



India 2016



INDIA

Flax Council of Canada

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Executive Summary

India will soon surpass China as not only the most populated Country in the World with more than 1.3 billion but the youngest demographic as well.

Approximately 50% of the population practice Hinduism, 20% Muslim and the balance are a mix of religious beliefs including Christians, who are the 3rd highest in percentage. Devout Hindus are strict vegetarians, however, there are more liberal followers who choose to eat varying degrees of meat, with the strict exception of beef, since cattle are sacred. Muslims will consume chicken or lamb but pork is forbidden. Indian tastes range from very spicy to extremely sweet flavors which on average produces the same health issues as other countries in terms of heart related illness such as hypertension. India has the highest incidence of diabetes in the World.

Delhi is located in the North where most of the wealth in the Country is centered. It is estimated that 7% of the population is in the wealthy category, about 37% considered middle income and the balance living in poverty or on the edge. Given the size of the population, food supply is of utmost concern and the goal of self-sufficiency is of primary importance to the government.

To address this concern, the government instituted the Green Revolution designed to promote production of both wheat in the North and rice in the South which are the two main staples. Subsidies were granted for wheat and rice production but none for farmers growing crops such as flax and pulses. As a consequence, the production of these types of crops became relegated to fringe areas not suited for wheat or rice. Flax was a crop which had been grown for centuries in many of these areas and the production today still amounts to approximately 200,000mt. Some of this production is organic but it is difficult to correctly estimate the extent but it was clear the demand is growing in India similar to what we are seeing in Canada. There has been talk of India being an exporter of organic flax to North America so even with the relatively small production it still exceeds domestic consumption.

In comparison, China produces about 350,000mt of flax but still imports another 300,000mt which makes the Indian market dynamics concerning flax somewhat of an enigma. Perhaps one explanation for the oversupply relates to the maximum retail prices (MRP's) on food products which processors are allowed to set. According to comments we heard, processors appear content to buy the flax from the farmer at a very low level and set the MRP to the consumer at a pricing point which in turn extracts very high margins. The implication of these high consumer prices is that flax products are best suited for only a small segment of the population. This is an observation based

on comments we received and may be an over simplification but certainly would explain at least in part why the oversupply situation exists.

During the trade show there were flax products on display such as multi-grain breads, bottled oil and ground flax. Consumers are definitely conscious of the food they eat and aware of the benefits flax has on their health and nutrition. We met a dietitian visiting the show from Kolkata (formerly Calcutta) who was very passionate about flax use in India. It was very reassuring to see that not only does a market exist for flax products but there are extremely knowledgeable people involved in the industry promoting Flax at every opportunity. Flax oil is used by some strictly for the omega 3 taking a spoonful a day but it would appear the most common use is in the form of roasted flax which is added to different meals.

Certainly the foods consumed by people of India provide a myriad of different possibilities for the inclusion of flax. Many of these meals consist of some form of pulse mixture with a stew like consistency complimented with naan bread used for dipping and eating. Flax could easily be incorporated in these dishes and perhaps even in the naan bread as well. We know there is consumer awareness of the health and nutritional benefits of flax and knowing how easily flax can be incorporated into foods provides two factors which could ultimately result in greater consumer demand and market growth.

It did not appear there was much industrial application for flax but there were questions about this aspect and how it could be adopted to suit the Indian marketplace in things such as paints. There did not appear to be much knowledge in this regard so it could provide for potential growth.

Feed use was a little more difficult for most to comprehend since meat products are not on the radar although there was a display of omega 3 eggs produced with fish oil inclusion. Eggs and milk are widely consumed in India and these products alone could represent a huge opportunity for flax.

The key element missing in all areas is quite simply educating the consumer and the manufacturers on knowing how to include flax in the diet and feed rations. This is the same challenge we are facing in more advanced markets such as North America. At home we have many retail products to choose from but still need to focus a good deal of attention to further education by providing things like different recipes for the consumer. In India the issue is much broader since the retail choices are not available so familiarizing the entire marketplace including manufacturers is required.

Developing a short term strategy for the export of Canadian flax to India is definitely a challenge due to the oversupply. The excess production currently results in import tariffs of 35% on seed, 20% on refined oil and 12.5% on crude. There are no such tariffs on pulses.

Until such time as the demand can out pace supply and there is a real need for imports the tariff structure will likely continue. This apparent paradox created by policies is making flax on the one hand too cheap at the production point and at the same time too expensive for most consumers may create great margins for the processor but does nothing to promote growth of the industry.

There needs to be a shift internally which triggers a broader consumer base and subsequent demand increases to deal with the excess supply. This is an issue which is essentially beyond our control but can be driven in part by more promotion at the consumer level and through collaboration with our Canadian representatives in India.

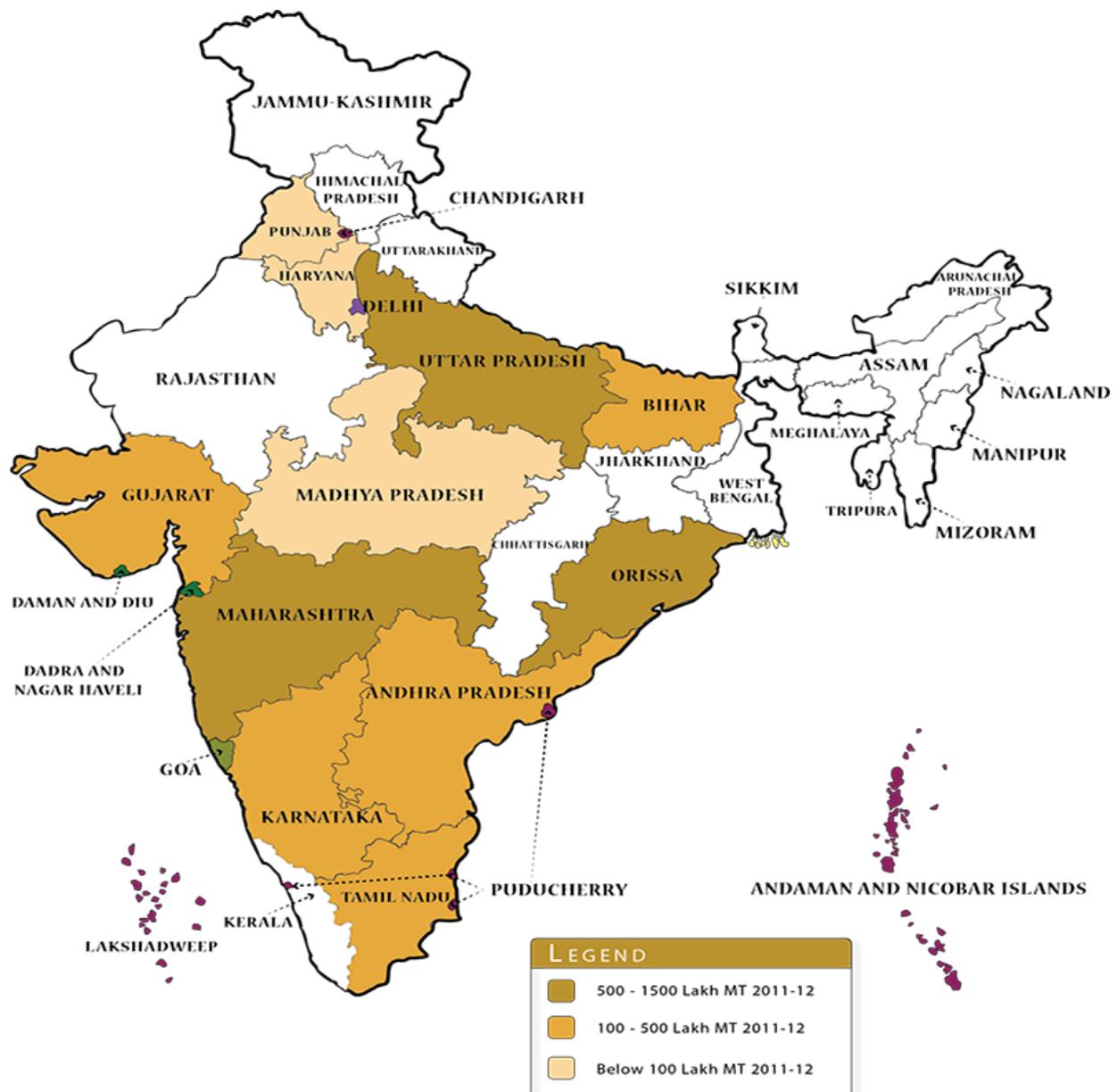
Relatively high internal prices for oil at the retail level could provide an opportunity for Canadian companies to test the market by looking at the potential to import a competitive product. However, the fact that Indian companies currently have a firm grip on the domestic market could pose some difficult challenges. Domestic companies will not surrender market share easily and excellent margins gives a competitive advantage in pricing the product.

Medium and longer term we should be looking for opportunities to provide information on the different options for flax in existing food being consumed. There seems to be a genuine interest on the part of many to increase their knowledge about flax. This interest lies in understanding better how we have incorporated flax in our diet so that it can be effectively applied to the Indian market as well.

Any breakthrough at all could be the trigger which tips the scales from oversupply to short supply opening up a new and virtually unlimited market for Canadian flax.

Major Flax Seed Grown by States in India

Madhya Pradesh, Uttar Pradesh, Bihar, Chhattisgarh, Maharashtra, Jharkhand, Orissa, Assam, West Bengal, Karnataka, Nagaland, Andhra Pradesh, Rajasthan, Himachal Pradesh and Telangana.



Source: Department of Agriculture & Cooperation, Ministry of Agriculture, Government of India