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Report Highlights:
Many factors provide growth opportunities for US high-value agricultural product exports to India. Among them are: a large and growing middle class, the slow but steady transformation of the retail food sector in cities, the growing number of fast food chains and luxury hotels, an increasing exposure to American products and lifestyle, increasing urbanization, and a growing food processing industry looking for imported food ingredients. However, high tariffs, dated food laws, unwarranted sanitary and phytosanitary restrictions, combined with poor infrastructure, continue to temper prospects.

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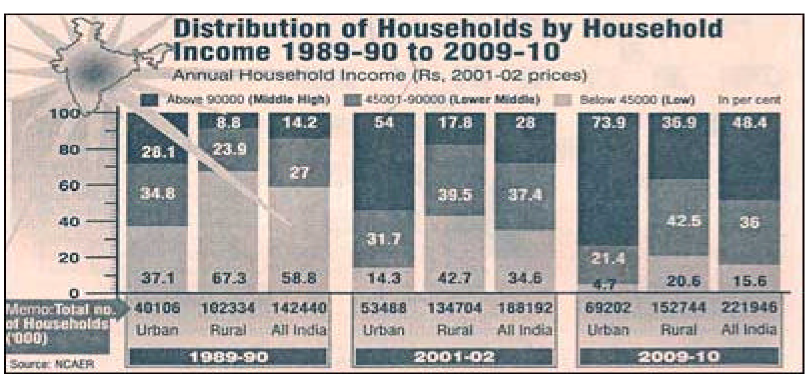
SECTION I: MARKET OVERVIEW

India is a country of striking contrasts and enormous ethnic, linguistic, and cultural diversity. Its landmass is roughly one-third the size of the United States, it has a population of 1.1 billion, and it is comprised of 28 states and seven Union Territories (under federal government rule). The states differ vastly in resources, culture, food habits, living standards, and languages. Vast disparities in per-capita income levels exist between and within India's states. About 75 percent of the country's people live in its 550,000 villages; the rest in 200 towns and cities. There are 27 cities with a population above one million people.

India has the largest number of poor, with 35 percent of the population surviving on less than $1 per day, and 80 percent of the population surviving on less than $2 per day[1]. Nearly 51 percent of Indians' consumption expenditures go for food (54 percent in rural area and 42 in urban areas)[2]; mostly for basic items like grains, vegetable oils, and sugar; very little goes for value added food items. In recent years, however, there has been an increased shift towards vegetables, eggs, fruits, meat, and beverages. Religion has a major influence on eating habits and, along with low purchasing power, supports a predominantly vegetarian diet.

Some observers of India's economic scene are, however, highly optimistic about consumption growth potential, and believe that rising income levels, increasing urbanization, a changing age profile (more young people), increasing consumerism, a significant rise in the number of single men and women professionals, and the availability of cheap credit will push India onto a new growth trajectory. These segments of the population are aware of quality differences, insist on world standards, and are willing to pay a premium for quality. Nonetheless, a major share of Indian consumers has to sacrifice quality for affordable prices. Potential US exporters should also bear in mind that India's diverse agro-industrial base already offers many items at competitive prices.

Results of the "Market Information Survey of Households," conducted by the National Council of Applied Economic Research, show that the share of households in the upper middle/high income group (annual household income > rs. 90,000, or $11,200 on purchasing power parity basis) has grown from 14% in 1989-90 to 28% in 2001-02, and is projected at 48 percent in 2009-10. Correspondingly, there has been a decline in the low-income group.



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[1] UNDP Human Development Report 2004

[2] Consumer Household Expenditure Survey 59th Round (January – December 2003), National Sample Survey Organization, GOI

Sixty-five million people are expected to enter the 20-34 year age group from 2001 to 2010. By 2025, 40 percent of Indians are expected to be urban dwellers.

Structural reforms and stabilization programs during the 1990s have contributed to India's sustained economic growth, which has been relatively strong over the past two decades, averaging 6 percent annually. Since 1996, the Indian government has gradually lifted import-licensing restrictions, which had effectively prohibited imports. On April 1, 2001, all remaining quantitative restrictions were removed, putting India in compliance with its WTO commitment. Nonetheless, the government continues to discourage imports, particularly agricultural products, with the use of high tariffs and non-tariff barriers. Import tariffs on most consumer products, although declining, are still high, ranging from 30.6 to 52.2 percent. Some sensitive items, such as alcoholic beverages, poultry meat, raisins, vegetable oils, wheat, rice, etc., attract much higher duties. Non-tariff barriers include unwarranted sanitary and phytosanitary restrictions and onerous labeling requirements for pre-packaged foods. Other factors adversely affecting imports include a poorly developed infrastructure (transportation and cold chain), a predominantly unorganized retail sector, and outdated food laws. However, some positive factors are:

- Rising disposable income levels
- Increasing urbanization and exposure to Western culture
- Growing health consciousness among the middle class
- Growing consumerism
- Changing age profile
- Increasing availability of cheap consumer credit

Advantages	Challenges
Large and growing middle class	Divergent food habits
Increasing exposure to American products and lifestyle	Preference for fresh products and traditional foods
A slow but steady transformation of the retail food sector in cities	Difficulties in accessing vast untapped rural markets
Growing number of fast food chains	Poor infrastructure
Increasing urbanization and growing number of working women	Diverse agro-industrial base offering many products at competitive prices
A growing food processing industry looking for imported food ingredients	High tariffs, dated food laws, and unscientific sanitary and phytosanitary restrictions
Improved Indo-US political relations	Competition from countries with better geographic proximity

SECTION II: EXPORTER BUSINESS TIPS

A. Food Preferences

India is well known for its tradition of vegetarianism. Among those who are not vegetarians, beef is still generally taboo to most Hindus (80.5 percent of the population), Sikhs (1.9 percent of the population), and Jains (0.4 percent of the population), all of whom consider cows sacred. Many Indians are vegetarians because they cannot afford a non-vegetarian diet. As India has been at the crossroads of many peoples and cultures over the centuries, some foreign elements have invariably seeped into the local culinary culture. Thus, India's culinary tradition is constantly changing. Nonetheless, Indians have a strong preference for fresh products and traditional spices and ingredients, which has generally slowed the penetration of American and other Western-type foods. However, with urbanization, rising incomes, more working women, the arrival of some food multinationals, and a proliferation of fast food outlets, the acceptance of packaged and ready-to-eat food products is increasing, especially among the urban middle class. These products, nonetheless, are usually tailored to Indian tastes. Many Indians are quite willing to try new foods, but usually return to traditional fare. While Western foods have a reasonably good chance of succeeding in casual dining, integrating them into the main meal will be more difficult.

Demand for specialty and high-value food items, including those imported, such as chocolates, dry fruits (almonds, cashews, pistachios, etc.), cakes, pastries, exotic fruits, and fruit juices, typically peaks during the fall festive season, especially at Diwali – the Festival of Lights. Hence, from October to December is the best time to introduce new food products into the Indian market.

Typical imported food items that can be spotted in retail stores in cities include chocolates and chocolate syrups, biscuits, cake mixes, fruit juices, canned soups, pastas, popcorn, potato chips, canned fish and vegetables, ketchup, and fruits such as apples, grapes, and kiwis.

B. Shopping Habits

Lacking home refrigeration and purchasing power, most Indians shop daily at neighborhood *kirana* shops (small retail outlets) or roadside vendors. Most consumers regard shopping as a chore, and few are familiar with alternatives to traditional store formats. Convenience to one's home is important, since daily shopping and sensitivity to food freshness is an integral part of shopping habits. Indians buy fruits and vegetables in one shop, dairy products in another, groceries in a third, and meat and fish in yet another. Quality is important, but there is a reluctance to pay a premium. Trust in the retailer, especially with regard to quality of food and replacement of defective goods, is important. Although added services such as home delivery are welcome, consumers are unwilling to (and do not have to) pay a premium for this service. Women do most of the shopping and make most of the food purchasing decisions. Households able to afford Western imports usually have servants who buy, clean, and prepare foods. Availability of many fresh foods, particularly fruits and vegetables, is seasonal, and people are accustomed to adjusting their diet to the season. Processed/packaged foods in great demand include ketchup and sauces, jams and jellies, table butter and *ghee* (melted butter), cooking oils, various *masalas* (spice mixes), pickles, wheat flour, noodles, snack foods (mostly Indian types), and health drinks. Most packaged food items are sold in small containers, due to customers' limited purchasing power. Only in the past few years have Indians, mostly in cities, been exposed to supermarkets in the Western sense. Semi-urban, non-metropolitan, and rural areas have yet to feel the impact of large-scale retailing. Most people, even in cities, still associate supermarkets with "expensive" rather than "cost effective." However, in recent years, the Shopping Mall culture has caught on in India, with many large malls built in large cities and suburbs.

C. Distribution Systems

Domestic consumer goods are distributed through a multi-level distribution system. With the cost of establishing warehouses nearly prohibitive, clearing and forwarding agents (CFAs) are fast becoming the norm. Typically, the CFAs transport merchandise from the factory or warehouse to "stockists" or distributors. While the CFAs do not take title to the product, they receive 2 to 2.5 percent margins, invoice the stockists, and receive payment on behalf of the manufacturer. The stockists have exclusive geographical territories and a sales force that calls on both the wholesalers and on large retailers in urban areas. They usually offer credit to their customers and receive margins in the range of 3 to 9 percent. The wholesalers provide the final link to those rural and smaller retailers who cannot purchase directly from the distributors. Sales to these retailers are typically in cash only and the wholesalers receive a margin of 2 to 3 percent. Margins for retailers range from 5 to 15 percent, and the total cost of the distribution network represents between 10 and 20 percent of the final retail price.

Most imported food products are transshipped through regional hubs such as Dubai and Singapore, due to their liberal trade policies and efficient handling facilities. Major importers are located in Mumbai, Kolkata, Delhi, and Chennai. Although a large share of imported foods enter India through illegal smuggling, normal imports are also increasing. Under-invoicing is a commonly used practice to lessen the burden of import tariffs.

D. Infrastructure

With a coastline of nearly 4,000 miles, India has 11 international and 139 minor ports. The international ports are Kandla, Mumbai, Jawaharlal Nehru, Cochin, Murmagoa, and New Mangalore on the west coast, and Chennai, Tuticorin, Vizagh, Paradeep, and Kolkata on the east coast. Container handling facilities are available at most major ports and in several major cities. India has a vast railway network connecting most major cities and towns. Refrigerated warehousing and transportation facilities are limited and costly, resulting in high storage losses in perishable food items. An inadequate and erratic electric power supply constrains cold chain development. Whereas infrastructure projects were previously reserved for the public sector, private investors are now being encouraged to participate. Telecommunications, in particular, is benefiting from privatization and strong foreign investor interest. The pace is much slower, however, for power generation, roads, and other infrastructure needs, where the returns on investment take longer to materialize.

E. Finding a Business Partner

It is essential to survey existing and potential markets for products before initiating export sales to India. Market research firms in India can assist new exporters. If the aspiring US companies have products of promising sales potential in India, they can either set up a base in India or appoint a distributor or an agent. If possible, setting up a base is preferable, because Indians like to see foreign companies investing in their country rather than selling from abroad. US companies should avoid the temptation to establish a relationship with an agent/distributor merely because he is the most persistent suitor. Consider the following before selecting an agent/distributor:

- ✓ Determine who their potential customers are, and where in India these customers are located, through surveys.
- ✓ Recognize that agents with fewer principals and smaller set-ups often are more adaptable and committed than those with large infrastructure and big reputations.
- ✓ There may be a conflict of interest where the potential agent handles similar product lines, as many agents do.

- ✓ US firms should examine all distributor prospects, and thoroughly research the more promising ones. Check the potential agent's reputation through local industry/trade associations, potential clients, bankers, and other foreign companies/missions.

Franchising is another way of introducing Western products. Companies with franchises in the food sector in India include McDonalds, KFC, Domino's Pizza, Baskin Robbins, Wimpy's, TGIF, Ruby Tuesday, and Pizza Hut. Indian companies with strong brand recognition also franchise. Direct marketing, although becoming more popular, is still limited.

F. Advertising and Sales Promotion

Advertising and trade promotion are highly developed in India, and most major US advertising firms choose local partners, as they know India and Indians well. In addition to government-controlled television in various regional languages, there are several popular national, international, and regional privately-owned channels. Most urban households have televisions, and they are increasingly present in rural areas.

India also has a diverse and growing number of newspapers and glossy magazines appealing to various social, cultural, and gender groups. According to the National Readership Survey 2005[3], the reach of the press medium (dailies and magazines combined) has increased to 300 million people from 179 million three years ago. Satellite television has grown explosively to reach 190 million people, whereas radio's reach has stagnated at 23 percent of the population. The internet now reaches more than 10 million people, with 34 percent of users surfing from home and 32 percent from cyber cafés. Among the fast growing tribe of mobile phone owners, 14 percent access value-added features like downloads, news, SMS, etc.

Delhi's Annual Food Exposition AAHAR, and smaller food shows in Delhi and other cities (IFE India, Agro Tech, Am Fest) provide opportunities for US exporters to showcase their food products to potential clients.

G. Business Etiquette

Although Hindi is India's leading national language, almost all Indian officials and business people have an excellent command of English. Most Indian businessmen have traveled abroad and are familiar with Western culture. Indians appreciate punctuality, but don't always practice it themselves. Keep your schedule flexible enough for last minute rescheduling of meetings. Business is not conducted during the numerous religious holidays that are observed throughout the many regions and states of India. Verify this information with your Consulate or Embassy before scheduling a visit. Indian executives prefer late morning or afternoon appointments between 11:00 a.m. and 4:00 p.m.

Indians are famous for having longer-than-scheduled meetings, so be sure to leave plenty of time between appointments. The climate in India can be very hot, so it is advisable to wear lightweight clothing to avoid discomfort. Men should wear a jacket and tie (and women should wear corresponding attire) when making official calls or attending formal occasions. Always present a business card when introducing yourself. Refer to business contacts by their surname, rather than by their given name. Use courtesy titles such as "Mr.", "Mrs.", or "Miss." Talking about your family and friends is an important part of

[3] National Readership Studies Council – www.auditbureau.org

establishing a relationship with those involved in the business process. Hospitality is a key part of doing business in India; most business discussions will not even begin until "chai" (tea), coffee, or a soft drink is served and there has been some preliminary "small talk." To refuse any beverage outright will likely be perceived as an insult. While an exchange of gifts is not necessary, most businessmen appreciate token momentos, particularly if they reflect the subject under discussion. Business lunches are preferred to dinners. Try to avoid business breakfasts, especially in Mumbai. The best time of year to visit India is between October and March, so that the seasons of extreme heat and rains can be avoided. Although Delhi (the capital) has a cool, pleasant winter (November - February), summers (April –June) are fierce with temperatures of up to 120 degrees Fahrenheit. Mumbai (the business hub) and most other major cities have a subtropical climate – hot and humid year around. Most Indian cities have good hotels and are well connected by domestic airlines.

The following websites were found to be informative and user-friendly in providing information on Indian business culture and business etiquettes. These websites are mentioned for readers' convenience; USDA does **NOT** in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained in the below sites:

http://stylusinc.com/business/india/cultural_tips.htm

www.executiveplanet.com/business-etiquette/India.html

H. Import Duties

Imports into India are subject to a high, confusing array of duties, which include the following: a "basic" duty, an Additional Duty (AD), also known as "Countervailing Duty (CVD)," and an Education Cess (a special surcharge on all direct and indirect taxes introduced in last year's Budget on July 8, 2004).

The basic duty on most processed food products is 30 percent. Exceptions in the agriculture/food group include "sensitive" items such as wine, liquor, poultry meat, wheat, rice, corn, coffee, tea, vegetable oils, cigarettes and tobacco, and several dairy products, which attract much higher basic duties. The CVD equals the excise duty on similar products produced domestically (16 percent on most consumer food products), and is levied on the total of the assessed value plus the basic duty. The calculation of the CVD on packaged goods is based on the Maximum Retail Price (MRP), minus the abatement notified for similar domestic goods in India, which makes the calculation more difficult. Total import tariffs on most consumer food products range from 31 percent to 52 percent.

For a product attracting a 30 percent basic duty, a 16 percent AD, and the 2 percent EC, the total applied import tariff will not be 48 percent as one might think (30+16+2), but rather 52.2 percent. The import duty calculation is as follows:

CVD Rate	=	16% on total import value
EC at 2% on 16%	=	0.32%
Effective CVD rate	=	16% + 0.32% = 16.32%
Basic Import duty	=	30%
Applied CVD	=	16.32% of 130% = 21.216%
Total import duty	=	30% + 21.216% = 51.216%
EC on Import duty	=	2% of 51.216% = 1.02432%
Applied import duty	=	51.216% + 1.02432% = **52.24032%**

The following table provides a detailed calculation of the retail pricing of imported food products in India.

Cost Breakdown of Imported Processed Food Products

Costs	Rate	Mumbai	Delhi
FOB Price at US Port (New York)	$1 per unit	$1.00	
Ocean freight, insurance, etc.	9% of FOB Invoice price 1/	$0.09	
CIF Value at Indian Port		**$1.09**	
Basic Import Duty	30% of CIF value	$0.33	
Additional Duty (AD)	16.32% of 65% of MRP 2/	$0.40	
Education Cess (EC)	2% on (Basic + AD)	$0.01	
Total Import Duty		**$0.74**	
Clearing Charges	6% of CIF price 3/	$0.07	
Domestic freight from Mumbai	4% of CIF value 4/	N.A.	$0.04
Landed cost		**$1.89**	**$1.92**
Octroi	6% in Mumbai 5/; 0% in Delhi	$0.11	0.00
Importer Margin	18% on landed cost 6/	$0.34	$0.35
Invoice Price		**$2.35**	**$2.26**
Central Sales Tax 7/	4% of the Invoice Price	$0.09	$0.09
Distributor Cost Price		**$2.44**	**$2.35**
Local sales tax (VAT)	12.5% of distributor cost	$0.31	$0.29
Distributor Margin	10% of the distributor cost	$0.24	$0.24
Retailer Cost Price		**$2.99**	**$2.88**
Retailer Margin	25% of retailer cost (20% of MRP)	$0.75	$0.72
RETAIL PRICE		**$3.74**	**$3.61**

Note: Calculations based on an assumed FOB value of $25,000 for a 20 ft container

1/ Varies from 8 to 10%
2/ Maximum Retail Price (MRP) of $3.74/unit declared by importer in Mumbai
3/ Varies from 5 to 8%
4/ Varies from 3 to 5%
5/ Varies from 5 to 7% depending on the product
6/ Varies from 15 to 20%

7/ To be phased out in March 2006

I. Food Laws

Food exporters will have to grapple with India's varied and outdated food sector laws, particularly those pertaining to the use of additives and colors, labeling requirements, packaging, weights and measures, shelf-life, and phytosanitary regulations. Following the removal of quantitative restrictions on imports of food products in 2001, the GOI issued several notifications to make imported food products comply with domestic laws. Details on India's food laws are available in our "Food and Agricultural Import Regulations and Standards Country Report 2005" (IN5080), which can be accessed via the FAS/USDA website: www.fas.usda.gov

Some of the major food laws affecting Indian food importers are:

- **The Prevention of Food Adulteration (PFA) Act, 1954,** and **PFA Rules of 1955,** as amended. This is a basic statute established to protect consumers against adulterated foods, and it encompasses food colors and preservatives, pesticide residues, packaging, labeling, and regulation of sales. This is similar to the Federal Food, Drug, and Cosmetics Act of the United States' Food and Drug Administration. PFA standards and regulations apply equally to domestic and imported products. The PFA Act and Rules, and recent notifications are available at: http://mohfw.nic.in/pfa.htm

- **The Standards of Weights and Measures Act, 1976**, and the **Standards of Weights and Measures (Packaged Commodities) Rules, 1977**, as amended. This Act established standards for weights and measures to regulate interstate trade and commerce in goods that are sold or distributed by weight, measure, or number. The Rules formed under the Act require labeling regarding the nature of the commodity, the name and address of the manufacturer, quantity, date of manufacture, best-before date, and the MRP. These labeling requirements apply equally to imported and domestic packaged foods. This Act and Rules and recent notifications are available at: http://fcamin.nic.in/wm_ind.htm

- **The Plant Quarantine (Regulation of Import into India) Order, 2003, and amendments**. These legislative measures regulate imports of planting seeds and agricultural products into India. These can be accessed from: http://agricoop.nic.in/gazette/gazette.htm. Please also see Post's GAIN reports (IN3126; IN4012; IN4032; IN4066; IN4099)

SECTION III: MARKET SECTORS: STRUCTURE AND TENDS

A. Food Retail

Food retailing in India is not yet an organized industry, mostly resulting from the sheer size of the country, its regional diversity, and the fairly limited infrastructure support. According to some experts, food and beverage retailing in India has market sales of $135 billion, of which the organized retail sector has been able to capture only a fraction of a percent. India has no hypermarkets in the Western sense of the word, and very few supermarkets. While several larger stores and specialty shops in major cities cater to the less price sensitive, wealthy segment of the population, virtually all other retailers are small, independent, owner-managed grocery stops (mainly "Mom & Pop" or, more accurately, "Pop & Son" stores). Most of these outlets have very basic offerings, fixed prices, no information technology, and a poor, crowded ambience.

Supermarkets are a recent phenomenon in India. Those in existence are basically larger grocery and convenience stores located in and around major cities. These "Indian Supermarkets" are typically 3,000 to 5,000 square feet, and are self-service stores stocked with a wide range of Indian and, more recently, imported groceries, snacks, processed food, confectionary, personal hygiene, and cosmetic products. Imported items in the supermarkets consist mainly of almonds and other dry fruits, fruit juices, ketchup, chocolates, sauces, specialty cheese, potato chips, canned fruits/vegetables, cookies, and cake mixes. These shops generally are open from 9:30 a.m. to 7:30 p.m., six days a week. They stock most national brands, regional and specialty brands, and sometimes their own brand of packaged dry products, and some international brands. Many have a small bakery/confectionary section, and some have fresh produce and dairy products. A few sell small quantities of frozen foods, as cold storage availability is limited and electric power supply is erratic. A typical supermarket carries about 6,000 stock-keeping units. Most, however, have no item-based inventory control. Their margins typically range from 14 to 16 percent. These higher margins are largely due to the ability to get somewhat better prices from suppliers on bulk purchases, and from the ability to generate income from selling advertising space and special in-store promotions to manufacturers. The cost structure of a supermarket is typically 3 percent for property; 3.5 percent for labor; air conditioning and lighting utilities up to 3.5 percent; interest cost of 1.5 percent; leaving 3 to 5 percent of sales as profit before tax.

There are only a few multi-unit supermarket chains in India, mostly in the south. Most Indian supermarkets cater to the segment of the population that seeks wider selection and has financial means, storage space (including refrigerators), and their own transportation. Although the exact size of this population segment is not available, roughly 15 to 20 percent of the urban population is estimated to shop mostly in these supermarkets, and this percentage is growing. Large corporate groups are becoming interested in diversifying into retailing. The government has not yet made a decision on foreign direct investment in the retail sector, but a lively debate rages within the Indian political and economic spheres.

The convenience stores at petrol pumps (gas stations), which sell all sorts of "impulse buys" like chocolates, soft drinks, cakes and cookies, potato chips, etc., have made some inroads in major metropolitan areas.

The concepts of shopping malls and hypermarkets are beginning to take shape in India's major cities. Space and cost constraints are prompting shopping areas to move to city suburbs. Over 200 such retail malls in 25 cities are under construction or in the active planning stage. Shopping malls such as DLF City Center, The Metropolitan, Big Bazar, Center Stage Mall, around Delhi; Crossroads and R-Mall in Mumbai; and Spencer's in Chennai; are revolutionizing the way the Indian middle class shop. For a detailed report on the Indian retail sector, please see Post's GAIN report IN4126.

B. Food Service

After a slump in 2002, the Indian hotel industry is getting back on the global tourist map. India has some excellent hotel chains, including Indian Hotels Ltd. (Taj Group); East India Hotels Company Ltd. (Oberoi Group); ITC Ltd. (Welcome Group); Asian Hotel; and Leela Venture. Several international chains such as Radisson, Best Western, Hilton, Marriott, Country Inn and Suites By Carlson, and Quality Inn have also established a presence through franchising. The premium segment (including 5 star deluxe and 5 star hotels) dominates the hotel business in India and accounts for roughly 65 percent of the total revenues to the industry. Hotels in this segment are concentrated in major metropolitan cities such as New Delhi, Mumbai, Chennai, Bangalore, and Kolkata, and also have a moderate presence along major tourist circuits. Most of the 5-star business is generated from business travelers, and most of those are international. The mid-market segment (comprised of 3 and 4 star hotels) caters to a mix of business and leisure travelers and is mostly concentrated in second-tier cities and in major tourist locations. The budget segment (2 star ratings or below) is present in most towns and cities and places of tourist interest.

Premium and mid-market hotels source their food and beverage imports mostly through their agents who work with consolidators located in Dubai, Amsterdam, Singapore, and Australia. Because of the high freight costs and small quantities involved, very little is directly imported from the United States. While leading hotels appreciate the excellent reputation of US food products, the higher cost is a constraint. Nevertheless, the Indian hotel and tourism sector (which is booming) provides opportunities for US exporters to position themselves in the market place.

After a slow start, the fast food industry has shown impressive growth in recent years. Most US chains, such as McDonald's, Dominos, and Pizza Hut, TGIF, along with local chains, are doing well in the major urban areas and are spreading into smaller cities. To "curry" favor with Indian diners, pizza, burger, and other fast food makers have developed a range of Indianized products to suit local tastes. Some outlets serve exclusively vegetarian food, catering to the country's large vegetarian population. Although fast food chains source most of their raw materials locally, several products, such as french fries, specialty cheeses, some meat and fishery products, flavors, condiments, and ingredients, are often imported. In the past few years, the "coffee shop" culture has spread throughout major cities and seems poised for further growth, which should provide an opportunity for US companies to supply products such as syrups, specialty coffees, etc. For a detailed report on HRI Food Service Sector, please see Post's GAIN report IN5066.

The ready-to-eat (RTE) industry, while still nascent in India, is growing fast. The growing number of nuclear families (where the family group consists only of father, mother, and children) vis-à-vis joint families, an increase in household incomes, and a significant rise in the number of single men and women professionals in recent years, have opened opportunities in the RTE segment. Presently, there are only a few Indian companies like ITC and MTR focusing on this segment.

C. Food Processing

India's food-processing sector, although still in a nascent stage, has undergone important changes over the last six to seven years. The types, variety, quality, and presentation of products have all improved, mainly as a result of economic liberalization, which led to foreign direct investment (FDI) in this sector. Several multinational companies, including US companies like Pepsi, Coca Cola, ConAgra, Cargill, Heinz, and Kellogg's have invested in the Indian food-processing industry.

Much of India's food-processing industry is small-scale and involves very little value addition, although in recent years several multinational food-processing companies have started operations in India. A plethora of internal restrictions, including (a) prohibition on foreign direct investment in retail, (b) prohibitions on contract farming, (c) barriers to interstate commerce based on revenue and food security concerns, (d) some of the highest taxes on processed foods in the world, and (e) inefficient infrastructure and marketing networks seriously constrain growth of the sector.

The almost year-round availability of fresh products across the country, combined with consumers' preference for fresh products and freshly cooked foods, has dampened demand for processed food products. However, with the changing lifestyle of consumers and the rising disposable income of the growing middle class, there is increasing demand for convenient and hygienic foods. This is expected to increase demand for processed food products, giving a boost to the domestic food-processing industry, and providing opportunities for increased imports of processed foods and food ingredients. The Indian food-processing industry has started looking outward to acquire the latest food ingredients and technology.

The level of processing varies across segments: ranging from less than 2 percent of production in the case of fruits and vegetables to over 90 percent in non-perishable products such as cereals and pulses. In the latter segment, however, processing involves very little value addition, and is mostly confined to grading, cleaning, milling, and packing; with negligible use of additives, preservatives, and flavors. Only about two percent of India's agricultural output is further processed. Although the quality tends not to be world class, domestic production is the primary source of competition for foreign suppliers.

The Indian government is in the process of formulating a "processed food development policy" which seeks to create an appropriate environment for entrepreneurs to set up food processing operations to spur growth in the food processing sector. It includes an Integrated Food Law, which is far-reaching legislation that would provide a single window providing guidance regarding marketing, processing, handling, transportation, and sale of foods. It also will establish food safety standards applicable to domestic and imported food products. For details about India's Food Processing Industry, see Post's GAIN report IN5031.

SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS

Product Category	Market Size 2004	Imports 2003/04 $ million	Expected Avg. Annual Import Growth	Import Tariff 1/	Key Constraints	Market Attractiveness for USA
Apples Grapes	1.5 mmt 1.2 mmt	11.7 0.6	20% 25%	50% 30.6%	Competition from domestic and key established suppliers like China and Australia	Seasonal shortages and high prices; increasing interest in quality fruits among India's elite
Chocolate Biscuits	n.a. 1.3 mmt	4.5 2.3	10% 10%	52.2% 30% +AD	Competition from other suppliers and domestic suppliers	Import liberalization and consumer preference for imported products
Almonds Pistachios	25 tmt 6 tmt	68.0 29.0	5% 8%	Rs.35/ kg 30.6%	Competition from Iran and Afghanistan	High seasonal demand; increasing use; health consciousness
Fruit juices	n.a.	10.0	10%	30.6%	Competition from nearby suppliers and domestic production	Increasing health awareness among middle class and shortage of local quality products
Whiskies and other alcoholic beverages	n.a.	12.0	15 %	182% + AD	High import duty; competition from other suppliers	Growing consumption, poor quality domestic products
Pasta Sauces, spreads, salad dressings, condiments Cocoa products	n.a. n.a. n.a.	4.0 8.0 5.0	30% 10% 10%	52.2% 30.6% 52.2%	Competition from domestic suppliers	Increasing popularity; growing food processing sector, fast food sector

Potato products	n.a.	2.6	20%	30.6%		
Cheese	n.a.	1.5	20%	30.6%		

1/ Total import duty includes basic duty, countervailing duty, and education cess.
Note: Post analysis based on trade data and information from market sources.

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

The following reports may be of interest to US exporters interested in India. These, and related reports prepared by this office, can be accessed via the FAS Home Page: www.fas.usda.gov by clicking on "Attaché Reports" and searching by the report number.

Report Number	Subject
IN5080	Food & Agricultural Import Regulations and Standards Report
IN5066	HRI Food Services Sector
IN5031	Food Processing Ingredients Sector
IN4126	Retail Food Sector
IN4104	Promotion Opportunities

The Country Commercial Guide prepared by the Commercial Section of the US Embassy will also be of interest to exporters. This can be accessed through www.stat-usa.gov or www.export.gov.

For additional information and guidance please contact:

Agricultural Counselor
Foreign Agricultural Service
Embassy of the United States of America
Chanakyapuri
New Delhi – 110 021
Phone: 91-11-24198000
Fax: 91-11-24198530
E-mail: agnewdelhi@usda.gov

APPENDIX I: STATISTICS

Table A: Key Trade & Demographic Information

Agricultural Imports From All Countries ($Mil)/U.S. Market Share (%) 1/	4,854 (5)
Consumer Food Imports From All Countries ($Mil)/U.S. Market Share (%) 1/	710 (10)
Edible Fishery Imports from All Countries ($Mil)/U.S. Share (%) 1/	11 (9)
Total Population (Millions)/Annual Growth Rate (%) 2/	1,111 (1.95)
Urban Population (Million)/ Annual Growth Rate (%) 2/	297 (2.7)
Number of Major Metropolitan Areas 3/	27
Size of Middle Class (Millions)/Growth Rate (%) 4/	280 (8)
Per Capita Gross Domestic Product (U.S. $)	528
Per Capita Food Expenditure (U.S. $) 5/	120
Exchange Rate (US$1 = Rupees)	44.0

1/ UN Trade Database for the year 2003

2/ 2005 projection based on Census India 2001 & Census India 1991

3/ Population in excess of 1 million: Greater Mumbai, Kolkata, Delhi, Chennai, Bangalore, Ahmedabad, Hyderabad, Pune, Kanpur, Surat, Jaipur, Lucknow, Nagpur, Indore, Bhopal, Ludhiana, Patna, Varaodara, Thane, Agra, Kalyan, Varanasi, Nashik, Meerut, Faridabad, Haora, Pimprichinchwad.

4/ People living in households with annual income of rs. 90,000 ($1,895) or above (2001/02 NCAER Data)

5/ In urban areas. Source: Consumer Expenditure Survey Data –59th Round, 2003

Table B: Consumer Food & Edible Fishery Product Imports

India Imports	Imports from the World		Imports from the U.S.		U.S. Market Share (%)	
(in million dollars)	2002	2003	2002	2003	2002	2003
CONSUMER-ORIENTED AGRICULTURAL TOTAL	627	710	95	74	15	10
Snack Food (excl nuts)	8	11	1	1	2	4
Breakfast Cereals & Pancake Mix	14	7	14	7	99	95
Red Meats, Fresh/Chilled/Frozen	1	1	0	0	0	0
Red Meats, Prepared/Preserved	1	1	1	1	0	1
Poultry Meat	1	1	0	0	0	0
Dairy Products (excl. cheese)	12	27	1	1	3	4
Cheese	2	2	1	1	11	0
Eggs & Products	2	1	1	1	28	8
Fresh Fruit	43	51	4	3	9	6
Fresh Vegetables	18	7	1	0	0	0
Processed Fruit & Vegetables	16	26	1	2	6	7
Fruit & Vegetable Juices	9	7	1	1	0	4
Tree Nuts	336	402	38	51	11	13
Wine & Beer	3	2	1	1	0	6
Nursery Products & Cut Flowers	2	2	1	1	8	4
Pet Foods (Dog & Cat Food)	1	1	1	1	26	37
Other Consumer-Oriented Products	162	162	36	9	22	6
FISH & SEAFOOD PRODUCTS	8	11	1	1	8	9
Salmon	1	1	1	0	13	0
Surimi	0	1	0	0	0	0
Crustaceans	4	4	1	1	18	25
Groundfish & Flatfish	1	1	0	0	0	0
Mollusks	1	1	0	0	0	0
Other Fishery Products	4	6	1	0	0	0
AGRICULTURAL PRODUCTS TOTAL	3,993	4,854	256	265	6	5
AGRICULTURAL, FISH & FORESTRY TOTAL	4,412	5,580	259	269	6	5

Source: FAS Global Agricultural Trade System (http://untrade.fas.usda.gov/untrade/)

Table C: Top 15 Suppliers of Consumer Food & Edible Fishery Products

CONSUMER-ORIENTED AGRICULTURAL			FISH & SEAFOOD PRODUCTS		
(in thousand dollars)			(in thousand dollars)		
	2002	2003		2002	2003
United States	94,991	73,991	Bangladesh	3,913	5,351
Indonesia	46,693	65,685	Burma	148	1,004
Tanzania	53,515	58,267	United States	635	1,004
Guinea-Bissau	46,972	51,538	Malaysia	211	515
Iran	40,761	50,585	United Kingdom	305	391
Cote d'Ivoire	49,901	47,570	Indonesia	1,066	325
Afghanistan	17,057	32,370	Germany	0	319
Benin	22,089	30,362	France	49	282
Nepal	24,822	26,655	Oman	6	280
China	30,134	20,996	China	19	279
Mozambique	21,058	20,640	New Zealand	0	202
Ghana	3,059	20,006	Italy	70	177
Sri Lanka	28,900	18,754	Thailand	31	160
Netherlands	12,001	14,209	Areas NES	132	147
Australia	9,544	14,004	Belgium	241	131
Other	125,599	163,999	Other	1,326	607
World	627,140	709,666	World	8,155	11,180

Source: FAS Global Agricultural Trade System (http://untrade.fas.usda.gov/untrade/)