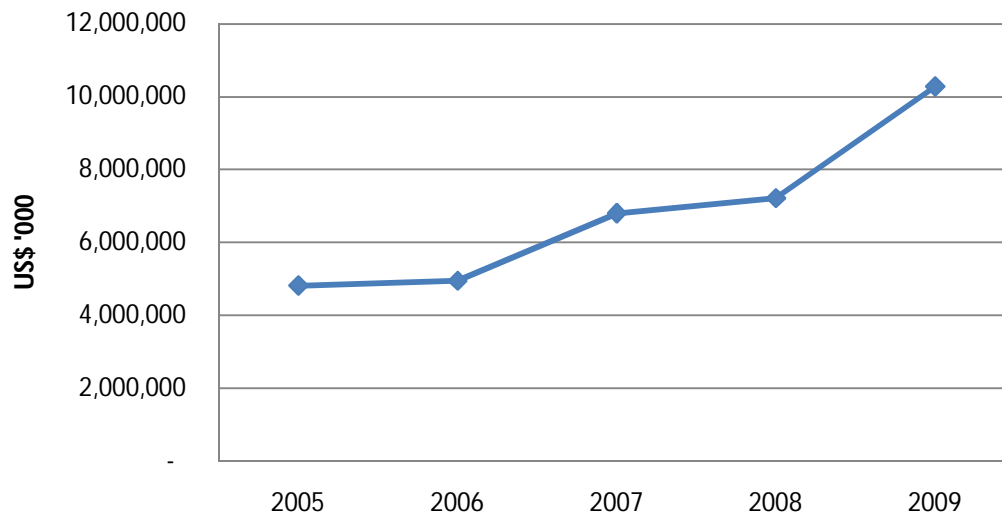


New Report in the Asia Pacific Food Insight Series

By: Stanton, Emms & Sia – Strategy Consultants to the Food and Drink Industry in Asia

India: Is This Market Now Ready for Foreign Food and Drinks, A Reality Check for 2011 to 2016



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December 2010

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New report available from 3 January 2011

Over the past 3 months we have been researching a new report titled *“India: Is This Market Now Ready for Foreign Food and Drinks, A Reality Check for 2011 to 2016”*. The report is now being finalised and will be ready for delivery to purchasers on 3 January 2011.

India’s market and its allure for exporters

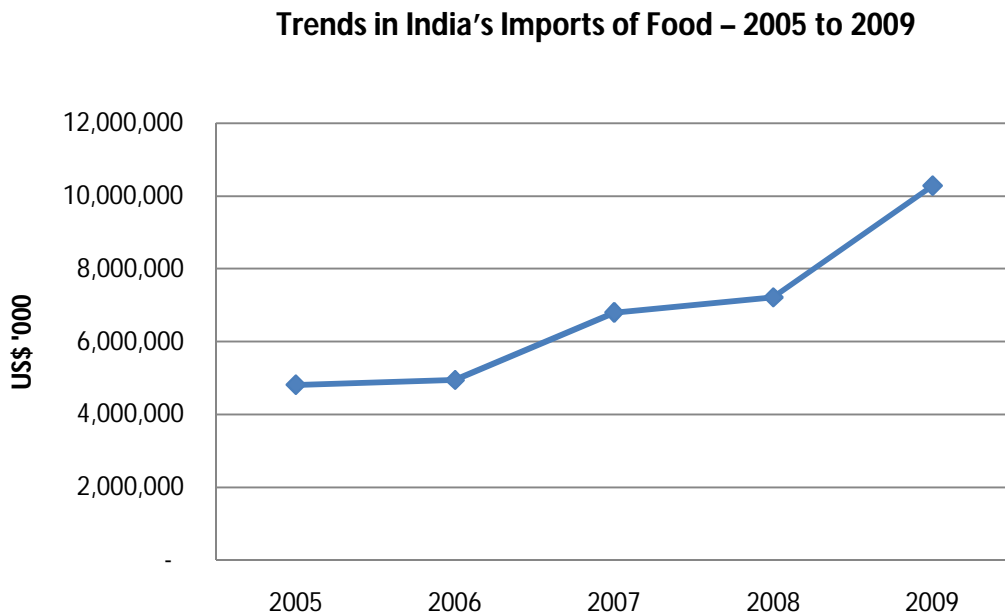
India’s market currently has a huge amount of allure for food and drink exporters. Discussions with a range of exporters in Europe, North America, Australia and New Zealand and government and private sector organisations that assist exporters from the countries indicate that the attraction is driven by some form of knowledge about the following factors:

- reports about India’s market liberalisation efforts over the past 5 years or so;
- India’s rapid economic growth over the past 5 years, and the very positive GDP growth forecasts that are being made for the country over the next 3 years or so;
- perceived growth in personal and household incomes on the back of the economic growth;
- a reported larger middle income group that is continuing to grow in size;
- a reported modernisation of Indian society, particularly amongst its middle income group;
- India being a “new South East Asia” in terms of the potential for imports of food and drinks, with the comparison being the dynamic market in South East Asia between 1988 and 1996.
- India being the highest profile unexplored and untapped market in a global market environment where the Developed World markets are under considerable stress and developing in a highly problematic way because of weak or very weak economic circumstances.

But what is the reality of this attraction to the Indian market today and its future over the next 5 years? Who is benefiting, what products are in demand, what is the real state of market liberalisation, and what are the opportunities available in India in future?

Recent developments in India's imports of food and drinks

Our review of import data has found that India imports of food and drinks were valued at US\$ 10.3 billion in 2009 (latest available data), up from US\$ 4.8 billion in 2005. This equates to a surge in imports at a rate of about 23% per annum, which is certainly one of the most rapid rates of growth in imports seen anywhere in the world over this period.



Source: Government of India

It is clear from the data that the market is growing rapidly, and growing at a time when the world has been in a major crisis, as a result of the global financial crisis and economic crisis in the Developing World.

The goals of the study

The goals of this study were set by regular purchasers of our multi-client reports, who use them in their strategic business and market planning, as part of "second opinioning" reviews on opportunities, and for "rethink" sanity checks about issues that are important to their strategy, tactics and business development and marketing programs. Our reports are also used by governments to assist with trade policy reviews and to better understand the reasons for trade flows.

The top line questions that were set by our clients for this multi-client study were as follows:

- *With all of the hype in the press about India's economic growth track, where does it fit as an opportunity versus the markets in East Asia? We have not seen much in the way of demand at the moment and India has been in fast track economic development for more than 5 years.*
- *What level of competition does India's industry pose to imported food and drinks products? We have heard conflicting opinions about the industry's strengths and impacts, ranging from very strong to very weak?*
- *What is India's attitude towards liberalising its markets for food and drinks products? What is its propensity to further liberalise its markets outside the WTO negotiations through further Free Trade Agreements with countries across the world?*
- *How far has India liberalised its food and drink markets to foreign products? Outwardly, it appears that there has been a substantial liberalisation of the market to imported products, but we have yet to see much evidence of this in terms of expanded exports of food and drinks to India?*
- *Where have the liberalisation measures so far introduced by India to its food and drink markets had a real impact in terms of an increase in imports and the potential for a larger increase in future?*
- *What is the size of the real market for imported food and drinks in India today, and how will this market likely develop in future?*
- *How have the imported food and drink markets developed recently, and what have been the drivers or barriers to such developments?*
- *What are the scenarios for imported food and drinks over the next 5 years and what are the likely rates of growth in demand for such products from Indian consumers? Where are the best prospects to target in the Indian market for imported products over this period?*
- *What is the reality in India's consumer market in terms of volume demand for imported food and drinks? Where are the targets in India in future?*

These questions have been answered through a study that involved trade surveys and interviews, market observations and desk research undertaken between October and December 2009.

Report scope and coverage

The report's scope covers:

- India and its regulatory framework for food and drinks, including imported products;
- local agriculture and its political and policy impact on market liberalisation;
- India's past liberalisation of its food and drink market and its attitude towards further liberalisation in future;
- a review of recent trends in imports of all categories in the market for imported food and drinks, including detailed category reviews;
- the reality of the market; its size, the impact of local food culture and accessing targeted local consumers of imported food and drinks;
- India tomorrow and its future as a consumer market, including key indicators of opportunity and threat for imported food and drinks;
- an analysis of future opportunities for food and drinks based on consideration of the 5 year period to 2016;
- conclusions for exporters to India, including a conclusion on where or not India is really ready for foreign food and drinks, the identity of the key strategic risks for exporters to India, best prospect target markets and other markets where some potential exists for imported products.

At the level of products, the study's coverage is broad based because trade policy and related measures in India tends to impact on different products along the whole supply chain, including ingredients and inputs, and finished products, both for the retail and food service channels. The product categories and specific products covered are as follows:

- Edible oils;
- Vegetables, fresh and dried products, pulses;
- Fruits and nuts, temperate, sub-tropical and tropical;
- Sugar, other sugars, gum and sugar confectionery;

- Beverages, soft drinks, water, beer, wine and spirits;
- Coffee, tea and spices;
- Oilseeds;
- Animal feed ingredients, inputs, prepared animal feeds and pet foods;
- Dairy products;
- Cocoa and chocolate products;
- Other processed foods, sauces, vegetarian foods, prepared foods, honey, jams, ice cream, canned foods, frozen products;
- Processed fruit and vegetables; fruit juices, frozen products, snacks, extruded and chips/crisps;
- Fish and seafood;
- Processed cereal products, biscuits, pasta, noodles, breakfast cereals, cakes, baby food;
- Milling industry products, starches, rolled oats, malt and wheat flour;
- Meat and poultry, beef, sheep and goat meat, pork, chicken;
- Processed fish and meat; and,
- Unprocessed cereals, rice, wheat, corn, barley.

The sections covering the above categories and specific products:

- identify the recent trends in imports and reasons for them;
- review the structure of the market and related developmental issues;
- review the import tariff rate impact;
- identify the key supply bases, both local and foreign;
- identify the size of local production and import impact in the overall market;
- review the current scenarios for imported products, covering competition issues and trade barriers;
- provide forecasts on scenarios and opportunities for imports over the next 5 years; and,
- identify best prospect markets and other markets where prospects could exist over the next 5 years.

Who is this report researched and written for?

This report has been researched and written for anyone in the food industry, market and supply chain, i.e. processors, exporters, industry associations, export organisations, government departments, agencies and embassies, that has an interest in the future strategic direction of India's market for food and drinks in future.

The key targeted readers are:

- CEOs, Managing Directors and other Board level management of companies that have India as a strategic target to develop either today on an active basis or in future;
- senior business development, international marketing and R&D management in companies with the same strategic target mentioned above;
- senior management with industry associations or export organisations that already have, or are developing, export marketing programs for the India market, or that are working in the area of trade policy in liaison with their government;
- senior officials in government departments, agencies and embassies who are involved in trade policy reviews or programs that assist their country's food and drink industry to export to India; and,
- other management or officials of organisations that are working in their area of trade policy or trade facilitation related to exports to India.

How to order this report

This report will be ready for delivery to purchasers on 3 January 2011, and is available at a price of US\$ 5,250.

To order the report, simply complete the order form below and fax/mail the form, or email (for scanned-in and signed form), to us at the contact details in the order form below. On receipt of your order, a copy of the report will be sent to you securely wrapped and by air-courier.

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Sample Pages

- Infant formulae;
- Food colourings;
- Food additives;
- Natural mineral water;
- Packaged drinking water;
- Tea and coffee; and,
- Cocoa butter equivalents or substitutes.

As can be seen from the above, some of India's high risk products are not that are normally included in a high risk product list, e.g. edible oils, pulses and pulse-based products, cereals and cereal-based products, condensed milk, tea and coffee, and cocoa butter equivalents or their substitutes.

Trade sources comment that these agrifood products are included in the list because these are amongst the most political sensitive products in India, rather than highly risky from the point of view of any significant food health and safety issues. Most of these products also suffer from the highest import duties that India currently levies on imported products, both food and non-food.

At the date of writing (early December 2010), the old laws, as updated, are still in force, but India has a centralised body that has been tasked to enforce India's food health and safety laws and regulations. This body is known as the Food Safety and Standards Authority of India (FSSAI).

1.3.3 The Food Safety and Standards Authority of India (FSSAI) and its mandate

Since 2006, India has been slowly moving through a legislation and regulatory environment consolidation process that started with the establishment of the Food Safety and Standards Authority of India (FSSAI) as an independent statutory authority, and as the single reference point for all matters relating to India's food safety standards.

According to the FSSAI, its mandate is to set science-based standards for articles of food, to regulate their manufacture, storage, distribution, sale and import, and to ensure availability of safe and wholesome food for human consumption. The law that established the FSSAI requires that it should:

- Provide scientific advice and technical support to the Central Government and the various State Governments in matters of framing policy and developing rules in areas which have a direct or indirect bearing on food safety and nutrition;

A following section of this report covers the implications of India's very low per-capita income status on its consumer market structure and its consumer and user demand characteristics.

2.3 Review of recent economic data

India has seen impressive economic growth in recent years, which has been driving the press reports about favourable consumer market development (see Table below).

India, Recent Economic Data						
	2004	2005	2006	2007	2008	2009
Economic growth	7.5%	9.5%	9.7%	9.0%	6.7%	7.2%
Inflation rate	3.8%	4.2%	6.2%	6.3%	10.7%	12.0%

Source: Government of India

It should be noted that, while this growth has occurred, India is still one of the poorest countries in the world when considered on the basis of average household incomes.

Trade sources comment that food price inflation had a significant negative impact on the consumer market and food business margins in 2008-2009, in particular at the level of the Indian mass market products, which are subject to:

- Price sensitivity; and
- Consumer shifts out of the markets for products that are not deemed as necessities.

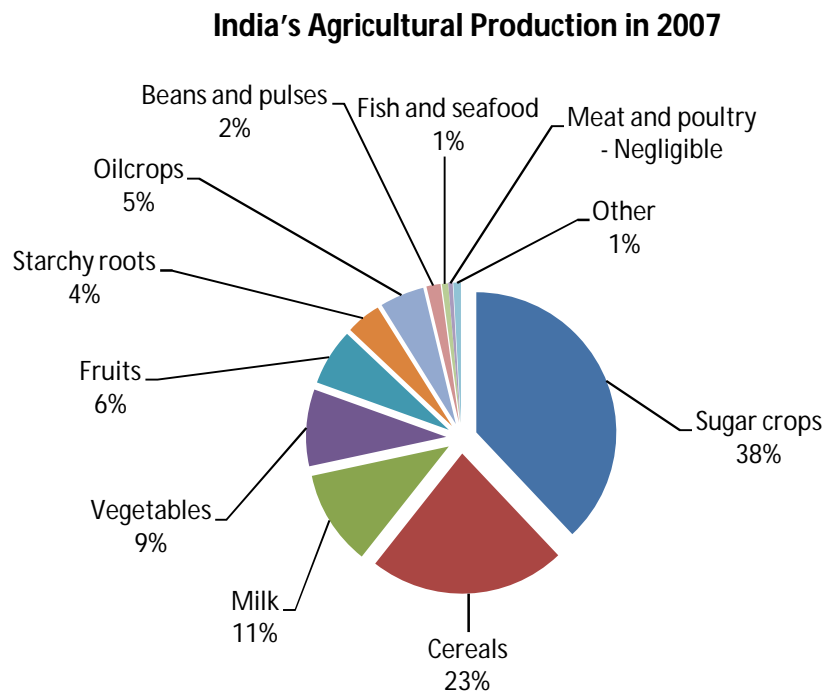
More information about the structure of India's consumer market is provided in a following section of this report.

Added to this, are a range of localised bylaws on a range of issues that are promulgated by India's component States in line with their authority provided in the Indian national constitution. Such bylaws can be barriers to imported products being distributed across India. These local laws were specifically designed to protect highly localised industries from competition from the neighbouring States within India.

In some cases, in particular local taxation (excise duties), these bylaws are in the process of being eliminated through national legislation that is aimed at harmonising some of India's laws, so that they are national rather than local in nature. This was an on-going process at the time of the research (November 2010).

4.4 Indian agricultural production

India's agricultural production was reported by the government at around 936 million tonnes. The main products produced are sugar cane, cereals (mainly rice and wheat), milk (cow and buffalo) and vegetables and fruits, which comprise over 85% of production (see Chart below).



Source: Government of India

Trade sources comment that there are on-going shortages of the following products, which are often imported in varying quantities:

4.5.4 Future development of India's food processing industry and strategic implications for imported food and drinks

The government program that stimulates food processing industry development is targeting output growth of around 4% per annum over the next 10 years. According to a recent FICCI study, a growth rate of around 7% per annum was achieved by the industry in the 5 years ended 2008. Private sector opinions today suggest that the 4% target set by the government will be easily met over the period to 2020.

The senior management of Indian conglomerates, such as Tata and Bharti Enterprises, regard the opportunities for their businesses to develop in India over the next 10 years as amongst the largest that has ever been available to local industrialists in the past, i.e. larger than those offered by industries such as telecommunications. These opportunities are being facilitated through Public-Private Partnerships that the Indian government is setting up with larger Indian owned businesses and selected multinationals.

The above comments are also mirrored by multinationals, such as Nestle, Unilever, GlaxoSmithKline, Heinz and Kellogg's. According to the senior management of GlaxoSmithKline Consumer Healthcare Ltd (43% owned by GlaxoSmithKline Plc of the UK), which operates 3 processing plants across India:

- The company's key opportunities in its domestic market will come from rising household incomes, increasing urbanisation, changing lifestyles, growth in working women's population and the rapid growth of the private-sector industry, which should lead to greater demand for processed food products.

They identify the most promising sub-sectors as confectionery manufacture, grain-based products, beverages, healthy products, milk products, ready-to-eat breakfast cereals, the sale of which will be facilitated by a more modern retailing environment.

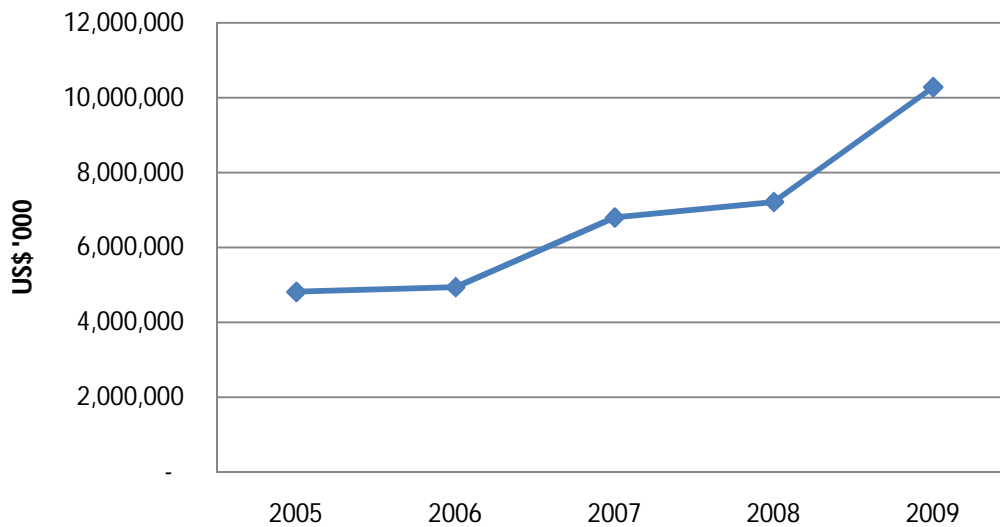
- The company's key challenges in its domestic market are the lack of integrated supply chain and scale of operations, limited use of technology in food ingredient processing for consumer ready foods (i.e. quality characteristics issues), low level of penetration of modern processed food and drinks in mass market, high taxes on branded food and drinks, and high inflation that could offset future rises in household incomes and impact on spending power of consumers for more modern processed foods.

6. Overview of India’s recent imports of agrifood commodities and processed food and drinks

6.1 Review of broad trends and the structure of the market for imported products

India’s imports of food, drinks and animal feed inputs were valued at US\$ 10.3 billion in 2009, up from US\$ 4.8 billion in 2005. Imports are dominated by a small number of agrifood commodities (see Charts below).

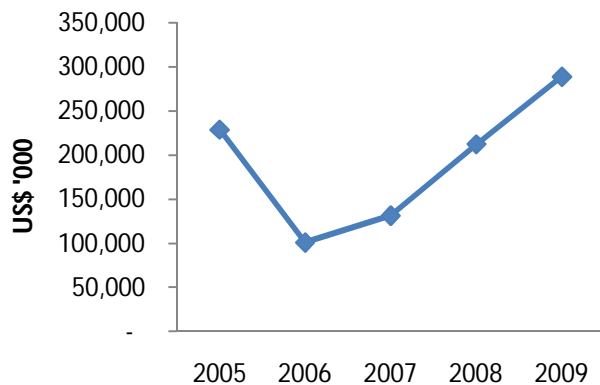
**Trends in India’s Imports of Agrifood Commodities and Processed Food and Drinks
– 2005 to 2009**



Source: Government of India

12. Beverages and Alcohol Category Review

Trend in Value of Imports

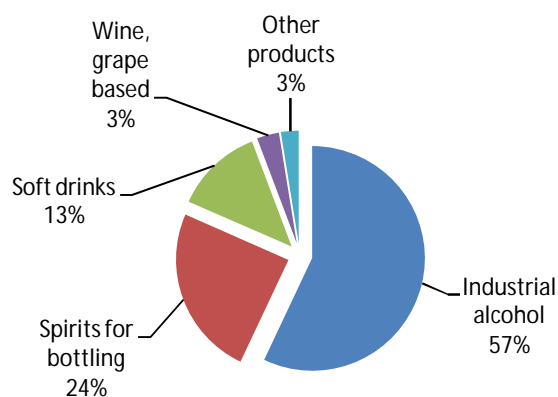


Imports of beverages and alcohol were valued at US\$ 289 million in 2009, up in an erratic manner from US\$ 229 million in 2005.

The main products being imported are not consumer ready products, but industrial products, namely industrial alcohol, and bulk spirits for bottling/blending in India.

Imports of industrial alcohol have varied dramatically on the back of local supply-demand scenarios. The imports of other products has been less erratic and so more positive for exporters. Imports declined in 2009 from a high in 2008 because of weaker business and consumer confidence in the market and demand.

Imports by Sub-Segment in 2009



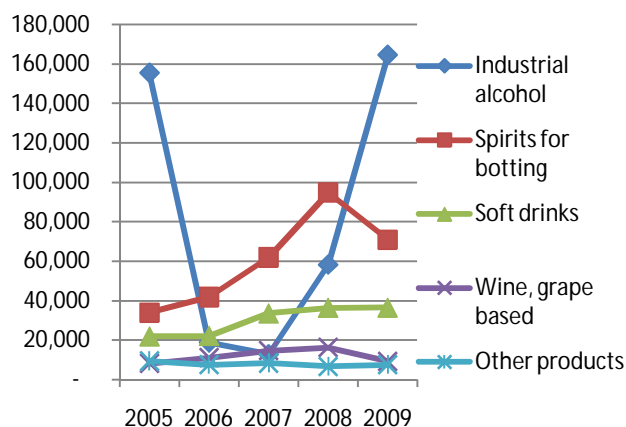
India has a large alcoholic and non-alcoholic drinks industry, which includes both local and foreign businesses. It also has a growing wine industry. These industries provide a large amount of competition for imports, especially for beer and soft drinks. These industries control over 99% of their markets. Their products and imports operate under conditions where there are high excise duties having major impacts on local retail prices.

This category generally suffers high to very high import duties. Soft drinks and industrial alcohol incur a 30% import duty, with beer being charged 100% and wine and spirits, 150% each. These duties, and local competition, make import market development very challenging for all brands.

Well over 95% of spirits for bottling are imported from the UK. Wine imports are being sourced from France (32% share in 2009), Australia (18%), Italy (14%) and the USA (7%).

Soft drink imports are mainly being sourced from Nepal (67% share of segment), Bangladesh (11%) and some other South Asian neighbours. The very small niche market for imported mineral water is dominated by France (55% share of this niche segment).

Trends in Import Values by Product



Source: Government of India

19. Processed Fruit and Vegetable Product Category Review																																											
Trend in Volumes Imported																																											
<table border="1"> <caption>Trend in Volumes Imported (Tonnes)</caption> <thead> <tr> <th>Year</th> <th>Volume (Tonnes)</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>18,669</td> </tr> <tr> <td>2006</td> <td>~23,000</td> </tr> <tr> <td>2007</td> <td>~27,000</td> </tr> <tr> <td>2008</td> <td>~27,000</td> </tr> <tr> <td>2009</td> <td>33,706</td> </tr> </tbody> </table>	Year	Volume (Tonnes)	2005	18,669	2006	~23,000	2007	~27,000	2008	~27,000	2009	33,706	<p>Imports of processed fruit and vegetable products amounted to 33,706 tonnes valued at US\$ 43 million in 2009, up from 18,669 tonnes valued at US\$ 21 million in 2005.</p> <p>Imports have grown at an average annual rate of about 16%, driven by new demand for non-alcoholic drinks, as well as frozen vegetables from the food service industry. Generally, Indian consumers only have demand for fresh vegetables.</p> <p>India supplies well over 90% of its processed fruit and vegetable requirements from its local processing industries. Imports of juices are needed by its large drinks industry because there are shortages in competitive ingredients. While there are shortages of some products, India's fruit and vegetable processing industry is a major challenge for most imported products, as are the high import duties.</p> <p>Import duties on this category are set a high 30% on all products, except orange juice and frozen potatoes, which are levied a higher 35% duty.</p> <p>India has demand for a wide range of price competitive fruit juices including orange, other citrus, pineapple, tropical fruits and juice mixtures. The key supply countries involved in this segment are China (18% share), Bangladesh (16%), Nepal (11%), USA (7%), Pakistan (7%) and UAE (7%).</p> <p>95% of frozen prepared vegetables are potato-based products that mainly are in demand from the modernising food service industry. Over 80% of supplies are from the USA, with the Netherlands is a second place supplier with a share of 12%.</p> <p>The bulk of processed tomatoes are food ingredients sourced from China (78% share in 2009) and Nepal (16%).</p>																														
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<table border="1"> <caption>Trends in Volumes by Product (Tonnes)</caption> <thead> <tr> <th>Year</th> <th>Fruit and veg juices</th> <th>Frozen prepared veg</th> <th>Other preparations of fruit and veg</th> <th>Tomatoes, prepared</th> <th>Prepared veg, not frozen</th> <th>Jams, purees</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>~9,000</td> <td>~4,000</td> <td>~1,000</td> <td>~3,000</td> <td>~1,000</td> <td>~1,000</td> </tr> <tr> <td>2006</td> <td>~11,000</td> <td>~5,000</td> <td>~1,000</td> <td>~4,000</td> <td>~1,000</td> <td>~1,000</td> </tr> <tr> <td>2007</td> <td>~13,000</td> <td>~5,000</td> <td>~1,000</td> <td>~6,000</td> <td>~1,000</td> <td>~1,000</td> </tr> <tr> <td>2008</td> <td>~10,000</td> <td>~5,000</td> <td>~2,000</td> <td>~6,000</td> <td>~1,000</td> <td>~1,000</td> </tr> <tr> <td>2009</td> <td>~18,000</td> <td>~6,000</td> <td>~3,000</td> <td>~3,000</td> <td>~1,000</td> <td>~1,000</td> </tr> </tbody> </table>	Year	Fruit and veg juices	Frozen prepared veg	Other preparations of fruit and veg	Tomatoes, prepared	Prepared veg, not frozen	Jams, purees	2005	~9,000	~4,000	~1,000	~3,000	~1,000	~1,000	2006	~11,000	~5,000	~1,000	~4,000	~1,000	~1,000	2007	~13,000	~5,000	~1,000	~6,000	~1,000	~1,000	2008	~10,000	~5,000	~2,000	~6,000	~1,000	~1,000	2009	~18,000	~6,000	~3,000	~3,000	~1,000	~1,000	
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Source: Government of India																																											

The Table below provides some evidence of the differences between these groups based on the ownership of selected household products.

Ownership of Household Products by India's Different Income Groups					
Socio-Economic Group	TV	Aircon	Refrigerator	Motorcycle	Car
	%	%	%	%	%
Upper income	74	40	59	46	22
Middle income	67	26	46	41	8
Upper middle income fringe for imported food and drink products	61	17	29	29	2
Lower middle income fringe for imported food and drink products	43	7	10	13	1
Lower income	30	3	3	5	Neg

Source: Household Consumer Expenditure Survey of India (2004-05)

The two fringe groups, which comprise about 25% of the population, have strong demand for Indian-made processed food and drinks and are only involved in the occasional or indulgent purchase and consumption of imported food and drinks. Some key points to note on this fringe population are as follows:

- The upper middle income fringe group, which numbers around 50 million persons, will be more active on the fringe of the market for imported food and drinks, than the more price sensitive lower middle income fringe group (up to 200 million persons).
- This lower middle income fringe group is a major target for the retail packed processed foods that are manufactured in India by companies such as Nestle and Unilever.

Retail packed imported food and drink currently have a target of between 5 and 10 million persons today. These persons are located all over India but have their largest concentrations in and around the 8 highly populated cities identified in the Table below.

23.3 Accessing the real middle and upper income groups

23.3.1 The state of India's distribution channels for food and drinks

India's food and drink distribution channels are the least developed amongst the World's major developing countries. Trade sources comment that its channels are at least 20 years behind those in the ASEAN countries (e.g. Malaysia, Thailand and Indonesia), which started developing in the late 1980s, and about 10 years behind those now seen in China.

The main reasons for this situation are government policy, a regulatory system that protects and archaic trading system that has been disappearing in ASEAN since the mid-1980s, and the inherent protectionism that prevails in India's food and drink market today, both retail and food service. Some key points on current government policy are as follows:

- Foreign owned companies, including the multinational retailers, are prohibited from owning multi-branded retail chains in India. This law exists to protect small retailers and local chains of supermarkets. Trade sources comment that, based on recent policy statements from the government, this law will not be relaxed in the short term because there is a huge amount of support for the ban from politicians and India's hundreds of thousands of SME retailers.
- India permits 100% foreign ownership of cash-and-carry warehouse style operations. This has attracted Metro Cash & Carry of Germany to invest in the sector. (Note: Carrefour is also preparing to open its first Indian Cash & Carry operation in January 2011).
- The Indian government has relaxed other problematic regulations covering supermarket procurement, so that supermarkets can now procure products direct from farmers. In the past, this was not possible as there was government agency intervention in the marketing and distribution of local agricultural produce. Trade sources comment that there are still some problems in this area of the supply chain because of localised opposition to the changes.

Trade sources also comment that:

- Establishing national channels for food and drink is very difficult in India due to local politics, localised bylaws and challenges in accessing retail space. One major retailer involved in food and drink retail, known as Subhiksha, collapsed in early 2010. Retail trade sources comment that, at its height, this business had around 1,600 stores across India.

Sources with international retailers have noted that there is a requirement for substantial inventory holdings, i.e. between 2 and 3 times that needed in the Developed World and much of ASEAN (e.g. Malaysia and Thailand), to ensure:

- A smooth flow of sales of products through modern retail channels; and,
- Consistency of products on the shelves in India today.

23.3.8 Future directions for food and drink distribution in India

The retail industry is now in a substantial growth phase, where the drivers are increasing personal and household incomes, urbanisation, and better financing systems and increasing credit facility usage. This is, however, taking place in a highly constrained policy and regulatory environment, as mentioned earlier.

The future of food and drink retailing in India is highly complex. Trade and government sources concur that FDI in Indian food and drink retailing channels is an extremely emotive and divisive issue today. Protests erupted across the country in 2007 when Reliance Industries, India's biggest conglomerate, tried to set up a larger network of supermarkets. Most analysts think it highly unlikely that there will be a change in the FDI regulations in the short to medium term (i.e. the next 5 years).

While this is the case, the DFI/RPG joint venture have a goal of jointly developing 200 Foodworld stores across India in different formats, such as hypermarkets, supermarkets, express / convenience stores and higher end concept stores in future. The original deadline for this was 2009; however, this target was missed by a significant margin, because of a range of different problems. While the deadline was missed DFI senior management are confident that this target will be reached over the next 10 years, further illustrating the point that India is a market where a long term view is required about business development.

23.3.9 Comments from the multinationals about the importance of having good food and drink distribution across India

The following comments were received from the senior management of a number of multinational food and drink companies with manufacturing operations in India:

Product Category	Local Production '000 Tonnes	Imports '000 Tonnes	Scenarios for Imported Products	Trade Opinions on the Opportunity for Imports Over the Next 5 Years
Corn	19,000	India is an exporter of corn and regards itself as self sufficient in this product.	India protects its corn market with a 60% tariff and the government expects its farmers to cover any future increase in demand.	In view of demand from a growing poultry industry, there is a possibility that corn production could grow by between 2% and 4% per annum over the next 5 years. It is very unlikely that imported corn will participate in this market over this period.
Barley	1,500	Barley is not imported and there are some exports. Small quantities of malt, i.e. about 2,500 tonnes, are also imported.	Local barley and barley based ingredients, i.e. malt, is generally acceptable to local users (beer and malted milk and food producers) and usually available in sufficient quantities for their needs. Barley production has been increasing in recent years because of higher demand from users. It is possible that barley production could increase at between 2% and 5% per annum over the next 5 years.	Unlike most cereal markets, barley has an open market today. Unfortunately for barley exporters, supply is sufficient for local consumption and is price sensitive, so new market opportunities are unlikely. While this is the case, it is likely that very small quantities of malt imports, i.e. between 1,000 to 3,000 tonnes per annum, could continue over the next 5 years.
Oilseeds and crops	45,000 to 50,000	120	India's main focus is on importing crude oils and some refined oils, rather than oilseeds for crushing in India. India is also exporting sizeable quantities of soybeans. MFN applied import duties are high at 30% or more, depending on product being imported.	There are no strategic or commercial reasons why the market for imported oilseeds and crops will be develop a larger market over the next 5 years. No sizeable opportunities will exist for exporters to develop this market.

25.2 Dairy products

India is the world's largest producer of raw milk from a national herd of buffaloes and cows that is also the world's largest. Annual production exceeds 95 million tonnes of raw milk.

While India holds this status, its industry is far from being modern or efficient. The industry has two broad faces, one archaic and run by small holders, some of which are linked to about 160 dairy farming cooperatives operating across India today, and the other, larger and more modern businesses that operate with brands, some of which export dairy products.

There are two different estimates for the volume of raw milk processed, one at 22% and, the other, 31% of total raw milk supply. Only about 13% of milk is produced and processed by the larger businesses, so smaller businesses dominate the industry.

India's dairy industry is generally dealt with at policy level as a special case when it comes to foreign trade because of the impact of old industrial development policies, i.e. Operation Flood, and also because of the traditional keeping of cattle and the importance of their products within Indian food culture, which is different for the majority Hindu population and the other large community in India, the Muslims.

- Milk and dairy products (butter, ghee, traditional yoghurt type products, and traditional types of cheese and curd), but not beef are very deeply entrenched staples in the diet of the Hindu population; and,
- The Muslims consume beef (halal slaughtered) and are also major users of dairy products (again staple food products) in their diet.

Under Indian government policy towards dairy products, imported dairy products are very clearly seen as major threats to an industry that:

- Greatly assists India with its rural economic development and the improvement of farmers incomes;
- Provides food security to a nation where dairy products are deeply entrenched from a food and non-food cultural standpoint; and
- Provides export earnings and future opportunities to expand such earnings (Indian government viewpoint);

Product Category	Estimated Local Consumption '000 Tonnes	Imports in 2009 '000 Tonnes	Key Challenge for Imported Products	Trade Opinions on the Opportunity for Imports Over the Next 5 Years
Sauces and seasonings	150 (Modern retail packed products).	5	<p>India's food culture is very strong and has an overriding impact on what sauces are demanded across India.</p> <p>Foreign concept sauces are already being produced by large locals and multinationals (Unilever and Nestle) in India, which are aggressively competing to dominate the market.</p> <p>The 30% import duty which will negatively impact on price points for imported products from the Developed World.</p> <p>The poor state of the distribution channels to potential consumers and users of foreign concept sauces, including distributors that will handle foreign brands as commodities, rather than branded products, in the India market.</p>	<p>The local packaged sauce market is growing very rapidly on the back of demand for convenient versions of local sauces for preparing Indian foods. Growth forecasts for demand in these products over the next 5 years are broad and range from 8% to 17% (high side) per annum over this period.</p> <p>In contrast, imported sauces and seasonings are likely to be more problematic for food cultural reasons and competition from price competitive alternatives made in India. One area in which there could be better growth may be in East Asian sauces, especially Chinese and Japanese products, because of interest in home cooking products from these cuisines amongst younger affluent consumers in India's more cosmopolitan cities. Whilst this opportunity may exist, it is likely to only be a small niche market.</p>
Pasta, European style	Data not readily available, local production reported to be small but growing.	2	<p>Price competitive imports from Italy.</p> <p>The small number of producers of European style pasta in India and the 30% import duty.</p>	<p>The market could grow at between 8% and 12% per annum over the next 5 years, mainly on the back of demand from new Italian food service outlets.</p>

- Have the possibility of production in India in future.

While the consumer market is ready for some type of imported food and drinks, the regulatory system (coupled with the food and drink distribution system) is not. This scenario hands the opportunity to Indian based food and drink manufacturers through their development and introduction of new foreign concept products to expand the diet of:

- India's growing middle income group markets; and,
- The fringe markets that exist amongst the lower income groups based on occasional indulgent spending and their desire to consume new and interesting products.

26.2 Risks for exporters of food and drinks to India

India has a sizeable number of risk areas that can be highly problematic to the development of its market for food and drinks. In certain segments, these risks can be heightened due to deeply entrenched protectionist policies, regulations and/or sentiments.

Trade sources comment that the main areas that need to be factored into an export business and marketing strategy for India are:

- Firstly, the infrastructure weaknesses, which are widespread and can establish very effective barriers to foreign food and drinks;
- Secondly, corruption and the cost of dealing with it, although the impact of this will be on the importer rather than the exporter because the exporter will have little interaction with government officials; and,
- Thirdly, inefficiencies within government systems, processes and procedures. The weaknesses in the government are generally exacerbated by the above mentioned threat of corruption impacting on import transactions.

The above factors are regarded as "market development killers" by some trade sources.

Stanton, Emms & Sia - Capability Statement

Who we are

Stanton, Emms & Sia (SES) is a specialist food and beverage market research and consultancy business. The firm is based in Singapore with research and consultancy resources in all South East Asian countries, China, Australia, New Zealand, Hong Kong, India, Japan, South Korea and Taiwan.

Our mission

Our mission is to help our clients to build strong positions in their target markets by:

- Assisting them to develop a commercially focused and coherent "big picture" of their customers and markets, including the basis of competition and forces and barriers affecting the markets.
- Providing them with clear and concise insight into their markets, especially their customers wants and needs.
- Assisting them to:
 - ❑ Identify profitable opportunities in their target markets in the East Asian region.
 - ❑ Develop strategies to:
 - Fully exploit the opportunities that have been identified in their target markets; and
 - Minimise their threats and weaknesses in their target markets.
 - ❑ Successfully build a sustainable long-term presence for their brands or products in their target markets.

We specialise in servicing clients in the food, drink and agrifood industries

SES focuses on the international industry and markets for food and beverages in Asia, our region. We offer our clients a full "food chain" consultancy service ranging from analysis of farm input usage to the strategic planning of business strategies in the international agricultural, food and drinks sector. Our experience covers the complete spectrum of food types from commodity to highly value added, generic to branded, fresh to processed.

SES maintains an on-going research programme, analysing and assessing key markets and underlying food, beverage and agribusiness issues that affect the Asia Pacific region now and in the future. Much of our work for clients is forward looking and interpretative. Our management team has been monitoring the region's food, beverage and agrifood markets since the late 1980s.

The real value delivered to our clients is in the interpretation of what the research is telling us. The lack of skilled synthesis, analysis and interpretation is often the aspect which undercuts good market research performed by our competitors who operate without having a tangible presence in our region. Having researchers who are based in the country and aware of the trends and tone of the market is therefore invaluable. We believe our team has this proven track record.

What we offer

Our services to clients include:

- ❑ Business and marketing consultancy.
- ❑ Brainstorming, analysis and interpretation.
- ❑ Brand research.
- ❑ Business to business research.
- ❑ Consumer research.
- ❑ Cultural analysis in the food and drinks markets.
- ❑ Data collection in the field.
- ❑ Depth interviews.
- ❑ Desk research.
- ❑ E-mail interviews.
- ❑ Evaluations of marketing programs.
- ❑ Evaluations of advertising and promotional activities.
- ❑ Executive interviews.
- ❑ Face to face interviews.
- ❑ Fax-back interviews.
- ❑ Focus groups and other discussion groups.
- ❑ Hall tests.
- ❑ Industrial interviews.
- ❑ International research.
- ❑ Interactive research, including research workshops.
- ❑ Intercept interviews of consumers.
- ❑ Market observations.
- ❑ New product development support research.
- ❑ Strategic planning support research and brainstorming.
- ❑ Panels, ad-hoc research, including sensitivity panels.
- ❑ Positioning research.
- ❑ Postal surveys.
- ❑ Product testing.
- ❑ Qualitative research.
- ❑ Questionnaire design.
- ❑ Report writing and presentation development.
- ❑ Surveys, consumer and industrial.
- ❑ Syndicated research, including multi-client studies and surveys.
- ❑ Tactical research.
- ❑ Telephone interviews.

Our multi-client report program

We actively produce a number of multi-client studies each year as part of this research work. As a result, we regularly interview food manufacturers and processors, food importers and wholesalers as well as key decision-makers in some of the main retail groups. SES' advantage is that our research consultants actually know and understand how the local food industry actually operates and thinks.

Past multi-client studies have included:

- Beyond the Asian Economic Crisis: Marketing Processed Foods Under New Food Supply Chain and Distribution Scenarios in Developing East Asia.
- The Food Chain in South East Asia: Strategic Directions & Opportunities for Food Businesses.
- Our *Asian Dairy Series* of reports, which includes forward looking opportunity identification studies on the markets in Indonesia, Malaysia, Singapore, South Korea and Vietnam.
- Beer in Developing East Asia and China: Strategic Directions & Opportunities for Brewers.

Our clients

We undertake assignments for a wide range of clients, drawn from both the public and private sectors. Our client base includes some of the world's largest food, drink and agrifood businesses and includes the following entities:

- Multinational companies located in Asia, Australia, Europe and North America.
- Large national companies from Australia, UK, USA, South Africa, Japan and the Philippines.

- Smaller companies based in countries such as Australia, Malaysia and Singapore.
- Governments, government organisations and embassies of European and North American countries and Australia located in Asia and their home countries.
- Other entities, including co-operatives and societies, operating in Australia, Netherlands, Denmark, the USA and France.
- Food and agricultural research organisations located in Australia and the UK.

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