

To,
The Chairman
Resource Mobilisation Committee
(Karnataka State Excise Reforms 2026)

Respected Sir,

Subject: Comments of the RMC Report for the Karnataka State Excise Reforms, 2026

We write to you on behalf of the Centre for Market Regulations and Governance (CMRG) at Vidyashilp University in response to the RMC's invitations for suggestions and comments for the above-mentioned report. The comments below have been put through the lens of a Regulatory Impact Assessment (RIA) exercise. CMRG, through its RIA Lab, has been carrying out ex-post and ex-ante RIA exercises and certificate courses on the RIA. Regulatory Impact Assessment is a methodology that attempts to design precise and targeted regulations, exploring all possible options, reducing unnecessary burden on those affected and on the regulators, while also ensuring legitimacy to the policy and its effective implementation of the regulation. "It is a tool that provides a framework for a high quality, participative policy development process, guiding users through a series of steps designed to address the main stages in the development of high quality policy."

In this submission, we wish to bring to your notice several structural and analytical concerns arising from a close reading of the report. The concerns relate to i) conflation of externalities and internalities within the social cost benchmark, ii) inadequate identification and analysis of options for a more comprehensive approach to tackle alcohol-related harm, iii) the distributional impact of the proposed reform that places unfair burden on certain stakeholders and does not fully analyse the impact on others, and iv) the absence of a strong implementation, monitoring and enforcement framework needed for a reform of this scale, including measurable harm-reduction targets, a downside-scenario plan, and a post 2028-29 revenue roadmap.

This submission is structured around a standard RIA framework, making note of gaps where more thought may be required. A more detailed RIA is possible with effective public consultation and interaction with all key stakeholders, as well as a detailed cost-benefit analysis of all possible policy options. We hope that through this submission, these issues will receive due consideration, and that the final excise reforms will reflect these interventions.

Detailed Comments

1. Title of the Proposal

The proposal being assessed is the transition of Karnataka's alcohol excise system from a price-and-category-based structure to a strength-based excise levied per litre of alcohol in beverage (LAIB) system, to be implemented over a 3-yr period, as set out in the Karnataka State Excise Reforms 2026 Draft Report prepared by the Resource Mobilisation Committee headed by Dr. K.P. Krishnan. This submission applies an RIA lens to this proposal, in response to the Committee inviting comments.

This submission, using an RIA framework, evaluates the claims in the report, the supporting evidence and attempts to highlight gaps where more legislative thinking and reconsideration is needed before putting the LAIB excise regime into effect. The new regime is based on the principle of harm-aligned taxation. This submission is testing that principle, and it shows that the design of the new tax regime, the evidentiary base to support it and policy analysis is not yet adequate to justify implementation on this timeline and needs more thought, analysis and stronger state-based evidence to support the proposed regime.

2. Purpose and Intended Effect

The purpose of this new taxation structure, as stated in the report, is to align excise taxation with the social cost of alcohol consumption. This is to be achieved by taxing the element that causes harm (ethanol/alcohol content) rather than price or product category. The goal is reducing alcohol-related harm while maintaining revenue stability. The intended effects are an 8-9% reduction over six years in alcohol consumption, moving towards lower-strength beverages and convergence on a benchmark of INR 2000/LAIB by FY 2028-29.

As we read through the report, there is dissonance between the stated purpose of the new regime and what the recommendations actually are. The report explicitly states that the new taxation structure is to reduce alcohol-related harm. The preface frames the analysis as beginning “not with revenue, but with harm.” The LAIB benchmark is also described throughout as the social-cost benchmark. It is clear that the harm principle is doing the heavy lifting here. But the report does not engage with what harm actually means here.

In political theory, harm has a specific meaning. John Stuart Mill spoke of it in his essay *On Liberty* stating that - “the only purpose for which power can be rightfully exercised

over any member of a civilised community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant.” This principle makes a distinction between externalities and internalities, making it clear that internalities, such as the harm a drinker imposes on themselves, cannot be the reason for the state to intervene. The report does not consider that (i) someone who wants to get inebriated can still consume large amounts of alcohol that are taxed lower due to reduced alcohol content, and (ii) an addict of alcohol will still consume the substance at increased prices. In our assessment, the new excise regime will have little effect on family structure, domestic violence and marital issues. In fact families with alcohol addicts may be driven towards poverty as such individuals will not hesitate to pay higher prices for the fix. We discuss these points further in the section ‘*Risk assessment (identification, analysis and evaluation)*’ starting from page 5 of the submission.

The report does not adhere to this distinction. The social cost benchmark is taken by estimating externalities (health, domestic violence, road deaths) imposed on others, but also considers internalities (costs that individuals impose on their own future selves through imperfect decision-making). This is no longer based on the harm principle then, instead adopting a paternalistic approach to law-making. Additionally, there are several paradoxes, which we outline below, that demonstrates that the real intent is to extract more revenue while the harm principle is used as a veneer for doing the same.

3. The Policy Problem

a. Problem definition

The report defines the problem as follows - **Karnataka’s current excise framework taxes alcohol based on price and product category rather than on alcohol content. This creates a fundamental misalignment: economy Indian Made Liquor (IML)- the highest-strength, highest-volume, highest harm segment of the market - bears an effective excise of approximately ₹600-800 per litre of pure alcohol, while the estimated social cost of that alcohol is approximately ₹1,077 per litre (FY 2022-23). Premium and imported products, by contrast, are taxed at or above the social cost benchmark. The system under-taxes the products causing the most harm and over-taxes those causing the least.**

This is defined as a tax design issue - which removes the inclusion of non-tax instruments that the report itself identified in Chapter 2. The underlying policy problem the revised tax structure seeks to solve - alcohol-related harm - **does not have unilateral causation derived from price alone.** The 2024 World Health

Organization (WHO) study cited in the committee report shows that 200+ disease and injury conditions are related to alcohol. The WHO's SAFER framework identifies five complementary strategies for reducing alcohol-related harm — restrictions on availability, drink-driving counter-measures, treatment and screening, advertising regulation and pricing — of which excise is only one. **The report itself cedes that there are other policy instruments and then chooses to narrow its focus to only one without rigorously engaging with the other instruments.**

Additionally, the definition rests on calculation of social cost that needs to be looked at in more detail. **The benchmark is not based on Karnataka-specific data — it borrows a global average from studies across many countries** (Manthey et al., 2021). And calculation is pushed higher by also counting the harm drinkers do to themselves (internality) rather than only to others, based on one Indian study (Box 2.1, p. 18, the Chennai rickshaw drivers). For a reform of this size, that is not substantial data to base a conclusion of change in policy.

b. Existing scenario (baseline)

The baseline against which the proposal must be assessed is: a price-slab-based ED + AED structure, recently rationalised from sixteen slabs to eight; excise revenue of roughly ₹34,600 crore (2023–24), rising toward ₹40,000 crore annually, contributing approximately 20% of the State's own tax revenue and 1.4% of GSDP; a centralised wholesale monopoly through KSBCL; quota-based retail licensing; and a control-oriented administrative regime (on-site excise staff, escort requirements, label registration). Effective excise currently runs at approximately ₹1,123 per LAIB on IML, ₹2,381 on beer and ₹392 on wine (Table 10.1, p. 74) - this is the tax inversion this reform is seeking to target.

The report uses data from earlier years such as 2010-2016 in some cases and 2022 in other cases. Without using the most recent data at least for the last 2 years or by relying on data that is of the same timeline, the veracity of the numbers and statistics relied on in this report cannot be considered to be adequate or representative.

The baseline data being used in this report appears weak and a re-examination of the numbers is required.

c. Causes

The report diagnoses the causes of tax distortion/inversion very well.

However, the principle rests on alcohol-related harm. The causes of the same extend beyond just tax design (enforcement capacity, behavioural factors, capacity for treatment and rehabilitation) and the report does not weigh in these causes when designing a solution for this problem. The report makes an assumption that amending the taxation structure would put alcohol outside the reach of individuals who are likely to be involved in domestic violence or road accidents, but does not examine the behavioral factors that cause dependency or addiction to alcohol to occur in the first place. It also does not examine whether any rehabilitation of such individuals is possible instead of merely putting alcohol out of reach of these individuals. On Page 89 of the report, there is a mention of earmarking a portion of the excise revenue generated towards addressing the social and economic costs associated with alcohol consumption, but there is no discussion on what will be earmarked for such purpose or how the expenditure of the allocated excise fund will be accounted for.

d. Risk assessment (identification, analysis and evaluation)

Risk Assessment	Committee Analysis	Our Analysis/Response
Illicit market growth	<p>A reform that raises the effective price of alcohol as a strength-based excise calibrated to social cost will do, particularly in the economy IML segment must anticipate the risk of displacement into illicit channels.</p> <p>The report says that three elements are critical countermeasures:</p> <ol style="list-style-type: none"> 1. The digital track-and-trace infrastructure serves a dual purpose: it ensures compliance within the legal supply chain and makes it easier to identify products outside the system. 2. The phased glide 	<p>The report says that - <i>under the current system, the wide dispersion in effective tax rates across product segments creates price differentials that can be exploited through product misclassification, label fraud, and downtrading. A uniform rate per litre of pure alcohol eliminates these arbitrage opportunities within the legal market, simplifying enforcement and narrowing the space for evasion.</i></p> <p>However, the report is weak in showing how this will play out and what measures can be taken to further restrict the illicit market. The report also states that the state can adjust the pace of reform if evidence warrants it but does not say how and does not commit to this either to ensure predictability. A well thought through review process needs to be incorporated so that there is rigour in the process of evidence gathering.</p>

	<p>path: reaching ideal situations over three years rather than in a single step allows enforcement systems to be built, tested, and scaled before the full price impact is felt.</p> <p>3. Under the current system, the wide dispersion in effective tax rates across product segments creates price differentials that can be exploited through product misclassification, label fraud, and downtrading. A uniform rate per litre of pure alcohol eliminates these arbitrage opportunities within the legal market, simplifying enforcement and narrowing the space for evasion.</p>	
<p>Revenue erosion (over time)</p>	<p>In Chapter 8 (p. 60) the report states that the current system “derives a substantial portion of its revenue from consumption patterns that are also associated with higher social costs,” and that “any policy aimed at reducing harmful consumption — particularly in high-volume, low-priced segments — may have short-term revenue implications.”</p>	<p>The report is assuming an increase in revenue (and steady or upward GSDP) in its calculation of projected revenue. The report does not contend with the scenario of the market moving downward. How does the government plan to address this? Will it absorb the loss or will it increase AED and extend the glide path? If a downward scenario happens after the end of the glide path, what then is the government’s plan to tackle revenue loss?</p>

	<p>It states that a well-designed reform “must therefore shift the basis of revenue from volume to alcohol content, allowing the State to maintain fiscal stability while reducing harmful consumption intensity,” and that a well-designed excise system can deliver a “double dividend” by raising revenue while reducing externalities (p. 60).</p> <p>The slab-based Additional Excise Duty (AED) is described as a transitional instrument intended to “preserve revenue stability” (pp. 27). From FY 2028-29 the report recommends indexing the rate to nominal GSDP growth on a quarterly basis so that it “automatically tracks the social cost” (p. 31).</p>	<p>The report also does not acknowledge an important part of the revenue vs. harm equation. If alcohol consumption goes down, over a period of time, revenue will also decrease. In the report, it is mentioned that Karnataka currently derives ~20% of its tax revenue from excise. This is a built-in incentive against harm reduction. While the report mentions a “double dividend” from a well-designed excise system (raising revenue while reducing externalities), it does not tackle the consumption vs. revenue problem. In the transition, this deficit will be met by the AED but after 2028-29, there is no roadmap for how to address this or is the assumption then that the State is willing to accept fiscal loss for social benefit?</p>
<p>Planning uncertainty (quarterly indexation to GSDP)</p>	<p>Policy Implication 4 (p. 79) states that “the calibrated nature of the price adjustments demonstrates the value of gradual and predictable tax reforms,” and that moderate, differentiated price changes “help avoid sudden shocks to consumers and producers.”</p> <p>On indexation (p. 31), the report states that once the ₹2,000/LAIB benchmark is reached in FY 2028-29, indexing the rate to nominal GSDP growth quarterly “ensures that the tax</p>	<p>The nature of increase cannot be called predictable. The gradual increase is benchmarked in the intermediate at INR 1542/LAIB (FY 2026-27) and ideal at INR 2000/LAIB (FY 28-29) but is also indexed to quarterly GSDP revisions. From a planning perspective for the industry/manufacturer, this model is not predictable and subject to volatility.</p> <p>There needs to be an explicit statement about the transition period not aligning with this - the transitional model is quite complex and burdensome - ED (based on alcohol content) + VAT + input tax credit + quarterly indexation to GSDP. This needs to be simplified and harmonised with the proposed structure as far as possible.</p>

	<p>automatically tracks the social cost... without requiring annual political decisions about rate changes,” and that “rules-based indexation replaces ad hoc revision, reducing policy uncertainty for both the government and the industry.”</p> <p>The intermediate benchmark is approximately ₹1,542/LAIB by FY 2026-27 and the ideal ₹2,000/LAIB by FY 2028-29.</p>	
<p>Trust deficit / implementation risk and monitoring / oversight gaps</p>	<p>The report recommends a shift “from ex ante controls to technology-enabled ex post compliance” (p. 11), including digital track-and-trace “based on Andhra Pradesh and Punjab models,” mandatory registration, standardized returns and risk-based enforcement.</p> <p>Chapter 11 (p. 83) proposes unit-level product identification — a unique digital code on each bottle, scanned through the supply chain — and transaction-level reporting integrated into centralized databases, with the stated objective of “traceability, auditability, and targeted enforcement” while “reducing administrative burden.”</p> <p>Chapter 12 sets out specific recommendations: transition</p>	<p>The claim is that the excise taxation should be a part of a comprehensive alcohol policy framework but does not try to build coherence with other government departments/regulators that can and should contribute to an alcohol policy (health for example).</p> <p>The report says that “... a rational excise framework... requires continuous monitoring of consumption patterns, price competitiveness and social impacts...;” however, there is no ownership of the monitoring mechanism. The report mentions that digital track and trace systems will be introduced based on the Andhra Pradesh and Punjab models, but does not say where this will be housed and who will be the overseer. Additionally, the AP model was only introduced 7 months ago, and there has not been enough time to gauge its performance; and while the Punjab model was introduced in 2021-22, recently the system was overhauled and will move towards automation due to continuing gaps in the system such as improper fixing, tampering and lack of real-time integration.</p>

	<p>to technology-based monitoring systems (recommendation 4, p. 86), a pilot of appropriate track-and-trace technology (recommendation 5, p. 86), and an electronic-lock system for transport monitoring (recommendation 13, p. 88).</p> <p>The report states that a rational excise framework should “balance revenue mobilization, market stability, and harm reduction objectives” (p. 79).</p>	<p>The report sets targets for revenue and consumption but no policy goals for harm reduction. It states - “...<i>A rational excise framework should aim to balance revenue mobilisation, market stability and harm reduction objectives...</i>” - but does not set any measurable targets for harm reduction unlike the other two - there is a revenue trajectory and a consumption-reduction projection (8-9%) but nothing for alcohol-attributed road deaths for example.</p> <p><u>Without a measurable target, harm reduction is in danger of becoming lip service only, despite being the foundation on which this new excise policy rests.</u></p> <p>In the recommendations, the report suggests reducing this complexity by moving from manual, inspection-based controls to technology-driven monitoring systems (recommendation 4, ch. 12) - but this highlights the trust deficit. If compliance, self-reporting and monitoring is to move to a technology-based model (which can be easily corrupted), how is efficiency to be ensured?</p>
<p>Hoarding during transition</p>	<p>On managing transition-period disruption, the report relies on the phased glide path: reaching the target rate “over three years rather than in a single step” is intended to allow price changes “to be absorbed progressively across the market,” reducing “the likelihood of sudden demand shocks, substitution toward illicit products, or significant disruption in consumption patterns” (p.</p>	<p>The revised excise duty regime could very well lead to hoarding of alcohol that is priced under the earlier tax regime, at least for a year, and this potential harm due to a gap in policy thinking needs to be plugged. There would be increased black market transactions of alcohol which would cause the government to lose out on revenue potentially.</p>

	<p>77).</p> <p>The report states that the phased approach allows the State to “monitor illicit activity indicators... and adjust the pace of reform if evidence warrants it” (p. 71).</p>	
<p>Negative impact on competition and innovation</p>	<p>Policy Implication 1 (p. 79) states that “the proposed reforms demonstrate that it is possible to correct structural distortions in the excise system without undermining regional price competitiveness.”</p> <p>The report states that consolidating the IMFL price slabs from sixteen to eight “reduces the scope for slab arbitrage” so that pricing strategies are “driven more by market considerations than by tax design” (p. 75), and that the revised structure produces “moderate retail price increases, broadly in the range of 11 to 20 per cent” in lower and mid segments while premium products see “moderate price reductions, generally ranging between 2 and 16 per cent” (pp. 76-77) — described as improving “horizontal equity across product categories.”</p>	<p>The proposed reforms aim at shifting consumer behaviour and preferences towards less harmful consumption of alcohol but it is not clear on the lack of effect on regional price competitiveness. In fact, it may actually be harmful for competition.</p> <p>Increasing excise duty on cheaper liquors with high alcohol content may render their manufacturers unable to produce them and eventually close down. This would lead to a lesser number of players in the alcohol production market and inadvertently cause monopolies or oligopolies. Moreover, if some of these cheaper alcohol brands are forced to close business, it would lead to loss of employment for people in those industries.</p> <p>Brand values of some premium alcohol brands could be eroded. Most premium alcohol brands such as Indri, Amrut, Blender’s Pride, Antiquity Blues and Oaksmith Gold have experienced price reduction. While under the previous excise duty regime, these brands were exclusive and affordable to a few, under the new excise duty regime, they are more easily affordable to people with lesser income. While this reduction in prices has arguably democratised access of these alcohol brands to more people, this will impact their premium status and their brand values of exclusivity could be eroded.</p> <p>Lower end beverages that had the same alcohol percentage as expensive or mid-tier brands are now being taxed heavily on their alcohol content. Budget brands like Original Choice, Haywards Cheers, Bangalore Whisky, and Amrut Prestige have all seen price increases by 20-30%. While on one hand this makes such beverages out of reach for many blue collar workers for whom they were originally conceived, on the other hand, with time these brands</p>

		<p>could also attain a more premium reputation without necessarily improved or better manufacturing conditions. Cheaper alcohol brands are run through less filtration systems which leave more impurities in the beverages that can cause short term health issues such as nausea and severe hangovers as well as long term health issues from impurities in the beverages such as methanol, acetone and tannins.</p>
<p>Disproportionate burden of taxation</p>	<p>The report addresses this concern in Chapter 2 (p. 20): “The distributional concern — that alcohol taxes are regressive because poorer households spend a larger share of income on alcohol — is real but must be weighed against the distribution of harm.” It states that, because alcohol-related harm is also concentrated among poorer households, “a tax that reduces heavy consumption in these households may be regressive in expenditure terms but progressive in welfare terms.”</p> <p>On structure, the report frames the two levies as serving distinct purposes (Chapter 4): the specific excise is “corrective” (internalizing social cost) and the VAT is a general “consumption tax.” The slab-based AED is described as a transitional instrument that “does not adhere to the core principles of VAT or GST design” and is “to be phased out as the system converges to a fully strength-based excise” (p.</p>	<p>The report proposes implementing an additional excise duty (AED) in addition to the existing excise duty. Imposition of tax based on excise duty based on Litre of Alcohol in Beverage (LAIB) and an AED calibrated to smoothen transition over a period of three years. This effectively becomes double taxation in the interim, raising prices and pinching the pockets of consumers. While the altruistic goal of getting people to avoid consuming alcohol may arguably be worked towards, such double taxation goes against the principles of tax equity and fairness.</p> <p>Further, the nature of addiction is such that people who abuse substances will still figure out a way to pay the money even if prices are raised, a case in point being that increasing excise duty in cigarettes has not stopped people from smoking.</p>

	<p>33). The report characterizes the net effect on IMFL pricing as “a rationalization of price bands rather than an across-the-board escalation in retail prices” (p. 77).</p>	
<p>Market perversion (more consumption of lower-content alcohol at the same price)</p>	<p>The report treats the shift toward lower-strength beverages as an intended and beneficial consequence. It states that “a strength-based excise does more than correct the current system’s distortions. It actively nudges consumption toward lower-strength beverages — products that contain less alcohol per serving and therefore cause less harm” (p. 10).</p> <p>It cites international evidence — the UK’s 2023 duty reform, Australia’s 2008 RTD tax, and the WHO’s 2022 Global Alcohol Action Plan — that this substitution effect is “a significant and intended consequence of strength-based taxation” (p. 21-22), and states that the net effect is “a reduction in total ethanol intake — and therefore in harm,” provided consumers do not “fully compensate by increasing the volume consumed” (p. 21).</p>	<p>The report also says that the new model will be preferable in a market where consumption is concentrated in lower-priced segments. But the rate of increase and reaching the benchmark will tax these specific segments the most (they are facing the steepest increase). This is not going to be a change that will be easily accepted, especially by smaller, economy IML manufacturers. It will be contested because even if this is a harm-aligned taxation model, there might be better ways to achieve this end goal that is not so unfairly punitive. For example, increases can be distributed more equitably across the different segments. Karnataka can adopt an additional instrument (to the LAIB benchmark) to protect smaller manufacturers from being squeezed out, preserving competition at the lower end, and preventing the reform from concentrating production in the hands of a few large players.</p>
<p>Regional competitiveness</p>	<p>The report compares Karnataka’s prices with neighbouring states in Chapter 8 — Table 8.3 (IML, 180 ml) and Table 8.4 (beer) cover Karnataka, Andhra</p>	<p>The report only looks selectively at the states of Andhra Pradesh and Maharashtra to draw comparison. For a comprehensive analysis, the report should have also considered other neighboring states such as Tamil Nadu, Goa and Kerala.</p>

	<p>Pradesh, Telangana, Maharashtra, Tamil Nadu and Kerala (pp. 57-58).</p> <p>It states that even after the proposed revisions “Karnataka’s pricing remains broadly within the regional price band and, in several cases, below neighboring states” across mass, mid-range and premium segments (pp. 77-79). Policy Implication 3 (p. 79) states that “the inter-state price comparison underscores the importance of maintaining regional parity in alcohol pricing,” and that “large price differentials between neighbouring states can encourage cross-border procurement, illicit trade, and revenue leakage.”</p> <p>Chapter 3 (p. 31) recommends inter-state coordination, stating that “if neighboring states were to adopt comparable benchmarks using the same methodology, the price differentials that drive cross-border leakage would narrow.”</p>	<p>While working on this submission, a comparative price analysis was done for IMFL, IML and Beer between the states of Goa, Karnataka, Andhra Pradesh, Tamil Nadu, Telangana, Kerala and Maharashtra. While Goa benefits from its low excise duty on alcohol to encourage tourism, the following was observed (i) IMFL prices between Karnataka, Andhra Pradesh, Tamil Nadu, Telangana, Kerala and Maharashtra were broadly on parity (ii) IML prices between the six states were slightly more spaced out but still broadly on parity, and (iii) beer prices in Karnataka have become quite lesser than in Andhra Pradesh, Tamil Nadu, Telangana, Kerala and Maharashtra, almost at par with Goa. Therefore, the claim of maintaining regional parity in alcohol pricing seems like a fair policy implication.</p> <p>However this does not take away the cross border smuggling pressure. The price difference in a few cases could still cause people to bring in alcohol from states such as Goa into Karnataka, due to it being cheaper. In addition to cross border smuggling there is also the risk of increased instances of illegal breweries opening up that will manufacture spurious liquor. When cheaper IMLs with high alcohol content go beyond the reach of the target consumers they will be forced to pivot to spurious liquor that could lead to many more instances of poisoning, liver diseases and deaths from hooch tragedies. Manufacture of spurious liquor will also circumstantially lead to loss of excise revenue because the target consumers of cheaper IMLs may stop buying them altogether.</p>
<p>Social outcome/Behavioural change</p>	<p>The report states that taxation changes behaviour through the price mechanism - “with the largest behavioural impact on the most price-sensitive consumers - who tend to be younger, poorer and heavier drinkers” (p. 20)</p>	<p>The report does not consider three things (i) people who want to get inebriated can still consume large amounts of alcohol that are taxed lower due to reduced alcohol content, (ii) people who are addicted to alcohol will still consume alcohol even at increased costs, (iii) this could create a hoarding issue and black market transactions under the previous tax regime.</p>

	<p>For heavy drinkers, the report relies on the internalities argument, using the case study of the Chennai rickshaw drivers (Box 2.1) saying that- “a higher tax functions... as a commitment device that helps assist individuals in doing what they themselves want to do... this is the internalities argument for corrective taxation, and it justifies a tax rate above what the externalities alone would require.”</p> <p>The report states (Ch. 1) that alcohol consumption imposes large social costs - road deaths, domestic violence, health issues. It says that “excise taxation is the most effective policy instrument available to Karnataka for reducing alcohol-related harm...taxation works through the price mechanism, addressing both externalities and internalities without requiring individualized detection. It is administratively feasible, scalable, and - as the evidence on price elasticities confirms - effective at changing behaviour.” (p. 20)</p> <p>For enforcement, the report says that “drink-driving checkpoints, age verification at point of sale, penalties for serving intoxicated persons - can target specific harmful behaviours... but face a</p>	<p>People who want to get inebriated will still consume large amounts of the cheaper alcohol. While the ex-factory price difference of Rs. 701 and Rs. 500 (the difference in slabs) is not significant, under the new excise regime, the post duty difference will be significantly higher. So those who want to get inebriated can in any case consume larger amounts of the cheaper alcohol, so there is no effective reduction in harm or dissuading of consumers from purchasing alcohol.</p> <p>People suffering from addiction may still choose to pay the increased prices to procure alcohol. The report does not mention any instance other than the isolated Chennai auto drivers’ study where increased prices have caused reduced consumption. No other studies have been cited to back the claim. Under the Finance Act, 2026 the excise duty on cigarettes was substantially increased, which however did not lead to any reduction in consumption. In fact ITC Limited, India’s largest tobacco manufacturer posted a marginal rise in quarterly profits. Similar could be the case to the consumer’s reaction to increase excise duty on alcohol.</p> <p>Drunk driving and causing domestic violence potentially come from places of feeling invulnerable and poor self control. If those involved in such actions have poor self control when it comes to considering the lives of themselves and of other people, then why would they have better impulse control when it comes to spending on alcohol and getting intoxicated? As has been discussed, those suffering from addiction will still choose to pay premium prices to get a fix. There has to be more thought into the behavioural reasons behind heavy drinking because without that, the projected impact of the new excise regime cannot be made accurately.</p>
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	<p>fundamental limitation: the harm from alcohol is concentrated among a subset of heavy drinkers, and detection is costly and imperfect ... Moreover, enforcement capacity in India is stretched thin, and behavioural adaptation ... erodes effectiveness over time. Enforcement is a necessary complement to policy, but it cannot bear the primary weight of reducing alcohol-related harm.” (p. 19)</p>	<p>A big reason for this excise duty framework overhaul is being touted as avoiding drunk driving collisions. However, most reported cases of drunk driving accidents are caused by people who have some influence and think they can get away with driving under the influence of alcohol either by paying bribes or by showing off their connections. Case in point being the Pune drunk driving case where an underage boy was arrested for killing two individuals by crashing into them, but within hours he was let out on bail due to his family’s connections. Further, studies show that affluent people are more likely to have disposable income to attend bars and nightclubs where chances of intoxication increase. Wealthy drivers may feel insulated from the legal consequences of driving drunk because they have connections, access to expensive legal teams and a social system where wealth and influence allows someone to avoid punishment. The report then, probably, is targeting the wrong demographic. Ordinary citizens are being asked to pay more money to prevent those few of wealth and influence from driving intoxicated. In any case, such people will still be able to afford alcohol under the changed excise duty regime, so it is not certain how this overhaul of excise duty will actually serve the purpose that it intends.</p> <p>An alternative outcome of taxing cheaper alcohol brands more would be that people may turn to other forms of intoxicants that are more cheaply available and this could open up a nexus of illegal drug trades.</p> <p>If the goal is to avoid road accidents and domestic violence, then overall state infrastructure needs to improve; the police need to be better equipped with speed guns and breathalysers, and they need to be paid more.</p>
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<p>Unresolved institutional fractures</p>	<p>The role of KSBCL as sole wholesaler should be reviewed, with a phased move toward competitive wholesale under digital oversight. Fixed percentage retail margins should also be reformed (p. 11)</p>	<p>Moving away from the monopoly wholesale structure of the Karnataka State Beverages Corporation Limited (KSBCL) to open-market digital distribution poses worrying structural uncertainty.</p> <p>Under KSBCL, excise tax collection is highly secure because the state controls the literal bottle neck of the supply chain. Moving to decentralized, open-market distribution creates countless private nodes. This introduces uncertainty around whether a digital system can flawlessly monitor transactions to prevent informal diversion, tax evasion, and under-reporting across thousands of independent open-market distributors.</p> <p>The success of an open-market digital system depends entirely on cutting-edge infrastructure—specifically, per-bottle QR-code track-and-trace mechanisms and real-time auditable digital supply chain ledgers. The uncertainty lies in execution capacity. If the technology glitches, if data flows lag, or if enforcement officers lack the capability to execute ex-post (after-the-fact) digital audits rather than physical checks, the legal supply chain could easily fragment.</p> <p>KSBCL acts as a buffer that manages state-wide inventory, even ensuring supply reaches remote or less commercially viable rural areas. Open-market digital distribution will be driven purely by market incentives. This creates structural uncertainty around whether private distributors will efficiently service the entire state, or if they will cluster exclusively around high-margin, dense urban corridors, inadvertently triggering product shortages or fueling illicit "bootleg" channels in underserved rural zones.</p>
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		Transitioning to a competitive model changes how wholesale margins and delivery costs are negotiated. Stripping away KSBCL's uniform, standardized handling fees introduces unpredictable corporate price wars or cartelization among distributors, creating volatility in state revenue forecasting.
Short-term revenue violations	Alcohol taxation is a significant source of revenue. In Karnataka, it accounts for 1.4% of GSDP, 11.1% of total tax revenue, and 20.3% of own tax revenue (2024–25), while contributing only ~0.4% of employment, largely concentrated at the retail level (~70%). (p. 10)	In Karnataka, since alcohol contributes a significant percentage of revenue (heavily reliant on volume sales of cheap spirits), reducing demand directly runs the risk of immediate fiscal contractions.
Families being driven to poverty	The distributional concern - that alcohol taxes are regressive because poorer households spend a larger share of income on alcohol - is real but must be weighed against the distribution of harm. The health damage, household disruption, and economic vulnerability caused by alcohol consumption are also concentrated among poorer households. (p. 20)	Beyond the Chennai auto drivers' case study, no other study has been referred to, that shows that increasing alcohol taxes has led to reduced consumption from poor income households. In fact, the possibility exists that consumers from such households may pay higher prices for their alcohol fix. Such is the nature of addition. This could with time cause such families to be put under financial pressure and be driven to poverty.

4. Setting Objectives of Intervention

The report has the following objectives as evident from a close reading - reduce alcohol-based harm, maintain revenue, rehaul excise duty regime, market stability (and regional price parity/competitiveness), simplify administration/ licensing/ approvals/ monitoring.

It does not fully meet the objectives on all of these fronts

- With regard to simplifying administrative and monitoring mechanisms- the report mentions regulatory hurdles but does not offer solutions or those that are not impacted at all by the change in regime - the overlapping jurisdiction with FSSAI is currently managed through deputising FSOs (Food Safety Officers) in the excise department. But the report says nothing of how this is to be resolved, it says that functions can be distributed on the basis of union and state lists but how reasonable is that and is there a precedent? There should be a clearer enforcement policy of this proposed change.
- The report also talks about the current regulatory complexity and permission-seeking architecture (multiple licenses from multiple approving authorities) but the proposed excise regime change will have no practical effect on reducing regulatory complexity. The report says - *rationalising the existing web of permissions in Karnataka could reduce procedural duplication while maintaining effective oversight of the alcohol sector* - but does not clarify how this is meant to happen and does not lay out a clear plan of action.
- In the recommendations, the report suggests reducing this complexity by moving from manual, inspection-based controls to technology-driven monitoring systems (recommendation 4, ch. 12) - but firstly, it does not say how this is to be done, what is the timeline and who will enforce it. Secondly, it fails to consider the trust deficit and has an optimistic outlook of self-regulation and compliance.
- Overall, the report is weak on the regulatory framework it proposes. It mentions the end-goal (technology-driven monitoring) but does not show the path to the same.

5. Identification of Options

Holistic identification of options

In chapter 2, **the report identifies four instruments** to address alcohol-related harm – Prohibition, Information Campaigns, Direct Regulation and Enforcement, and Taxation. The report justifies using taxation alone as follows- *“First, excise taxation is the most effective policy instrument available to Karnataka for reducing alcohol-related harm. Prohibition overcorrects and generates illicit markets. Information campaigns cannot address self-control failures. Enforcement is necessary but insufficient as a primary instrument. Taxation works through the price mechanism, addressing both externalities and internalities without requiring individualized detection. It is administratively feasible, scalable, and - as the evidence on price elasticities confirms - effective at changing behaviour (p. 20)”*.

A comprehensive policy targeting alcohol-related harm would ideally include elements of all, instead of just taxation. In order to have an effective alcohol policy, non-tax instruments are also needed - the current claim of the report rests on the fact that taxation based on alcohol content will drive people to consume less - which is not verified enough to be the only instrument to reduce alcohol consumption. This policy implication needs to be precise (and say that this is an excise reform) or show linkages with the other instruments mentioned. The report is not clear on what policy options have previously been assessed and discarded.

For any piece of legislation, there will be multiple options when it comes to targeting a policy problem. **While the RMC mentions other instruments, it chooses to use one instrument to target a multi-causal problem like alcohol-related harm.** The choice of various options, whether considered or not, has not been given in the report.

If we were to look at the possible options broadly, maintaining the status quo (and not changing the tax framework) does not achieve the stated goal of the RMC (reducing alcohol-related harm). Therefore, if change needs to be made, the government can consider both regulatory and non-regulatory options. Even if we just consider the four instruments mentioned in the report - Prohibition, Information Campaigns, Direct Regulation and Enforcement, and Taxation, we will see that -

- a) Information Campaigns as a non-regulatory change can have some impact but not enough to be able to significantly reduce alcohol-related harm.
- b) Prohibition as an option has historically not worked, only moving the sector into illicit markets, removing them from fiscal and administrative oversight (which as mentioned before, excise from this sector is a significant source of revenue for the government).
- c) Regulation and Enforcement of the existing infrastructure can bring about change, but it fails to meet the stated objective of harm reduction.
- d) Taxation, as mentioned earlier, helps but does not target the whole problem. **The approach then, has to have a mix of options** - while taxation reform is needed, there can be modifications that can strengthen the goal of harm reduction. Information campaigns to accompany this, targeted at the lower-income, heavy drinker group and their families will also have a positive impact in changing behaviour.

The SAFER framework mentioned in the WHO study cited in this report is a tool to consider alongside. SAFER which stands for - **S**trengthen restrictions on alcohol availability, **A**dvance and enforce drunk driving counter measures, **F**acilitate access to screening, brief interventions and treatment, **E**nforce bans or

comprehensive restrictions on alcohol advertising, sponsorship and promotion,
Raise prices on alcohol through excise taxes and pricing policies.

Even here, taxation is only one of the options. It shows that a multi-option package is better suited to achieve the goal of harm reduction. However, since the policy goal, once we lift the ostensible veil of harm reduction is taken away, seems to be taxation to increase revenue, a good cost benefit analysis is necessary to examine whether the revenue increase can be achieved as proposed.

Consultation with affected stakeholders

The report claims that the taxation system has been put in place to ensure horizontal parity among brewers and distillers, but the various news reports disagree. According to a [Deccan Herald](#) report of May 12, 2026 which says that according to the Karnataka Brewers and Distillers Association (KBDA), the first five slabs in the reformed excise policy which intends to cater to the common man, houses the maximum number of state-owned distilleries and contributes nearly 70-75% of the state's excise revenue, their Additional Excise Duty (AED) has risen by 20-30%. In contrast, slabs 6-8 which cover alcoholic beverages manufactured by MNCs United Spirits, Bacardi, Heineken, Carlsberg and Anheuser Busch have seen their AED decrease by 10-15%. As a result, the MNCs expected to emerge as the primary beneficiaries of these changes. The association said that while larger companies can absorb pricing shifts across their diverse portfolios, smaller regional distilleries limited to budget liquor may face volume contraction and potential closure. Moreover, the [KBDA](#) has also mentioned that the policy design was finalised without adequately considering their input. Therefore, the primary goal of the government should be to start a consultation process with the association and stakeholders such as smaller regional distillers and on MNC alcohol manufacturers, so that the excise regime can be re-examined and amended to account for the aforementioned disparity as well as to prevent smaller industries from going out of business.

Discussion on technological implementation

The report mentions that the excise duty implementation process is going to receive a major technological facelift including proposed steps such as (i) technology enabled monitoring of excise compliance, (ii) implementation of self removal procedure, (iii) technology based monitoring system of alcohol bottles, (iii) simplification of excise license renewal through online payment and (iv) introducing e-lock system. The government working with the Resource Mobilisation Committee should put out a well reasoned paper discussing the technologies that are planned to be implemented in all

these processes and how they plan to ensure security of these measures to prevent hacking as far as possible. Details also need to be provided on how the government plans to train individuals to operate these technologies so that excise clearance can happen seamlessly.

6. Assessing Costs and Benefits

The report highlights certain costs and benefits but does not mention if it has conducted a full cost-benefit analysis (and what were the results of the same). Overall, the calculation of costs and benefits leaves out a lot of calculation of related and cascading costs (for example, the sugar industries in Karnataka) or benefits (for example, increased employment in the technology sector). Due to paucity of time, we are unable to attempt this exercise but would like to reiterate that conducting a full-fledged CBA is a crucial aspect of a comprehensive assessment of proposed legislation. The report however, lays out the following:

Costs

- The aggregate social cost is anticipated to be 1.45% to 2.6% of GSDP with a central scenario of 2%, which is roughly ₹51,000 crore annually.
- The report also tries to establish that women whose husbands drink frequently report a 73.4% prevalence of experiencing domestic violence, compared to 24.6% where the spouse does not drink.
- The report also argues that premature deaths, liver disease, acute alcohol use disorders place direct strain on public hospitals, while low-income families experience severe "internalities", that is their income gets diverted for healthcare treatment from more immediate requirements such as food, education and shelter.

Projected Benefits

- Using a central price elasticity of demand of approximately -0.5 (where a 10% price hike reduces consumption by 5%), the report projects an 8% to 9% overall consumption reduction over six years.
- The report also anticipates that based on the UK's 2023 duty reform and Australia's 2008 RTD tax, the new tax structure will force producers to reformulate products to a lower Alcohol By Volume (ABV) and coax consumers to downtrade to less harmful drinks. We have discussed the shortcomings of this perceived benefit in later sections of this submission.
- Consolidating the previous sixteen narrow price slabs into eight broader slabs is intended to curtail slab arbitrage.

- Shifting from ex-ante physical controls (like stationed on-site excise officers and physical transit escorts) to technology-driven, ex-post compliance mechanisms is intended to lower bureaucratic friction, simplify legal processes and ease the process of doing business with less regulatory overhead. However this approach has shortcomings which we have discussed under the section ‘Option selection and recommendations’ starting on page 26 of this submission.
- The report also suggests allocating a portion of the excise revenue for funding public health awareness, rehabilitation, and road safety programs, which is a noble initiative, but it requires accountability processes to be set in place to prevent misuse and corruption.

7. Distributional Impact Analysis

Serial No.	Impacted Party	Nature of Impact
1.	Government	<p>Excise department - in the interim, due to AED, there will be increased revenue but after 3 years, when the phased glide path ends, there is no clarity on how to handle the potential decrease in revenue. The report also recommends multiple changes that will impact the excise department’s workforce, including withdrawal of on-site staff, end of escort requirements and moving to technology-based monitoring (Recommendation, 1, 2, 12 and 14).</p> <p>Police - cross-border distribution and illicit networks will need an increased burden of oversight, but the report wishes to move from manual, inspection-based controls to technology-driven monitoring systems. What does it do to the role the police play in this equation?</p> <p>Health - The health department is missing from this report despite having natural responsibility for alcohol-related harm. Recommendation 14 recommends anchoring alcohol-related harms within the Department of Health and Family Welfare but says nothing of budget allocation or accountability mechanisms. The report also fails to account for increased burden on treatments and screening for alcohol-related health issues (including rehabilitation). Also, this does not account for existing treatment gaps.</p> <p>FSSAI - The overlapping jurisdiction with FSSAI is currently managed through deputising FSOs (Food Safety</p>

		<p>Officers) in the excise department. But the report says nothing of how this is to be resolved. Will this lead to a reduction in the role FSSAI plays or an increased burden?</p> <p>Monitoring - digital track and trace systems are to be introduced alongside the excise regime for monitoring, also as mentioned, the report recommends moving to technology-driven monitoring but does not say who will take up this responsibility. This is not a small responsibility to be tacked on to a department, it will require significant institutional design to embed a monitoring system long-term not just for track and trace but moving to ex-post compliance as the report recommends.</p>
2.	Consumers	<p>Referring to the policy memorandum submitted by CLASP (Community Against Liquor and Substance Abuse Policy) in response to the Draft Karnataka State Excise Reforms 2026, the following points are observed.</p> <p>Low-income drinkers - They bear the steepest price increased under the new structure (11-20% on the lower and middle bands despite data in the report showing that this is the category most consumed by SC, ST and less-educated drinkers) - the reasoning for this is that this will be progressive in welfare terms.</p> <p>Heavy drinkers - the report shows that they are the most price-inelastic (Indian spirits elasticity per quoted report is -0.14) . As per this, the group causing the most harm (heavy drinkers) are the least likely to reduce consumption, therefore, does the social behavioural change expected still hold? It is more likely to lead to increased spending, moving to cheaper brands or consuming more lower-content alcohol; and moving to the illicit market.</p> <p>Near borders- the heavy drinkers near borders (especially with Goa), have a lower incentive to change because the excise is much lower in Goa and cross-border movement is easier.</p> <p>Families of heavy drinkers - the report records that ~71% of women whose husbands drink frequently, experience domestic violence (p. 64). But, combined with the price inelasticity of this group, can the changed excise have a significant impact on this group?</p>

3.	Producers	<p>Economy IML producers - face the steepest increase in excise duty. The reduction in profit margin will force many smaller players to exit the market, reduce competition and create a monopoly/oligopoly situation. At the same time, cheaper foreign-origin, lower-strength products will gain a price advantage, harming domestic producers</p> <p>Premium IML producers - will face an unintended consequence of brand erosion (with the horizontal equity the new excise regime seeks to bring in). The ‘exclusivity’ and global competitiveness of premium Indian brands (like Indri, for example) will suffer.</p> <p>Beer producers (high-strength) variants face the sharpest increase in this category, forcing a fall in innovation and a static market.</p> <p>Wine producers actually have an operational gain in the new regime because of low LAIB.</p> <p>Craft and small beer producers will have to absorb the full burden of the revised excise duty under the new structure, same as large distillers. This puts them at a competitive disadvantage, forcing some out of the market and raising the barrier to entry for new producers.</p> <p>Compliance burden - new mandatory registration, digital track-and-trace and transaction-level reporting create additional demands (capacity and capital requirements are high). These will potentially be offset by removing escort requirements, discontinuing label registration and withdrawal of on-site excise department staff; but the actual shift in burden is yet to be seen.</p>
4.	Retailers	<p>All licensed retailers will face higher consumer prices on the bulk of their sales (economy and mid-level bands). There is a mention of the need to reform fixed percentage retail reforms (p. 11) but no reform is suggested, bringing in uncertainty in how retailers will design margins.</p> <p>Economy retailers will be in direct competition with illicit distributors if enforcement is not stringent and happening at the same pace as the excise reform.</p> <p>Border-district retailers will be most subject to</p>

		<p>cross-border leakage, especially towards Goa.</p> <p>There will also be an overall impact on employment in retailers (especially economy retailers) as retailers will have to offset consumer price increase, absorbing some of the costs, running up operational costs, disproportionately affecting employment outcomes. The report highlights the percentage of employment in the alcohol industry but does not say anything about the potential negative impact on them.</p>
5.	Others	<p>KSBCL - The report proposes a phased move towards competitive wholesale under digital oversight-undermining/potentially dismantling KSBCL's role as sole wholesaler. The report (p. 6) admits that this is something the report has not been able to resolve. This will also have an impact on employment since KSBCL is a state-sector employer with its own workforce.</p> <p>Related industries such as agriculture and sugar mills- The report mentions how industries related to alcohol production derive significant employment from contributing to the production of alcohol but does not speak of impact. Karnataka is one of the major sugar-producing states of India (p. 43) and molasses (sugar by-product) is a primary feedstock of distilleries. With the overall impact on the sector, especially for economy producers, potentially driving out small producers, impact on related industries has not been considered by this report.</p> <p>Neighbouring states - The report says that if neighbouring states were to adopt comparable benchmarks using the same methodology, the price differentials that drive cross-border leakage would narrow (p. 31) but says nothing of any institutional mechanism to enforce this. Also, this has a reactive policy risk (neighbouring states forced to match or undercut excise duty) which can have cascading impacts in all states in the region.</p> <p>There is also a shared burden of enforcement across states to restrict cross-border leakages that the report does not analyse or coordinate.</p>

8. Stakeholder Consultations

The report does invite comments which is very welcome but there is a mismatch between the draft rules and the committee report’s timeline on the same.

9. Option Selection and Recommendations

The report, as mentioned above, selects taxation as the policy option that works best and makes recommendations accordingly in Chapter 12. These are the specific recommendations and our response to the same.

Serial No.	Recommendation	Analysis
1.	<p>Rationalization of On-Site Excise Staff Deployment: The current practice of deploying full-time excise personnel within manufacturing units should be gradually phased out, with a target of complete withdrawal by 31 March 2027. While such arrangements were historically intended to ensure compliance, they are increasingly inconsistent with modern regulatory practices. Transitioning away from on-site supervision toward risk-based and technology-enabled monitoring would reduce administrative overhead, minimise discretion at the operational level, and improve ease of doing business without compromising regulatory oversight.</p>	<p>While it is understandable that the government seeks to digitise the excise compliance process, and wants to transition away from on-site supervision toward risk-based and technology-enabled monitoring, the report is silent on how this process will occur, what kind of training will be provided to the existing personnel to help them in this technological transition and the timeline for the same. The report is also silent on why the on-site presence of excise personnel is inconsistent with modern regulatory practices. No comparative data has been given with other regulatory practices and no cost to the taxpayers has been provided either, that the government wishes to reduce through this option. There also lies the risk of job loss by automation especially since the keyword used in the option is ‘rationalization’.</p> <p>The report needs to issue more clarity on the cost to taxpayers to keep existing on-site excise staff deployment as well as provide details of training of personnel to handle risk based and technology enabled monitoring systems.</p>

<p>2.</p>	<p>Abolition of Escort Requirements for Dispatches: The requirement for physical excise escorts during the dispatch of alcohol from manufacturing facilities should be discontinued. Advances in digital tracking, electronic permitting systems, and real-time monitoring technologies make such practices redundant. Removing escort requirements would reduce logistical delays, lower transaction costs for manufacturers, and streamline supply chain operations, while oversight can be maintained through technology- driven verification systems.</p>	<p>The report is silent on the details of the technology-driven dispatch and verification systems that it intends to deploy for this process, including the name of the entities who will be responsible for implementing such processes.</p> <p>Further, no information is provided on where all this data would be stored and whether they would be suitably protected.</p> <p>Moreover, technology is not incorruptible, so there will always be the possibility of external hacks and manipulations.</p> <p>It would be beneficial for the government to not immediately rely on technology driven dispatch and verification systems but continue to rely on human players for this work for a few years, and once the system has been proven to be free of glitches then a full-fledged adoption can be made.</p>
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<p>3.</p>	<p>Implementation of Self Removal Procedure (SRP): An SRP should be introduced, beginning with wineries and subsequently extended to other segments where feasible. Under SRP, manufacturers would be permitted to remove goods from bonded premises based on self-assessment, subject to defined compliance norms and audit mechanisms. This approach reduces procedural delays, enhances operational flexibility, and aligns with modern excise practices followed in several jurisdictions, while retaining regulatory control through post-clearance verification.</p>	<p>The report is silent on what is meant by ‘self-assessment’ and needs to provide clarity on this aspect as well as on the defined compliance norms and audit mechanisms that will allow the SRP mechanism to operate so that the public has an opportunity to review such requirements and provide their observations if required.</p>
<p>4.</p>	<p>Transition to Technology-Based Monitoring Systems: The excise administration should shift from manual, inspection-based controls to technology- driven monitoring systems. This includes the use of digital platforms for production reporting, inventory tracking, movement permits, and compliance verification. Such systems can improve transparency, reduce opportunities for revenue leakage, and enable real-time data-driven</p>	<p>As with point 2, there needs to be more detail provided on the technology-based monitoring systems that are sought to be implemented. The risks of relying on technology remain.</p> <p>Therefore, as with point 2, it would be beneficial to adopt a shared technological and manual model for a few years to ensure that the glitches are removed in the technological systems before full fledged adoption can happen.</p>

	oversight. Over time, this transition would allow for a more efficient and less intrusive regulatory framework.	
5.	<p>Introduction of Appropriate Technology (Pilot): A pilot project may be initiated to deploy appropriate technology in alcohol supply chains to enable end-to-end visibility of product movement from manufacturing to retail, reduce the risk of diversion into illicit channels, and strengthen enforcement capabilities. A pilot approach allows for testing feasibility, assessing costs, and refining the system before wider rollout.</p>	There is no recommendation on this point, except for the government to appoint capable entities to operate this pilot technology.
6.	<p>Reduction in Administrative Touchpoints and Streamlining of Approvals: The existing approval framework should be rationalized to reduce the number of administrative touchpoints. Decision-making authority for routine operational approvals may be consolidated and vested in designated officers at the unit or district level. Simplifying approval hierarchies would reduce delays, improve</p>	The report should have had a section on how this approval framework ought to be rationalized and simplified. While the decision to reduce approvals is altruistic, without any set parameters on how the changes will be made, it is difficult to see the actual merits of the system overhaul.

	accountability, and enhance administrative efficiency, while maintaining necessary regulatory safeguards.	
7.	<p>Simplification of Licence Renewal through Online Payment: The current system of periodic renewal of manufacturing licences may be simplified by replacing approval-based renewal processes with an online fee payment mechanism. Under this approach, licences would remain valid subject to timely payment of prescribed fees and continued compliance with regulatory conditions. This would reduce administrative burden, eliminate procedural delays, and improve ease of doing business while maintaining regulatory oversight.</p>	<p>This changes a license from a ‘privilege granted based on verified compliance’ to a ‘fee that can be bought’. It reduces a serious regulatory gatekeeping mechanism to a mere transaction.</p> <p>In alcohol manufacturing, public safety is paramount. Waiting for a complaint or a random audit to catch a violation, rather than checking it at the time of renewal, increases the risk of public harm.</p> <p>In many jurisdictions, periodic license renewals offer a formal window for local communities, law enforcement, or environmental agencies to lodge complaints or block a renewal if a distillery has become a public nuisance or an environmental hazard. Automating the process through an online payment portal strips stakeholders of a predictable, public avenue to voice grievances. It places the entire burden on the community to initiate a separate, often complex, legal complaint process to get a rogue distillery investigated.</p> <p>If the government cannot vet companies during a renewal window, it must rely entirely on random enforcement and post-payment audits. Setting up a robust, unpredictable enforcement wing to police automated licenses often requires <i>more</i> manpower and resources than a standardized, paperwork-based renewal timeline.</p>

		Lastly, removing excise officers from the ground and moving the entire system online could cause corruption and because of the reasons mentioned above, regulatory oversight will not be maintained.
8.	<p>Abolition of Warehouse Rent on Distillery-Owned Premises: The levy of rent on warehouses located within premises owned by distilleries may be discontinued. Since such facilities are already part of the manufacturer’s infrastructure, the imposition of additional rental charges creates unnecessary financial and administrative burdens without clear regulatory justification. Removing this requirement would streamline operations and reduce compliance costs.</p>	It is anticipated that the government has taken into account the loss of revenue that will occur from abolition of warehouse rent, but the measure is a commendable one to ensure ease of business.
9.	<p>Permission for Storage of Unlabeled Wine Bottles: Wineries may be permitted to store unlabeled wine bottles within bonded premises, subject to appropriate inventory controls and traceability requirements. This would provide greater operational flexibility, particularly in managing production cycles, seasonal demand, and export requirements, while ensuring that labelling</p>	The report needs to provide clarity if the traceability requirements that it is speaking about would be the same as envisioned by the government to track and trace alcohol bottles as mentioned in several places in the report. The manufacturers will incur additional cost through needing to implement an inhouse track and trace system, if they do not have one already. If the government intends to introduce a track and trace system for alcohol bottles, the same proprietary technology could be licensed to manufacturers for their use.

	compliance is enforced prior to market release.	
10.	<p>Allowing 24-Hour Operations for Manufacturing Units:</p> <p>Distilleries and breweries should be permitted to operate on a 24-hour basis, including production and dispatch activities, subject to compliance with safety and regulatory standards. This would improve capacity utilization, enhance supply chain efficiency, and align industry operations with modern manufacturing practices</p>	<p>Allowing distilleries and breweries to operate on a 24-hour basis will require such companies to either hire more personnel or exploit the existing personnel. Besides, if such distilleries and breweries are close to residential areas, the locals can be affected by the sound of such units operating late in the night, affecting their sleep cycles. Further, enabling distilleries and breweries to operate without rest increases the chances of accidents occurring not only in those units but spreading to other factories and residential areas close by.</p> <p>It is recommended that the distilleries and breweries be directed to remain closed on Sundays and other authorised holidays.</p>

<p>11.</p>	<p>Standardization of Label Specifications and Security Features: Clear guidelines should be issued to standardize label formats and incorporate appropriate security features. Standardization would improve regulatory clarity, reduce approval delays, and strengthen safeguards against counterfeiting and illicit trade, while providing consistency across product categories.</p>	<p>The report needs to provide more clarity on the standardized label formats and necessary security features or at least provide some timeline by when such details will be provided and how they are different from the existing labelling formats.</p> <p>It is important to keep in mind that the labelling formats should not be such that they blur or remove the brand names on alcohol bottles. For instance, the Cigarettes and Other Tobacco Products (Packaging and Labelling) Rules require that mandatory pictorial and textual health warnings should cover 85% of the principal display area on cigarette packets that barely leave any space for the brand names. Further, Australia has strictly banned all branding, logos, and colourful designs on their cigarette packets. Packets are mandated to be a specific drab dark brown color, with brand names printed in a uniform, standardized font and size. A balance needs to be struck to ensure that the label formats and guidelines are not overkill and the brand names of various alcohol bottles are still visible.</p>
<p>12.</p>	<p>Discontinuation of Label Registration Process: The existing process of label registration may be discontinued, with compliance ensured through standardized guidelines and post-market verification. This would eliminate repetitive approval procedures, reduce administrative bottlenecks,</p>	<p>Without pre-market checks, rogue manufacturers can quickly flood the market with cheap lookalikes—counterfeit or lower-grade alcohol designed to mimic the exact packaging, fonts, and colors of premium, established brands. By the time a "post-market verification" flags the infraction, the counterfeit product has already been sold, damaging the legitimate brand's equity and confusing consumers.</p>

	<p>and facilitate faster product introduction in the market.</p>	<p>Alcohol labels carry critical health information: exact alcohol by volume (ABV), allergen warnings, statutory health warnings, and ingredients (such as sugar content, which has sparked massive transparency debates in various jurisdictions). If a manufacturer misreports the ABV or fails to list a hazardous additive, waiting for an inspector to find it <i>post-market</i> means unsuspecting consumers will have already ingested a potentially dangerous or lethal product.</p>
<p>13.</p>	<p>Introduction of an Electronic Lock (E-Lock) System for Transport Monitoring: A digital E-lock system should be introduced for monitoring the transportation of alcohol. These tamper-evident electronic locks can be affixed to vehicle cargo doors and integrated with tracking systems, allowing real-time monitoring and remote verification of consignments. The use of E-locks would strengthen supply chain security, reduce the need for physical supervision such as escorts, and enhance the effectiveness of enforcement mechanisms.</p>	<p>With respect to the E-lock system, this is in line with the report’s overall recommendation of moving from manual, inspection-based controls to technology-driven monitoring systems. However, there is a risk with technology-based systems getting corrupted, and removing additional failsafes can bring in the trust deficit. The report does not discuss that if compliance, self-reporting and monitoring is to move to a technology-based model, how would efficiency be ensured.</p>

<p>14.</p>	<p>Separation of Revenue and Public Health Functions: The roles of revenue generation and public health intervention within alcohol policy should be clearly delineated. The Excise and Finance Departments may continue to focus on revenue optimization, regulatory compliance, and efficient tax administration, while responsibility for promoting responsible consumption and addressing alcohol-related harms should be anchored in a dedicated institutional framework within the Department of Health and Family Welfare, Government of Karnataka.</p> <p>The report recommends a legislated allocation from excise revenue toward four priority areas – de-addiction and mental health services, road safety, domestic violence prevention, and youth education – drawing on Thailand’s Health Promotion Foundation model. It also proposes a standing technical review committee to periodically reassess the social cost benchmark using Karnataka-specific evidence and monitoring of illicit</p>	<p>The report needs to provide more clarity on the proportion of allocation of excise revenue that is to be made for de-addiction and mental health services, road safety, domestic violence prevention, and youth education. The report also needs to provide details of the technical review committee- at the minimum, what will be the committee’s proposed constitution that will be reviewing and reassessing the social cost benchmark in Karnataka.</p>
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	trade, ensuring the reform evolves over time.	
15.	<p>Alignment with Public Health Policy Models: This approach would be consistent with institutional arrangements followed at the national level, particularly in the regulation of tobacco, where taxation and public health interventions are handled through distinct but coordinated frameworks. Adopting a similar model for alcohol policy would enable more effective integration of behavioural interventions, treatment services, and awareness programs within the broader health system.</p>	There is no recommendation on this point.
16.	<p>Mandatory Health Warnings on Alcohol Labels: Alcohol product labels should incorporate mandatory health and temperance advisories, similar in principle to warnings used in tobacco regulation. Standardized messaging on risks associated with alcohol consumption including health impacts and social consequences can serve as an important behavioral intervention tool, complementing price-based measures.</p>	Same as point 11, a balance needs to be found between printing health warnings on alcohol labels and visibility of brand names on the bottles. The regulations should not be too strict like cigarette packaging guidelines in Australia or too lax like the USA or Japan.

17.	<p>Earmarking of Excise Revenue for Social Cost Mitigation: A defined proportion of excise revenue may be earmarked for addressing the social and economic costs associated with alcohol consumption. Such funds could support public health initiatives, awareness campaigns, treatment and rehabilitation services, road safety programs, and community-level interventions. Earmarking would strengthen the link between revenue generation and social responsibility, ensuring that a portion of excise collections is reinvested in mitigating alcohol-related harm.</p>	<p>While this is on the face of it a good measure, the report needs to clarify how this is different from point 14, i.e. what else will be covered in this heading other than de-addiction and mental health services, road safety, domestic violence prevention, and youth education. The report should also provide more clarity on the proportion of excise revenue will be marked for social cost mitigation, so that the public can review and provide feedback on whether that allocation will be enough. Further, the report should also provide details of the accountability system through which expenditure of the excise fund will be made known to the public to prevent any misuse or corruption.</p>
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10. Implementation, Monitoring and Enforcement Plan

The report presents a phased glide path for the new taxation framework but does not convert it into an implementation plan. There is no statutory schedule binding the rate trajectory of LAIB. And even though the State acknowledges that it would “adjust the pace of reform if evidence warrants”, there is no path for how this is to be actioned. There is also no sunset date for the AED and no scenario setting for what is to be done if consumption or GSDP trends downward.

With respect to monitoring and enforcement, the report again has significant gaps. While stating that a rational excise framework “requires continuous monitoring of consumption patterns, price competitiveness and social impacts," (p. 79), it does not name any institutional owners, does not lay out a feedback mechanism for rate-setting; and does not resolve any overlapping jurisdictions or build coherence among the different departments who will be responsible. Most importantly, the report sets a target for consumption-reduction (8-9%) but does not set measurable targets for harm reduction (for alcohol-attributed road deaths for example). Similarly for reduction of

administrative burden, the report has technology-related monitoring suggestions but says nothing of the enforcement timeline or the body overseeing this harmonisation effort.

Conclusion

This submission has set out where we believe the Draft Report's analytical framework requires strengthening before implementation. We ask the Committee to reconsider the following: **the philosophical foundation of the social-cost benchmark**, which silently combines externalities — harms a drinker imposes on others, and a legitimate basis for state intervention — with internalities, which are not; **the options analysis**, which assesses one design seriously and dismisses several credible alternatives in single paragraphs; **the distributional impact**, which falls hardest on the lowest-priced alcohol segments, largely consumed by lower-income and by Scheduled Caste, Scheduled Tribe and less-educated drinkers, and is treated as settled by a "progressive in welfare terms"- an assertion the report does not substantiate; and **the implementation and monitoring framework**, which sets revenue and consumption targets but no measurable target for the harm-reduction objective on which the entire reform rests. Our recommendation is that full implementation be deferred until these gaps are closed, and that the reform proceed in the form of a coherent package — a clean strength-based excise with equity modifications, embedded in a wider SAFER framework as provided by WHO that mobilises non-tax instruments, is funded by a defined share of excise revenue for treatment, rehabilitation and enforcement, and coordination on excise policy by the state government with neighbouring states.

We submit these comments in the constructive spirit invited by the Committee, and in the hope that the final excise framework that emerges from this consultation will reflect both the soundness of the underlying principle and the discipline of the evidence required to defend a reform of this scale.

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