A Passage to the Indian Market Could Start With Horticultural Products

By Ted Goldammer

Nuts, fresh and dried fruits and vegetables, and wine are just a few of the items that could be making inroads into the Indian market now that the government is lifting import restrictions on a wide variety of products.

Rising living standards and the expanding number of middle-class consumers (perhaps as many as 200 million) are expected to lead to increased food imports as consumers demand more variety and greater quality of food products. Horticultural products, in particular, may find a ready market in India.

Although the country remains primarily rural, India is becoming increasingly urban with more than 60 million Indians living in the eight largest cities. The population is growing at 2 percent or 20 million annually, which is equivalent to the entire population of Australia.

Self-Sufficiency Was Long a Goal

With self-sufficiency as its goal for over four decades, the Indian government controlled the country's agriculture by subsidizing and regulating the domestic market. This policy insulated India's agriculture from outside competition, resulting in an industry fraught with inefficiencies.

Some economic reforms over the past few years have made progress by improving production technologies and by expanding and diversifying the agriculture sector.

For example, the Indian government is slowly upgrading handling and storage facilities for agricultural products. But more work is needed in this area since fruits and vegetables suffer heavy damage or deterioration—sometimes as much as 35 percent—during post-harvest handling.

A Shift in Trade Policy

As the world's second-most populous country, with a population of 1 billion, India would appear to be a natural market for U.S. products. India's trade policy, however, has effectively prohibited imports of most agricultural goods through the use of quantitative import restrictions. Since independence in 1947, tariffs, quotas, import licensing and state monopolies became the mainstays of India's trade policy. The result was a virtual ban on imports of agricultural products.

Until 1991, the Indian market was closed to imports of most agricultural and consumer food products because of licens-

THE BIGGEST COMPETITION THAT THE UNITED STATES FACES IN EXPORTING TO INDIA IS INDIA ITSELF.

ing and quota restrictions. During 1991-97, quotas were lifted for some products but at this point essentially all major agricultural products were on the negative import list that required licenses and quotas.

The First Steps of Liberalization

The first major step towards liberalization occurred in 1997 when the government announced its five-year (1997-2002) Export-Import Policy. Import licensing restrictions (which had effectively banned imports) were fully or partially lifted on several food items by moving them from the negative import list to Open General License (OGL), making them freely importable.

In 1998 and 1999, the government moved roughly 470 agricultural products onto the OGL, opening the market for more consumer food products with the exception of meat and poultry products, some fruits and vegetables, food grains and some processed food items.

In late 1999, India agreed to eliminate all quantitative restrictions for more than 1,400 agricultural products. Half of the restrictions were lifted within three months of the agreement date, while the remaining half of the restrictions will be lifted by April 1, 2001.

When the remaining tariff line items come off the negative import list, India's agricultural and consumer product imports will be free of quotas. This agreement follows a ruling by the World Trade Organization after the United States challenged India's claim that its balance-of-payments situation justifies import restrictions.

High tariffs and duties will continue to be used to limit imports in the near term, but the removal of quantitative restrictions marks an important shift toward more transparent and equitable trade policy.

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Best Products Review

Although access for imported agricultural products remains limited, the market potential for fruit and vegetable exports to India over the next decade is promising.

The recent lifting of import licensing restrictions on several food products and the reduction in the bound tariff rate for most of these food products, albeit at high applied duties, will provide opportunities for U.S. horticultural imports.

Because most of India's people have low incomes, domestic demand is mainly for basic, low-priced staples such as rice, bread, peas and lentils. However, horticultural imports have risen since the lifting of restrictions, and the increase is expected to continue; tree nuts, apples, pears, table grapes, frozen potato fries, dried fruit and wine have the highest import potential.

Here's a brief snapshot of the opportunities for exporters of horticultural products.

Tree Nuts. Ongoing trade negotiations with India since 1988 have succeeded in opening this market for U.S. **almonds**. By

High Tariffs Still the Rule

Despite reforms, Indian tariffs are still among the highest in the world (15-35 percent on most food products), especially for goods that can be produced domestically.

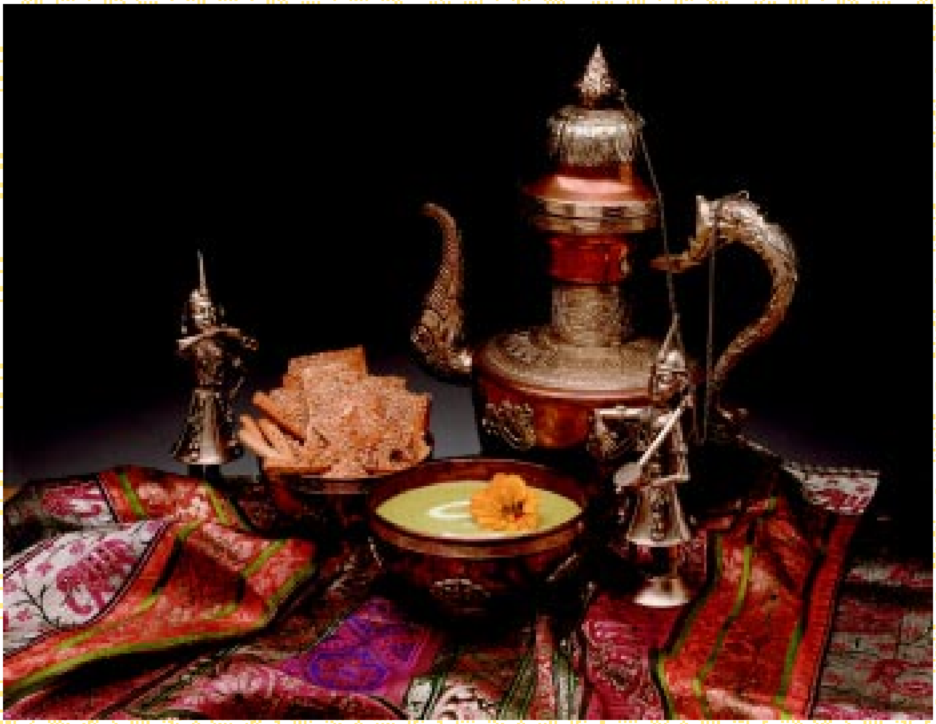
Imports are also subject to additional duties, including a surcharge on the basic duty, additional (or popularly known as countervailing) duty, which corresponds to excise taxes on similar domestically produced goods, and a special additional duty (SAD), also known as the "*swadeshi* tax."

The Indian tariff structure contains a range of exemptions for imports of products that are to be further processed for export.

The basic duty, usually ad valorem, normally has four gradations: 5 percent, 15 percent, 25 percent and 35 percent. However, imports of some commodities attract higher duties (50-100 percent) to provide protection to domestic producers of politically sensitive commodities or products such as sugar and poultry.

Import duties on liquor vary from 100 to 210 percent. A zero duty applies to only a very few basic commodities. The surcharge on the basic duty is a uniform 10 percent, applicable to all commodities except certain GATT-bound products. In effect, the surcharge raises the basic duty by 10 percent (5 percent basic duty becomes 5.5 percent; 15 percent becomes 16.5 percent, and so on).

The countervailing duty is equal to the excise duty on similar products. The SAD is purported to be the equivalent of local sales taxes and similar levies applicable on similar domestic goods and is computed on the aggregate of assessed value, basic duty (including surcharge) and countervailing duty. Consequently, the total duty on imports of food products can vary from 16 percent to 67 percent.



the end of 2000, these efforts had helped U.S. almond exports to reach sales estimated at $60 million, making India our ninth largest market. India imports most of its almonds from the United States (approximately 95 percent), with the rest coming from Afghanistan and Iran. These latter imports have more to do with tradition than quality.

Indian importers primarily buy in-shell almonds because the tariff is lower than that for shelled almonds. According to industry estimates, the elimination of India's duty on in-shell almonds would result in an increase of U.S. almond exports to India of approximately $100 million.

The almonds can be shelled by hand because of the low cost of labor and resold within India. Hand-shelling results in almonds that are virtually free of blemishes, far superior to mechanically shelled almonds.

Almonds are very much a part of the cultural eating patterns of Indians, who consume them primarily as a food ingredient, rather than as a snack. Winter months account for about 75 percent of total sales.

Possible Pistachio Purchases

India's major supplier of pistachios is Iran, accounting for almost all shipments. Until recently the market potential for U.S. **pistachios** was limited due to licensing requirements and availability of lower priced Iranian nuts. However, with the elimination of import licensing, their market potential has significantly improved.

Iranian pistachios are primarily used for processing and are considered to be greener and chewier than U.S. pistachios.

U.S. pistachios are considered much better for snacking, but will have to overcome consumers' lack of familiarity with their characteristics.

A Year-Round Appetite for Fruit

Export prospects for U.S. **apples** are good. Although the domestic market is extremely price-sensitive, consumers are prepared to pay a premium for high-quality apples, particularly during the off-season (March-July).

Unlike the seasonal demand for most other fruits, Indian consumers have a year-round appetite for apples. Red Delicious apples make up most of the imports because they are the preferred variety, but many traders believe there is opportunity for other varieties such as Fuji, Gala, Golden Delicious, Granny Smith and Braeburn.

U.S. apples are being wholesaled in Mumbai at about $1.35 per kilogram, compared with $0.30 to $0.50 per kilogram for domestically grown apples. High-quality apples reportedly receive a premium of 30-50 percent depending on the season and market.

Market sources expect U.S. exports to increase but expect stiff competition from Australia and New Zealand, which are gaining a presence in the Indian market. Australia has a strong presence in southern India, while South Africa and New Zealand are more active in the north.

While India is a domestic producer of fruit, there is little production of **pears**. One constraint to U.S. exports could be the lack of familiarity with the product, but Indian importers who have experience with pears believe this isn't an issue.

The absence of a domestic pear industry will certainly make it easier to reduce the tariffs for pear imports, unlike commodities that have organized domestic industries.

Although India already produces **table grapes**, the market could still be a multi-million-dollar one for California grapes, as evidenced by the rapid growth of India's own table grape industry. And though there is some anticipated resistance by Indian grape growers, this should not be a major obstacle since India's grape harvest is counter-seasonal to that of California.

However, the lack of adequate cold storage facilities may be an obstacle, as could the recent increase in the bound tariff on table grapes from 30 to 40 percent.

The key market for table grapes is northern India, particularly Mumbai and New Delhi, where incomes are higher and there is greater awareness of the product because of familiarity with grapes from Afghanistan. Consumers prefer table grapes that are much sweeter (19-22° Brix[1]) than what is typically consumed throughout the world (17-19°). In addition, consumers prefer a yellowish-green color (Thompson Seedless) and a more elongated grape.

[1] *A measurement of sugar solutions or sweetness.*

HIGH TARIFFS AND DUTIES WILL CONTINUE TO BE USED TO LIMIT IMPORTS IN THE NEAR TERM, BUT THE REMOVAL OF QUANTITATIVE RESTRICTIONS MARKS AN IMPORTANT SHIFT TOWARD A MORE TRANSPARENT AND EQUITABLE TRADE POLICY REGIME.

Frozen Fries Market Stays Hot

India is one market where the export opportunities for **frozen potato fries** are promising given the sound economy, market reforms and the ever-changing lifestyle. A faster pace of life and a demand for quality, variety and convenience in food products consistent with the patterns observed in other markets, coupled with the large population, translate into enormous potential for frozen potato fries.

As in other markets, the primary way to sell these fries is through international fast-food restaurants, which are steadily expanding.

The United States is well positioned to compete in the frozen potato sector since competition from domestic supply is nonexistent. The United States has about a 50-percent share of frozen potato imports, with Australia accounting for the balance. The Netherlands and Canada also export to this market, but in very small quantities.

Unfortunately, India's distribution chain for frozen foods is inadequate, which will obviously be a major constraint for developing the market. Fortunately, most of the international fast-food chains have their own cold storage facilities and should be able to service future demand without having to build additional facilities.

Raisin' Sales of Raisins and Other Dried Fruit

The market potential for U.S. **raisins** shows promise but may be limited due to the higher landed prices of U.S. raisins as well the preference for light-colored raisins. Indians prefer golden raisins because they are drier, not too sticky and sweeter. However, there is some preference for dark raisins in southern India because of traditional usage as a food ingredient.

Despite a prohibitively high tariff, India imports small quantities of raisins, primarily from Afghanistan, Pakistan and China. Afghani raisins are very popular because of their plumpness. Imports from these countries have been declining over the years due to increased domestic production.

India may be one of the few frontiers left in the world where the U.S. could realize significant export growth in sales of **prunes** since it is already a strong market for dried fruits and nuts. Currently, Iran is the only exporter of prunes to India, but the prunes are considered to be of poor quality and very perishable.

Wine Is a Winner, But Restrictions Apply

There may be plenty of opportunity for wine sales to India, which is one of the largest alcohol beverage markets in the world. It represents roughly 10 percent of global consumption or roughly twice the size of the U.S. market.

However, India is also one of the world's most restricted markets, with an actual clause in the constitution that states that the state shall endeavor to enforce prohibition. Only four of India's 29 states are dry, with many exercising a monopoly control over wholesale distribution and/or retail sales.

There are considerable restrictions regarding wine advertising, licensing and manufacturing. Taxation rates are high and an important source of revenue to the government.

Despite these challenges, wine consumption has grown recently at a rate of 12 to 15 percent annually. U.S. wine exports to India are forecast to reach $200,000

A Profile of the Indian Market: Exports and Imports

Even though India remains a net agricultural exporter and is usually self-sufficient or a surplus producer of food grains, inadequate incomes leave millions malnourished.

India's exports of agricultural products were valued at $6.77 billion in 1998/1999. Leading exports were marine products, cashew nuts, rice, oilseed meals, coffee and tea. India's share in world agricultural trade is less than 1 percent.

India enjoys the unique distinction of being the single largest producer, consumer and exporter of spices in the world as well as the leading producer and exporter of cashews in the world.

India's agricultural exports to the United States are 10 times greater than U.S. agricultural exports to India ($100 million).

India's total agricultural imports were valued at $3.25 billion in 1998/99. Leading imports were vegetable oils, pulses, raw cashew nuts and wood and wood products.

India is the world's largest importer of vegetable oil and pulses. Because of India's restrictive trade policies, agricultural imports are small compared with the size of the domestic market. For food security purposes, the government occasionally imports significant quantities of wheat, particularly in the years of adverse domestic supply.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and $350,000, respectively, in 2000 and 2001.

Although the current market for wine is quite small, there is the possibility that changes in alcoholic beverage consumption in India could mirror other countries where wine consumption is growing at the expense of beer and spirits.

Wine sales to hotels are increasing at a rate of 20 to 40 percent annually. Initially wine was sold in hotels that primarily catered to foreign visitors, but this is changing as more hotels that cater to Indians are also selling wine.

Hotels predominantly sell French wines, although in the past two to three years Australian and U.S. wine sales have increased. U.S. wines need to overcome lack of recognition in the Indian market.

Competition From at Home and Abroad

The biggest competition that the United States faces in exporting to India is India itself. Domestically grown fruits and vegetables, although generally of lower quality, pose a significant threat since domestic prices are generally lower than the prices of imported fruits and vegetables.

Almonds account for almost 90 percent of U.S. horticultural exports to India, followed by fruit and vegetable juices, apples, frozen potato fries and wine. Reducing government-imposed tariffs and duties may make these products more competitive.

Brazil, Australia, Canada and Argentina are the primary competitors of the United States in India's imported food market, and have taken market share away from U.S. suppliers over the past several years. The geographic proximity of New Zealand, Australia and some European countries gives them a freight advantage over the United States.

Europeans in general, and more specifically the English, have a long history of trade with India. The Australians are also strengthening their efforts to enter the Indian market.

U.S. fruit juice exports to India face competition from Brazil and the United Kingdom. U.S. apples primarily compete with New Zealand, Australia and South Africa. India imports preserved vegetables, such as tomatoes, from the United States and Switzerland. U.S. olive exports compete with Spain's. The United Kingdom and France are the main competitors for U.S. wine sales in India. India also imports fruits and nuts from Iran, Equatorial Guinea and Tanzania.

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