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AgriFood India 43278354

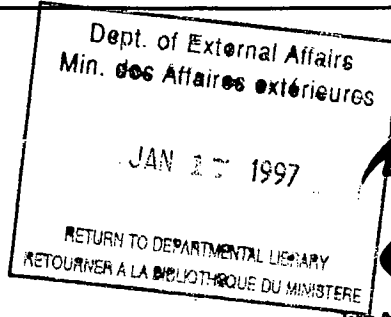
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MARKET REPORT

AgriFood

India



Team Canada - Équipe Canada

Market Opportunities Assessment

Agriculture is the backbone of India's economy. India's greatest accomplishment is its long tradition of near self-sufficiency in agricultural production. It contributes 33 % to the gross domestic product (GDP) and two thirds of the country's work force, approximately 630 million people, derive their livelihood from agriculture based activities.

With a population of approximately 900 million people, expected to reach 1 billion by the year 2000, India has the potential to be one of the world's largest markets for agri-food products. India's middle class is estimated to contain 100 to 300 million people, earning between USD 1,200 to USD 3,600 per household, per year. The upper echelons of the population, approximately 30-40 million, earn USD 18,000 or more a year.

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The domestic demand for consumer ready agricultural products is increasing, yet and the Government of India (GOI) is interested in developing more exports in this sector. To this end the GOI has implemented new policies to allow foreign firms to enter joint ventures and even set up their own operations within India to help supply the growing demand. The raw materials for these firms are restricted to local supply, thus eliminating the possibility of these firms to open a doorway for imports. Many of India's locally produced products, however, are already at or below international prices and may be able to meet the standards of similar foreign products.

When local production has not been available or of high quality, the government has encouraged investors to establish the backward linkages to domestic production, thus placing the burden of establishing quality domestic production on the investor. However, inadequate infrastructure (ports, roads, cold storage),



interstate trade restrictions, excise taxes, poor post harvest management, and diffuse distribution networks hinder development.

Food Processing

Food processing is a high priority sector for the Indian Government. There are no licensing requirements for up to 51% foreign equity participation. A number of food processing items such as, meat, tomato paste products, fast food, health food, breakfast cereals, tropical fruit juices, pulps and concentrates, preserved mushrooms, and alcohol have been identified as thrust areas for exports. The sector offers excellent opportunities for joint ventures in the above products.

The approved foreign investment in India's food processing industry was USD 722 million (at current exchange rate) from 1991- March 1995, which constitutes about 11% of the total approved foreign investment in India. Many Indian firms are eagerly seeking joint venture partners in this area along with the technology and equipment associated with the manufacture, marketing, handling and packaging of food products. In the past few years there have been a number of foreign companies that have established food processing companies in India in production areas such as tomato paste, ready-to-eat breakfast cereals, ice cream, soft drinks, snack foods, chewing gum, spices, and other products. Some of these are wholly owned, but approval is easier for joint ventures, with at least minority shares by local partners. Some major fast food companies are entering India because the domestic market for fast food is expanding rapidly and is likely to continue expanding as India's economy grows more than twice as fast as its population. Most of the foreign companies are relying on local sources of supply for the bulk of their raw materials, but India's trade policy permits the possibility of importing products for value-added processing. A number of companies are importing some food production inputs for this purpose.

As India's food processing industry becomes more sophisticated, demand for quality intermediate food products and ingredients is expected to grow. Many of India's major food processing companies have expressed interest in importing intermediate food products such as cheese powders, flavourings, mixes, and concentrates.

One problem in this area is that customs officials are often unfamiliar with these products. Clearing customs can be difficult and many of these products may be classified as consumer products. Importers should contact customs officials for a pre-shipment ruling on their product which will determine the applicable duty and



whether the product is considered a consumer product.

AgriFood Trade with Canada

In the past, Canada has supplied India with products to offset domestic shortfalls, and to replenish buffer stocks of specific crops. Agri-Food imports from Canada in 1993 were \$24.4 million, 2.5% of Indian agrifood imports and 10% of total Canadian exports to India. The major items were canola oil, \$13.1 million; peas, \$5.9 million; oilseeds \$3.8 million; and grains \$ 1.6 million. Of these products only Canadian canola oil and dried peas have had any long term success.

corn

India's domestic poultry industry is growing at an estimated annual rate of 15 percent. As the fast food and food processing industries grow and infrastructure improves, demand for poultry products (per capita consumption currently is 0.6 kg per year) is expected to rise. Corn is a major input to poultry feed production and domestic production has stagnated in recent years.

Feed grade corn (fit only for use as poultry or animal feed) is freely importable, provided the import contract is registered with the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED). Import of other corn is canalized through the Food Corporation of India Ltd. (FCI). India's poultry industry is expected to become a regular corn importer in the coming years. Small quantities of imports are expected during 1995/96 but future trade volumes could be significant.

Oilseeds

Canada has been a traditional supplier of canola oil when domestic edible oil production has been insufficient to meet demand. India produced approximately four times more oilseeds than Canada in 1994, but was unable to meet consumer demand and therefore, imported CND 8.5 million of canola oil from Canada in 1994.

It should be noted that most, if not all, of Canada's canola oil shipments to India are under the Canadian International Development Agency food aid program.

India recently liberalized vegetable oil imports. Most major oils are now on Open General License and may be imported by the private sector at a 30 percent duty. Two of India's state enterprise (parastatal) trading organizations may import at a 20 percent duty. Despite record oilseed production, rising domestic demand of edible



oils is expected to result in an increasing level of imports.

DATA TABLE I:
Edible Oils

(MILLION METRIC TONS)

	1993/94	1994/95	1995/96
Total Market Size	5.70	6.05	6.30
Total Local Production	5.40	5.60	5.70
Total Exports	0	0	0
Total Imports	0.3	0.45	0.6

1993/94 Trade figures are based on Indian Fiscal Year (Apr/Mar) official estimates, all other statistics are unofficial estimates and are based on the local marketing year.

Pulses

India's production of peas and pulses has been stagnant between 12 and 14 million mt for almost a decade and is not able to keep pace with the increasing population. The gap between supply and demand is increasing, filled by imports. As a result of the visit of an incoming Indian peas/pulses buyers mission in 1991, Canadian exports of dried green peas to India have substantially increased. Pulse exporters with greater exposure to the market in India and Indian consumer requirements have the potential to tap into a significant export market.

Canadian exports of dried peas to India have constantly grown over the last four years. Although the market for peas in India is price sensitive, Canada has remained competitive with sales in 1991 of CND 2 million, increasing steadily to CND 8.5 million in 1993 and then to CND 11.0 million in 1994. Peas are one of the few exceptions to the ban on consumer ready products which is one of the main reasons for Canada's success in this market. A contributing factor to Canada's success in India is Canada's ability to keep prices at a competitive level while maintaining a high quality product.

Domestic pulse production in India has not kept pace with demand. Imports are expected

to be near record levels again in 1995/96. India is primarily a price (rather than a quality) market. In addition to Canada, imports are sourced from Myanmar,

Turkey, the U.S., Hungary and Australia. The present rate of import duty on peas/pulses is 5 per cent.

DATA TABLE II:
Peas & Pulses

(U.S. \$ MILLION)

	1993/94	1994/95	1995/96
Total Market Size	13.7	15.2	15.5
Total Local Production	13.1	14.3	14.0
Total Exports	0	0	0
Total Imports	0.6	0.9	1.5

1993/94 Trade figures are based on Indian Fiscal Year (Apr/Mar) official estimates, all other statistics are unofficial estimates and are based on the local marketing year.

Horticulture

Driven by the GOI's policy of self sufficiency and growing domestic demand, there is excellent potential in India for joint ventures in the fields of horticulture, floriculture, tissue culture, hybrid seeds of fruits/vegetables/flowers and cereal crops.

Due to its agro-climate diversity, the country produces a large variety of fruits, vegetables, flowers, plantation crops and many types of spices, medicinal and aromatic plants. Although, the overall production of these items is about 106 million metric tonnes (mt), the post-harvest losses are very high (roughly CDN 1300 million) due to poor infrastructure and lack of organised marketing. Government has allocated CDN\$ 90 million for the development of this sector. Good prospects exist for cooperation in crop production and post-harvest processing preservation technologies.

Market Access

The GOI has kept tariffs high and placed many restrictions on agri-food products to ensure that their people remain employed. These restrictions along with India's ability to produce enough products to meet domestic needs, prevent or eliminate the need or possibility to import many agricultural products. Bans have been placed



on all consumer ready products. The licensing and regulation requirements on intermediate goods, used for processing, make it very difficult to import them.

Although the GOI has reduced the maximum tariff level from 110% to 60%, this has resulted in little real improvement in market opportunities for agriculture products.

Trade Barriers and Restrictions

India uses 3 main types of imports restrictions to protect its agricultural market. These include: importing licensing, "canalization" or government purchasing, and high tariffs. Import items are placed on negative, restricted, canalized and free lists.

Negative List:

Imports of items on this list are banned. They include tallow, fat, and/or oils rendered, unrendered or otherwise, of any animal origin, animal rennet and unmanufactured ivory.

Restricted Items List:

Imports of consumer products of agricultural or animal origin must be licensed and are therefore, with few exceptions, effectively not allowed access.

Canalizing:

Imports of bulk commodities such as foodgrains are canalized through the Food Corporation of India (FCI). Vegetable oils such as coconut oil, palm kernel oil, refined bleached and deodorized RBD palm oil and RBD palm stearin are canalized through the State Trading Corporation of India (STC) and the National Dairy Development Board (NDDB); all other edible oils are freely importable. Import of oilseeds is canalized through the STC and the Hindustan Vegetable Oil Corporation (HVOC). Imports of these items typically bulk commodities such as grains, vegetable oils, and oilseeds may only be imported (canalized) by the Food Corporation of India (FCI) and State Trading Corporation of India (STC) respectively. Imports of these items typically occur when the GOI is concerned about domestic shortages or inflation, and are subject to cabinet decisions regarding timing and quantity.

Import duty for private trade on all edible oils is 30%. The private sector may import "feed grade maize" (duty free) and palm oil (65% duty), which are the lone exceptions to this government control of canalized products.



Tariffs:

In keeping with the government's ongoing reform efforts, maximum applied duty levels have been reduced from 110% in 1991 to 60% in 1994. Reduction of the maximum applied duty level is expected to continue in coming years.

Foreign Investment and Joint Ventures

Automatic approvals for foreign investment of up to 51% have been attracting investors, while 100% ownership can also be approved. These newly implemented changes have resulted in the recent entry of Seagram, Heinz, Baskin-Robbins, Kellogg, Pepsi Co, Coca-Cola and other companies. Cadbury Shwepps and KFC have already launched their operations in India, McDonalds and Pizza Hut are preparing to launch soon. There are solid opportunities for serious investors and those offering technology. Seagram has invested approximately USD 16 million in whisky production, the fruit juice sector, and agricultural research and has applied for approval to increase its investment to USD 21 million.

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Fax: 91-22-2082116
Contact: Mr. K. C. Bhartiya

Bheda Brothers
301 Marin Chambers
43 New Marine Lines
Bombay-400 020
Phone: 91-22-2053285/2053223
Fax: 91-22-2088403
Contact: Mr. S. L. Bheda

R. Piyarelall Import & Export Limited
12 Government Place (East)
Calcutta-700 069
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Telex: 021-2003 PLAL IN
Fax: 033-209939
Contact: Mr. Ramesh
Kumar Agarwal, Director

Mulji Devshi Trading & Finance Limited
Mulji Devshi Building
116 Keshavji Naik Road
Bombay-400 009
Phone: 91-22-3761733/1056
Fax: 91-22-3738480
Contact: Mr. P. M. Chheda

Kothari Global Limited
Mittal Court 'B' Wing
133, 13th Floor
224 Nariman Point
Bombay-400 021
Phone: 91-22-2875249/2875250
Fax: 91-22-2872430
Contact: Mr. Bimal Kothari

Great Eastern Shipping Co. Ltd.
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Phone: 91-22-3425404/7432
Fax: 91-22-3422173
Contact: Mr. Shewantibhai

Andagro Services Pvt. Ltd.
501 Dalamal House
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Fax: 91-22-2850759
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Premji Ghellabhai & Co.
3 Chinch Bunder
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Yes/Oui No/Non

2. Is this information of value for your marketing efforts? / *Est-ce que cette information est utile pour vos activités de marketing?*

Yes/Oui No/Non

3. Which information categories in this report are critical to your international marketing success? / *Dans le rapport, quels types d'information sont essentiels au succès de votre marketing à l'international?*

a) Market Opportunities Assessment / *Évaluation des débouchés commerciaux* Yes/Oui No/Non

b) Buyers & Channels of Distribution / *Acheteurs & Réseaux de distribution* Yes/Oui No/Non

c) Market Access / *Accès au marché* Yes/Oui No/Non

d) Promotional Activities / *Activités promotionnelles* Yes/Oui No/Non

e) Contacts / *Personnes-ressources* Yes/Oui No/Non

Comments / *Commentaires:* _____

_____ Company / *Compagnie:* _____

Name / *Nom:* _____ Tel No / *No. Tél:* _____

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