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Retail

How West Asian turmoil is hitting India’s luxury retail

Escalating tensions between the United States and Iran have begun to disrupt global trade flows, energy markets, and international logistics networks, particularly around the strategically significant Strait of Hormuz. For

By Stuti Galiya
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Escalating tensions between the United States and Iran have begun to disrupt global trade flows, energy markets, and international logistics networks, particularly around the strategically significant Strait of Hormuz. For India, these developments also raise important legal and regulatory concerns for the luxury retail sector, which is heavily dependent on imported goods.

Luxury brands retailing designer apparel, watches, cosmetics, and accessories rely largely on supply chains originating in Europe, the United States, and East Asia. Disruptions to international trade and logistics have resulted in increased freight costs, altered transport routes, higher insurance premiums and risks, sanctions compliance challenges, and a greater likelihood of contractual disputes.

The evolving situation raises significant legal and regulatory implications for India’s luxury retail market, particularly around contractual performance, sanctions compliance, risk allocation in international trade, and consumer protection obligations.

Supply chain disruptions and contractual performance

Disruptions to international trade and logistics networks may have direct implications for the performance of cross-border commercial contracts. For import-dependent luxury retailers, such disruptions may result in delayed deliveries, supply shortages, and increased operational costs, potentially leading to disputes between suppliers, distributors, and retailers with respect to compliance with contractual delivery obligations and timelines.

In India, *force majeure* clauses play a critical role in addressing supply chain disruptions caused by war or geopolitical conflicts. These clauses are governed mainly by the Indian Contract Act, 1872. When a contract explicitly includes a *force majeure* provision covering events such as war, armed conflict, or government restrictions, Indian courts interpret it under Section 32 (contingent contracts), allowing parties to suspend or excuse contractual performance if such events occur. If the contract does not contain a *force majeure* clause, parties may rely on Section 56 of the Act, which recognises the doctrine of frustration, meaning that a contract becomes void when performance becomes impossible due to unforeseen events like war.

The Supreme Court of India and various High Courts have clarified that force majeure applies only when the event genuinely prevents performance, not merely when it becomes commercially difficult or expensive. Courts would also examine whether the party took reasonable steps to mitigate disruption.

Consequently, luxury retailers seeking to invoke force majeure due to geopolitical disruptions must demonstrate a clear causal nexus between the external event and their inability to perform contractual obligations and the steps taken by them to mitigate disruption.

Sanctions compliance and cross-border transactions

Although Indian luxury retailers may not transact directly with sanctioned entities, sanctions exposure may also arise indirectly through global supply chains. Logistics providers, manufacturers, financial intermediaries, or shipping agents involved in the supply of goods may be linked to sanctioned individuals, companies, or vessels.

Multinational luxury brands operating in India therefore face the risk of inadvertent sanctions violations, which may result in blocked transactions, delayed payments, or restrictions on cross-border financial transfers. During such times, financial institutions increasingly employ sanctions screening and transaction monitoring systems, which may delay or reject payments associated with entities appearing on international sanctions lists. Commercial agreements often contain provisions addressing delayed or suspended payments, including payment deferral mechanisms, grace periods, interest on delayed payments, or suspension of performance pending regulatory clearance.

To mitigate these risks, multinational companies are strengthening internal compliance frameworks, including enhanced supplier due diligence and sanctions screening procedures. Contract terms also need to be reviewed with respect to potential delays arising from sanctions-related regulatory scrutiny and consequences thereof.

Insurance and risk allocation in international trade

Luxury goods typically constitute high-value cargo, making insurance coverage a critical component of international trade transactions. Geopolitical instability significantly increases the risk profile associated with cross-border transportation, leading to higher insurance premiums and more restrictive policy terms.

Insurers may impose additional exclusions or coverage limitations for shipments transiting through regions considered to present heightened geopolitical risk. In such circumstances, liability for cargo loss, damage, or delay is primarily determined by the contractual allocation of risk between the parties. These allocations are commonly governed by International Commercial Terms or Incoterms incorporated into international sales agreements. Incoterms establish the respective obligations of buyers and sellers regarding transportation, insurance, and the transfer of risk during the movement of goods.

Luxury retailers importing goods into India must carefully review the Incoterms incorporated into their commercial contracts to determine liability and insurance obligations in the event of delays, damage, or logistical disruptions caused by geopolitical instability.

Pricing regulations and consumer protection

Geopolitical conflicts may also generate inflationary pressures affecting retail pricing.

It is imperative to note that pricing adjustments in India must comply with applicable regulatory frameworks, including the Consumer Protection Act, 2019, the Legal Metrology (Packaged Commodities) Rules, 2011, and the Competition Act, 2002. These regulations require transparency in pricing disclosures and mandate accurate declarations regarding the maximum retail price (MRP) and other packaging information.

Non-compliance may expose retailers to allegations of unfair trade practices, misleading pricing practices, or anti-competitive conduct, potentially resulting in regulatory enforcement proceedings.

The road ahead

Stakeholders are willing to go the extra mile when it comes to preparing for unforeseen disruptions as the uncertainty over geopolitical concerns continues to weigh on investors, making them cautious. Robust contractual protections, strict adherence to pricing regulations and strong internal compliance and governance controls are likely to be the areas of sharp focus for players in India's luxury retail space going forward.

This article is authored by Stuti Galiya, Partner in Khaitan & Co.

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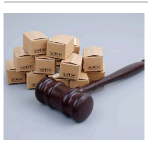

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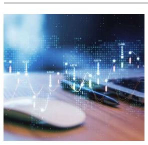

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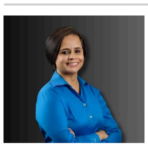

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