



IndiaNews

FOOD & FOOD INGREDIENT REVIEW August September 2006

CONTENTS

[p.1](#) Editorial

Food Industry Overview

- [p.3](#) Doing business in India is not easy: IFC report
Decks for FTA with SACU cleared
- [p.4](#) India rises on economic freedom index
India in top 10 developing nations' list: UN report
- [p.5](#) Indian growth second fastest
Singapore asks India to widen import list, relax origin rules
- [p.6](#) Indo-Asean FTA talks back on track
Japan to propose Asian FTA
- [p.7](#) New trade, transit agreement signed with Bhutan
Hindustan Tin ties up with UK co to make beverage cans
- [p.8](#) Bill to regulate food processing
Small, medium food processors concern over new food law
No more fruity labels for non-fruit products
- [p.9](#) Shortage of glass bottles puts processed food sector in a jam
A skewed monsoon – is it global warming?
EIH puts frozen foods on expansion menu
- [p.10](#) Goldman Sachs buys 10 per cent in food major
Cremica

Aquaculture

- [p.10](#) Shrimp consignments to Japan to carry lab reports
- [p.11](#) Marine exports to US – additional security bonds may be exempted
EU puts Indian seafood exports to test

Dairy, Meat & Poultry

- [p.12](#) Bone-meat export banned
Broiler meat output to grow
- [p.13](#) India dispatches egg shipment after becoming bird flu free
India's own bird flu vaccine
Pak bans meat import from India
- [p.14](#) SKM Egg Products bullish on exports
Suguna Poultry to get IFC funds
- [p.15](#) Broaster chicken in Indian cities
Hind Industries animal husbandry project
Godrej poultry project in Punjab
- [p.16](#) Power from poultry litter
Poultry litter to fetch carbon credits
- [p.17](#) Amul set to lose Sagar brand soon
Brand Amul chosen to sell co-op milk in Gujarat

Dairy, Meat & Poultry (Continued)

- [p.18](#) Rising milk powder prices
Ghee for your heart
- [p.19](#) Wockhardt to sell Dumex's dairy unit
French cheese Boursin in India
- [p.20](#) Ice cream with natural vanillin
Baskin Robbins plans large-format stores in India
Metro Cash & Carry trains Andhra farmers in sheep breeding

Alcoholic Beverages

- [p.21](#) EU may move WTO on India wine imports
Liquor firms in high spirits
- [p.22](#) Tobacco, alcohol firms allowed surrogate ads
Ethanol opportunities in Brazil
General Bilimoria wines to try again
- [p.23](#) Beer could get cheaper
Foster's sells India, Vietnam breweries
- [p.24](#) Diageo set to re-enter IMFL mart
Radico joint venture with Diageo
Diageo to enter Food Bazaar
Diageo launches vodka brand
- [p.25](#) UB places bid for Invergordon
Mallya sets sights on NZ liquor co.
- [p.26](#) UB eyes Taittinger winery
UB all set to uncork Kingfisher wine
Grey Goose eyes tier-II cities
- [p.27](#) Carlsberg brewing India foray plan
Carlsberg, Khetan in talks to buy HP brewery
Jaipuria group to brew beer
- [p.28](#) Tea major to venture into wine
Italy's Cantina wine is here

[Contents continued on next page ...](#)

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IndiaNews

FOOD & FOOD INGREDIENT REVIEW August September 2006

CONTENTS (Continued)

Non-alcoholic Beverages

- [p.29](#) Increase in pesticide residue in soft drinks: New CSE report
- [p.30](#) 'Drinks safe' say Pepsi, Coke
Ban on colas
- [p.31](#) Banning colas no solution: CSE
- [p.32](#) Soft Drink sales plummet
Courts put brakes on cola ban
Coca-Cola test results show 'lower pesticide residue levels'
- [p.33](#) Cola controversy adds fizz to juices
'Fruit-flavored juices are not beverages'
Junk advisory
Coca-Cola plans to invest in Indian arm
- [p.34](#) Indra Nooyi to take charge of PepsiCo worldwide
Two more Rail Neer plants
Packaged water brands face Waterloo
- [p.35](#) Tatas buy 30 pc of US beverage co
PepsiCo enhanced water to pip Tata Tea

Tea

- [p.36](#) Tea Board irked by Pepsi's ad
Glacéau to source tea extracts from Tata Tea
Tata Tea to acquire 33 pc stake in S African co.
- [p.37](#) Tatas may move out of northern plantations
Plantation firms take leaf out of Tata Tea book
- [p.38](#) Tata Tea targets Rs. 70-bio turnover
Tetley to be repositioned
India's tea export to Pakistan rises
- [p.39](#) South India tea exports up despite fall in production
Polyphenol extraction technology
Tea industry set to come out of recession: ITA
- [p.40](#) Organic tea is the hot pick
Darjeeling tea launched in China

Coffee

- [p.41](#) Marketing liquid coffee
- [p.42](#) Coffee production to go up
Tamil Nadu coffee beans may not taste as good
Barista plans equity dilution
- [p.43](#) Coffee chain Barnie's in India
Starbucks to enter India next year
Costa Coffee to open 300 outlets
- [p.44](#) Cafe Coffee Day in Austria
Café Coffee Day to open 20 outlets every month

Food Service & Retailing

- [p.44](#) Pizza Hut to launch 40 more restaurants
- [p.45](#) Domino's Pizza on expansion mode
Dosa Plaza plans outlets in New York, New Jersey
- [p.46](#) Reliance bid for Super Bazar
Reliance Retail's early push
Small retailers band together
Reliance Retail MoU with Punjab
- [p.47](#) Wal-Mart gets nod for offices
Landmark, Carrefour may ink deal for India
ITC's Choupal Fresh for cities
- [p.48](#) Subhiksha to open 600 outlets
Actis set to buy controlling stake in Nilgiris Dairy Farm
- [p.49](#) Trinethra plans expansion in south
Spencer's to open 60 more outlets
Kumar Birla plans retail foray
- [p.50](#) Pulse Foods plans expansion
Pizza Hut adds local flavors
Metro to invest EUR 300 mio

Snacks

- [p.50](#) Frozen dessert brand launched
Britannia plans to raise stake in Daily Breads
- [p.51](#) Cadbury banks on new products for a double digit growth
Britannia expansion plans
- [p.52](#) Parle unveils Hide & Seek's premium variant
Parle enters sugar-free segment with Xhale
Parle to munch into north
- [p.53](#) Australian Foods plans expansion
Rising flour prices hit bread units

Culinary Items

- [p.54](#) India's supplements market poised to blossom
Himachal pushes for sugar-free herbal honey
- [p.55](#) Ready-To-Eat (RTE) What's on the plate
- [p.56](#) MTR ready to beat a retreat from foods?
Frozen foods doing hot business abroad
- [p.57](#) Alkem Labs to roll out food products
Crunchy munchy
ITC to export more ready-to-eat products

[Contents continued on next page ...](#)



IndiaNews

FOOD & FOOD INGREDIENT REVIEW August September 2006

CONTENTS (Continued)

Sugar

- [p.58](#) Sugar mill margins may come under pressure
- [p.59](#) Sugar exports may triple next year
Sugar exports permitted with prior DGFT nod
Carbon credit sweetens sugar companies' cup
- [p.60](#) Mills saddled with excess molasses, alcohol
Ethanol output from sorghum to start soon
- [p.61](#) Petroleum ministry offers Rs. 21 for ethanol
India ranked fifth in world ethanol production chart

Oils

- [p.62](#) Customs duty on palm group of oils cut
Govt. exempts additional duty on Nepal imports
Record soybean meal exports
Edible oil imports decline 18 per cent in 10 months
- [p.63](#) Saurashtra fast emerging as peanut butter hub
Soyameal exports to China seen up on duty cut
- [p.64](#) Sri Lanka limits *vanaspati* exports to India
Groundnut yield may drop 43 per cent this year
Ruchi Soya plans to expand Mangalore refinery capacity
Mahesh opens fourth unit
- [p.65](#) Godrej has big plans for oil palms
Godrej to enter oil palm farming in Gujarat
- [p.66](#) Godrej Agrovet MoU with Malaysian firm

Food Additives

- [p.66](#) Citric acid up on fresh demand
Mentha oil up on robust demand
- [p.67](#) Rage for patchouli cultivation in South Gujarat
Guar price may dip on good crop
- [p.68](#) Indicative Ingredient prices
- [p.69](#) Karnataka to set up AEZ for vanilla
Vanilco floats lower call option

Spices & Flavors

- [p.70](#) Rally in pepper mart headed for correction
Turmeric prices may go up
- [p.71](#) UK rejects 2 chilli shipments
Output shortfall, rising prices may hit chilli exports
- [p.72](#) Lower output of large cardamom
Demand, lower arrivals boost cardamom prices
- [p.73](#) Lebanon crisis spices up cumin seed exports
Cardamom planters float marketing company
NDDB to sell Spices Board's 'Flavourit' brand
- [p.74](#) Domestic Prices Of Major Spices

Foodgrains

- [p.75](#) Government relaxes wheat import norms
Wheat prices zoom to record level
- [p.76](#) R Pyarelal buys Ukrainian & Russian wheat
Cap on wheat, pulses stock
- [p.77](#) India set to be largest wheat importer
India planning to boost wheat output
- [p.78](#) Imported wheat contained dangerous weeds, admits govt.
Govt. nod for more wheat imports
Govt. lifts duty on private wheat import
- [p.79](#) New market opens up for Indian rice
Satnam Overseas changes name
Exporters see China, Mexico as good Basmati markets
LT Overseas' ready-to-cook rice
- [p.80](#) Rice companies set export benchmark price
Tight global supply to push up pulses prices:
Assocham
AP rolls out flood-resistant paddy variant
- [p.81](#) Pulses hot on imports failure

Fruits & Vegetables

- [p.81](#) Processed potatoes intake seen up on economic growth
- [p.82](#) Potato sales to go online in Bengal
Safal to double its outlets
Punjab potatoes for Europe
- [p.83](#) Infrastructure gaps bug mangoes export to Japan
Pesticide residue: Indian grapes pass UK test
Coconut output surges
- [p.84](#) Global Green buys Belgian food processing firm
Almond demand pips supply by 25 times

Biotech

- [p.85](#) US opposes India's initiative on GM foods
- [p.86](#) Stop giving approvals to field trials of GM crops:
Supreme Court
Field trial of Bt brinjal hangs in balance
Govt. nod to M&M's biotech SEZ

Major Food Companies

- [p.87](#) HLL to absorb Modern Food

Related Publications

- [p.88](#) ChinaNews

As the monsoon starts withdrawing and rains are no longer as fierce, the festive season is beginning in India. Festivals in India bring with them a wide variety of sweets. That is reason enough for the sugar industry to smile. This year, the Indian sugar industry is laughing all the way to the bank with almost everything adding up to the bottom-line of the companies' profitability statements. The only worry of sugar barons stems from the recent fall in price of sugar in global markets. Is this fall an overdue 'technical correction' after a long rally or is it a pointer towards future trends? Sugar producers are sitting with their fingers crossed waiting for the bumper sugarcane crop and hoping that, notwithstanding the fall in global sugar price, alcohol will add the zing to their balance sheets.

The Government of India is committed to dope petrol with 5 per cent ethanol. Bickering on the price of ethanol has stalled the implementation of the scheme. While ethanol-doped petrol has been facing hurdles, the potable alcohol industry continues to witness a healthy growth.

The Indian alcoholic beverages industry's robust growth has motivated global players like Carlsberg, Diageo and Italy's Cantina wine to firm up their India plans. The giants of the Indian alcoholic drinks market are also expanding at a feverish rate. In the midst of this positive scenario, Australian beer giant, Foster's, has decided to sell its business in India to SABMiller and exit from India. There is a lesson in Foster's story for new entrants to the Indian liquor market – the Indian market needs resources, commitment, understanding and patience. Entering a complex market like India without adequate preparation can be dangerous.

This probably holds true for almost every country in the world. One hopes that the UB Group, on a global expansion spree, does not learn this lesson the hard way. A winery in California, a RTD company in New Zealand, a private-label scotch company in Europe, a winery in South Africa, in addition to the launch of wines in India – managing it all can surely be difficult. Our best wishes to the UB Group and its flamboyant Chairman, Mr. Vijay Mallya.

One can say cheers not only with a glass of whisky or beer, but also with a cup of coffee in hand. Coffee bars are appearing in every nook and cranny of India. Starbucks and Barnie's are knocking on the doors, while Indian majors like Barista's and Café Coffee Day keep up their pace of expansion. Even a late entrant like Costa Coffee wants to expand to 300 cafes from the present level of 15. In the midst of all this excitement about new coffee outlets, a proposal by a member of the Coffee Board to market liquid coffee has the potential of boosting home consumption of coffee. Liquid coffee can remove the hassles associated with preparing filter coffee, without the high cost of instant coffee. One hopes that easy availability of high aroma liquid coffee does not act as a dampener for the growth of cafés. Of course, no one is, at the moment, even thinking of that possibility.

On the mind of Indian food and beverage industry is the Food Safety and Standards Bill, 2005. The Bill has been passed by the Parliament and is waiting for the President's signature. Many sections of the Indian food and beverage industry are not happy with it, though some feel that the law will boost the quality of Indian functional foods and supplements, increase export opportunities and open the Indian market to the international community. Doing business in India is not easy. A report by IFC, "Doing Business, 2007", ranks India in the 134th place in terms of ease of doing business. One hopes that the new food law does not push India further down in this crucial ranking.

(Continued on next page)

The irony is that India lags behind all its neighbours on the ease-of-doing-business index; yet, India is developing faster than all of them, except China. The credit for this achievement must surely go to the dynamic entrepreneurial spirit of Indian businessmen. In every issue, we report about some overseas acquisition or other by Indian companies. In this issue, we report about Thapar Group's Global Green Company's acquisition of Belgium-based Intergarden Group and about Tatas buying 30 per cent stake in US-based Energy Brands Inc.

Acquiring companies across the globe is not the only way Indian businessmen show their dynamic spirit. We report in this issue on two projects to manufacture power from poultry litter. Both projects will be eligible for carbon credits under the Kyoto Protocol. If the two projects succeed, power can open up a new revenue stream for the Indian poultry industry, which is just recovering from the losses suffered by the panic of bird 'flu in February.

The poultry industry is in a mood to celebrate the bird-'flu-free status. It may open a bottle of wine or beer, but teetotalers may like to be happy with just a glass of water, avoiding Pepsi and Coke – due to the controversies that have gripped colas. Without commenting on the controversies, we would like to sympathize with the cola companies. They have been through the worst nightmare that a business may ever face. We do not wish any food or beverage company to face the sort of situation that the cola giants have faced in India in the past few weeks.



Before we sign off, let us just add that, notwithstanding what cola majors have been facing and in spite of the low ranking that India gets on IFC's ease-of-doing-business index, India remains an attractive business destination – complex, risky and difficult to understand, but attractive nevertheless.



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