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RIRDC Short Report No 33: Opportunities and implications for Australian food exporters in India

THE FULL REPORT

This is a summary by Sam Leone of the full research report The India Processed Food Market: Traditions and Change by Laurie Smith and Priya Ahuja, INSTATE Pty Ltd (RIRDC Project No INS-5A) and available from RIRDC for \$20 (see page 8 for ordering details). The authors may be contacted on phone: (02) 99552711, fax: (02) 99552275.

Australian food exporters are facing many challenges because of recent turbulence in major regional markets. This underlines the need for cool-headed assessments of trade opportunities in growing markets such as India.

Such an assessment is set out in a report co-funded by the Rural Industries Research and Development Corporation's Global Competitiveness Program.

The India Processed Food Market: Traditions and Change examines the growth in demand in India for high-quality processed foods and emerging opportunities for Australian firms.

It provides a broad assessment of the strengths and weaknesses of the domestic Indian food industry and outlines possible entry strategies for Australian companies.

Researched by Mr Laurie Smith and Ms Priya Ahuja of the Sydney firm, INSTATE Pty Ltd, it shows that during the 1990s, there has been a broad opening of the Indian economy to foreign investment and significant unilateral tariff reductions. But the agricultural sector has been sheltered from most reform as, to a lesser extent, have some parts of the food processing sector.

Steady change in the food sector is now underway – fuelled by rising incomes and an influx of foreign investment in the food processing and fast food sectors. Foreign input into the development of new retailing models also has contributed.

The report says that external impacts will increase as a result of last year's World Trade Organisation (WTO) negotiations which disallowed India's balance-of-payments defence of restrictive trade policy measures governing a range of sectors, including food.

Meanwhile, the process of trade liberalisation has begun. In April 1997, the Indian Government eased import restrictions on more than 150 food products, including:

- a range of seafood products, including lobster, crabs and scallops;
- butter, oil and certain processed cheeses;
- certain nuts and dried fruits;
- certain milled grain products, including some flours, meals and gluten;
- other cereal preparations, such as breakfast cereals, breads, biscuits and doughs;
- most major vegetable oils.

Agreements reached under the auspices of the WTO by early 1998 provided for the total

phase-out of all quantitative (quota) restrictions by April 2003. But economic policy-making was put on hold during the run up to the March 1998 Indian election.

The report says the election of a BJP-led coalition may slow the pace of reform because of that government's reservations about foreign investment in the consumer sector and across-the-board trade liberalisation. International capital markets will closely monitor early policy developments under the new Government and could react strongly to any signs of a retreat from the process of economic and trade policy liberalisation.

Further negotiations under the auspices of the WTO can be expected to add to the pressure on the Government to accelerate its current timetable for trade liberalisation.

India's food processing sector is very small. Valued at current exchange rates, the turnover of the 'organised' food processing sector is less than that of the same Australian industry. Small processors and labour-intensive operations dominate, and with just a few exceptions, India's food processors are starting from a low base.

Table 1

Indicator	Phase I (1991-1997)	Phase II (Next 5 -10 Years)	Phase III (Long Term)
Significant Market Segments Available to Exporters:	Unrestricted access for limited range of commodities (e.g. pulses) Ad hoc imports of some restricted commodities e.g. wheat; under tight controls often including canalisation of imports Small but growing market for high quality, high value processed and fresh/chilled products for "foreign" hotel trade and other special import licence holders.	Broader access for most commodities including phasing down of licensing, canalisation and other NTBs. Better access (lower duties and less onerous NTBs) for manufacturing and food service inputs. Gradual opening of market for consumer products (from zero start).	All segments
Significant Market Segments Closed to Exporters:	Consumer food products Most of food service and manufacturing sector.	Access to significant elements of consumer product sector to remain restricted.	Limited exceptions possible in most sensitive sectors.
Principal Market Constraints:	Import restrictions (tariffs and ntbs) and small size of market are major impediments.	Lessening import restrictions.	Substantially lower import barriers. Strong competition from domestic Indian players the principal constraint.
Import Channels:	Many commodities canalised. Direct imports by special licence holders (foreign exchange earners).	Phasing out of canalisation Initially more items permitted under special licence, then moving to open import.	Continuation of liberalisation
Domestic Indian Processing Industry:	Generally small, suffering from infrastructure and cost impediments. Uneven quality. Investment in new capacity planned/underway.	Steady growth Policy impediments to corporatisation of sector and development of larger firms gradually removed. Faces fierce import competition	Strong Indian players emerge (both domestic and foreign -invested firms). Economies of scale start to take effect.

Investment Environment:	Basically welcoming policy, some restrictions. Domestic competition limited.	Further improvement in investment environment.	Investment environment broadly compatible with key Asian competitors - keen competition with them.
Indian Processed Food Exports:	Modest growth from very low base.	Continuing growth	Emerges as significant price competitive player in some products and markets.
Source: INSTATE Pty Ltd			

Economic growth has created foreign interest

Foreign interest in the Indian consumer market in general, and the food market in particular, was spurred when economic growth stepped up a notch in the early and mid-1990s, delivering new affluence to many Indians, especially in the major cities.

But estimates of the size of India's new 'consumer class' vary wildly and are frequently exaggerated. The report says the 10 million or so households earning more than A\$ 2 700 a year are a realistic target.

Implications for Australia

Products in which Australia is internationally competitive and should do well in the Indian market in coming years include:

- cereal preparations such as breakfast cereals, breads, biscuits and doughs;
- higher value-added dairy products such as specialised milk powders, processed cheese, cheese powders, etc;
- malting barley and, possibly, malt;
- high-value fresh seafood;
- specialised baking flours, mixes, fats and oils;
- other edible oils and fats;
- some dried fruit and nuts; and
- wine.

In the longer term, developing an effective in-market presence, normally via direct investment, will emerge as the biggest challenge for Australian processed food producers wishing to create and sustain a significant position in the Indian market. India, like China, is a market in which all big international food companies will build a presence during the first decade or so after the market opens.

For these big players, the route to success is likely to involve investment in domestic production or, at least, re-packing. Domestic production will pull in imports of some key raw materials or ingredients, but most inputs will be sourced locally, leaving imports to fill specialised niches or cyclical shortages.

Over the next decade or so, India also can be expected to emerge as a rival in traditional Australian markets such as the Asia Pacific.

Strong Indian export growth is likely to be achieved in products ranging from processed fruit and vegetables, some processed dairy products, new niche products and traditional export items such as seafood spices and nuts. India also will remain a significant importer and exporter of grain.

Methodology and scope

The study examined a range of factors driving change in the processed food market in India and was based on an extensive review of literature and databases in Australia, India and other countries.

Fieldwork was conducted in India in January/February 1997. This included data collection, interviews with national and state government agency officials, multinational and domestic companies and peak industry organisations, and visits to a range of retail outlets and distribution/wholesale operations.

Interviews were held with a broad cross section of executives, including companies and agencies with policy responsibility for the food sector; and those which service the sector (eg, machinery, packaging industries). As well, there were interviews with representatives in the food processing sector who had production, financial and/or sales responsibilities; and from the food service sector including the service, distribution and retailing areas.

