bottled Scotch automatically, and industry participants say the issue should not be broadly applied to all whisky imports. Under the India-UK trade agreement that took effect on July 15, tariffs on Scotch were cut to 75%. Britain and the industry had presented that reduction as a major opening for companies such as Diageo and Pernod Ricard, which rely on India's large spirits market.

According to Reuters, Indian investigators now argue that some bulk Scotch imports have been entering under the wrong customs classification. They say the shipments should fall under a newer tariff line for "compound alcoholic preparations," which is treated as a raw material used to make blended whiskies and similar products. That customs line carries a 150% tariff. Once a local consumption tax is added, the total effective charge rises to 162.5%.

That interpretation has created the first major public dispute linked to the trade pact. Companies including Pernod Ricard, Diageo and Bacardi have had more than 80 containers held at ports while the matter is examined, Reuters reported. The affected shipments involve thousands of liters of bulk Scotch used to make products for India's broad middle market, where blended whisky is sold at prices far below fully imported premium bottles such as Chivas Regal or Johnnie Walker.

India is the biggest market for Scotch by volume, and about 80% of Scotch imported from Britain arrives in bulk, according to Reuters. Much of it is used in Indian-Made Foreign Liquor, or IMFL, a category in which small amounts of Scotch are blended with

other spirits. For large producers, uninterrupted access to bulk Scotch is important for keeping factories supplied and retail shelves stocked.

To secure the release of held cargo, importers have been using a provisional process while the investigation continues. Reuters reported that companies must pay duty equal to 75% of the goods' value upfront, with the remaining exposure backed by bank guarantees. That approach allows shipments to move, but it also ties up cash and increases financing pressure, especially for smaller companies that may need collateral to obtain the guarantees.

The impact could spread beyond multinational groups. Reuters said Mumbai-listed Radico Khaitan, Allied Blenders and Distillers, and Tilaknagar Industries also import bulk Scotch and are under scrutiny. Executives quoted by Reuters said that for companies without the balance sheets of the largest global spirits makers, the guarantee requirement can strain working capital and complicate production planning.

The trade issue has also revived a familiar concern among foreign investors in India: customs and tax disputes that can change the cost of doing business after commercial plans are already in place. Indian officials have long said they are enforcing domestic law. Companies, however, argue that classification decisions can be difficult to predict and can sharply alter the economics of an import business.

The conflict is especially sensitive because whisky tariffs were one of the hardest parts of the negotiations that led to the July 15 agreement. British officials have repeatedly described Scotch as one of the signature products expected to benefit from the deal. The Scotch Whisky Association has said the agreement could increase exports to India by $1.34 billion over five years.

Britain has been pressing India to resolve the issue. In a statement to Reuters, a UK government spokesperson said ministers were working urgently with New Delhi to ensure British companies could export under the tariff levels agreed in the trade deal. India has also indicated that the dispute will be addressed, though Reuters said the finance ministry and tax authority did not respond to its requests for comment on the 162.5% effective charge.

The disagreement has already had financial consequences. Reuters said Diageo shares in London fell 1.5% and Pernod Ricard shares in France dropped 1.25% after its reporting on the customs dispute. India is Pernod Ricard’s largest market by volume, and Pernod and Diageo are major players in the country’s spirits business.

For the companies involved, the immediate issue is less about legal language than about supply and cost. Several executives told Reuters they had reduced prices on some Scotch-based products after the trade pact cut tariffs to 75%, only to face a much heavier import burden once the new classification argument was applied. Industry participants also told Reuters they had expected debate over customs treatment, but not the added local tax that pushes the effective charge above the level in place before the trade deal.

Diageo declined to comment to Reuters. Pernod Ricard and Bacardi did not respond to its questions. As the case moves through customs and government channels, importers are trying to keep shipments moving while they challenge a tariff interpretation that they say undermines the commercial value of the agreement for bulk Scotch.