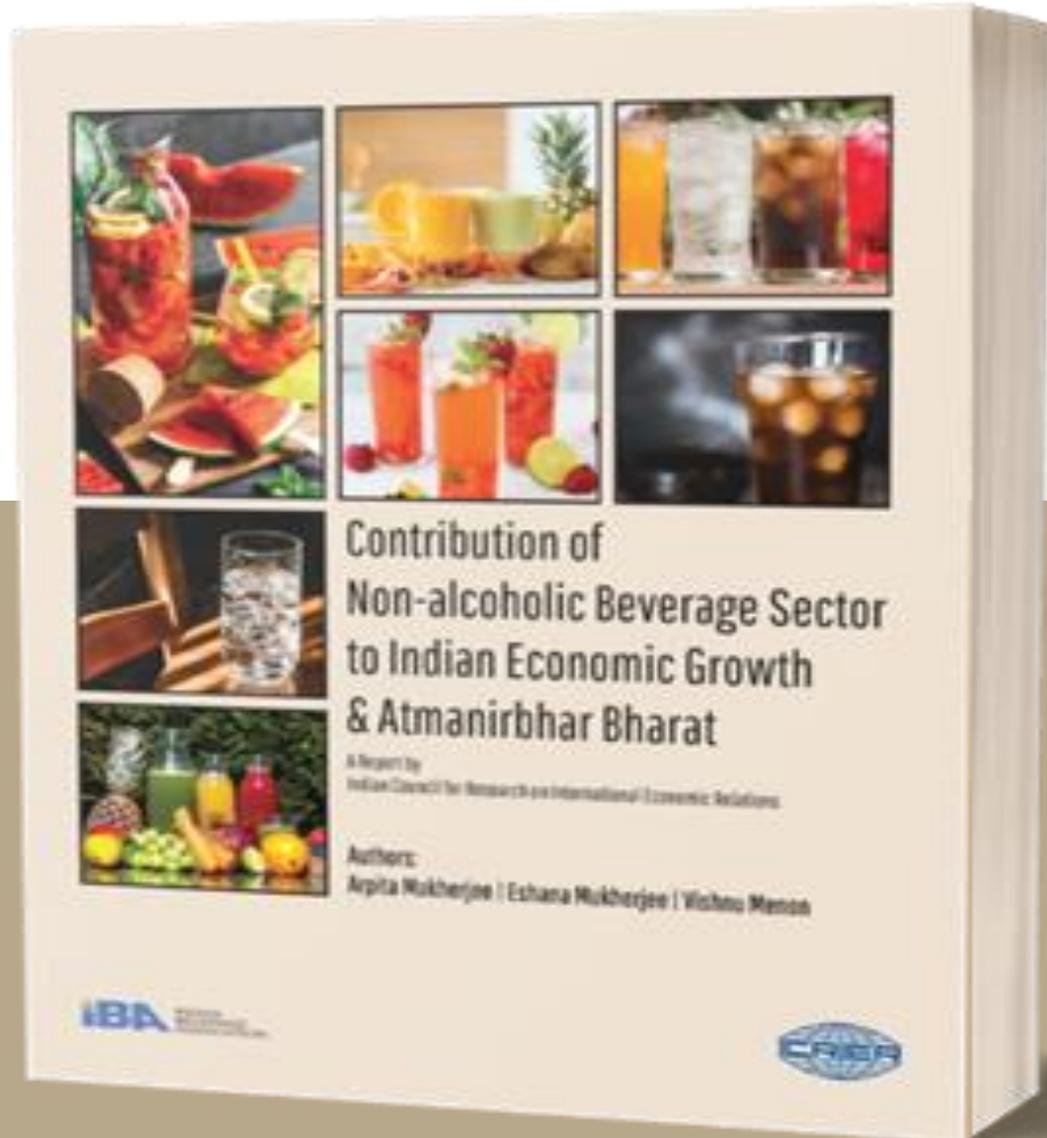


# PRESENTATION OF THE KEY FINDINGS OF THE REPORT

## CONTRIBUTION OF NON-ALCOHOLIC BEVERAGE SECTOR TO INDIAN ECONOMIC GROWTH & ATMANIRBHAR BHARAT



MAY 27, 2022, NEW DELHI



## CONTEXT AND OBJECTIVE

- India has abundance of raw materials used in non-alcoholic beverage processing.
- On the demand side, India is an attractive investment destination for beverage companies. Demand Factors: Large middle class; Young Consumers; Population willing to experiment with new products.
- Yet, domestic production is below potential and that of other developing countries in ASEAN and around 25% to 30% of fruits and vegetables are wasted in the supply chain.
- There is hardly any study on the contribution of this sector to the Indian economy. This report fills that lacuna.

**The objective of the report is to understand the contribution of the non-alcoholic beverages sector towards the Indian economy, examine the strengths and best practices, identify challenges and suggest a way forward to Make India the one of the world's leading beverage processing hub as the country sets its vision for Amrit Kaal – India @2047**

# METHODOLOGY

- The study is based on secondary data analysis and a primary survey.
- The primary survey covered 20 companies, 21 supply chain partners and over 500 farmers across the six states of Karnataka, Bihar, Andhra Pradesh, Himachal Pradesh, Tamil Nadu and Maharashtra.
- Farmers were divided into two equal groups:
  - Those in the supply chain of the beverage companies and
  - Those located in close proximity and producing the same crop but not a part of the supply chain of the beverage companies

## Distribution of Farmers by Location and Products

Fruit	State	District	Total
<b>Apple</b>	Himachal Pradesh	Shimla	101
<b>Litchi</b>	Bihar	Muzaffarpur	102
<b>Mango</b>	Andhra Pradesh	Chittoor	141
<b>Mango</b>	Karnataka	Kolar	143
<b>Mango</b>	Maharashtra	Ratnagiri	4
<b>Mango</b>	Tamil Nadu	Krishnagiri	5
<b>Pomegranate</b>	Maharashtra	Nashik	4
<b>Watermelon</b>	Maharashtra	Sangli	3

## GLOBAL OVERVIEW & INDIA (1)

- The global non-alcoholic beverage market was worth USD1180 billion in 2020 and is projected to reach USD2175 billion in 2026, with a CAGR of 7.3% (2013 to 2026).
- Over 60% of the global market was accounted for by carbonated soft drinks (CSDs), ready-to-drink (RTD) tea/coffee, energy drinks and sports drinks.
- Both globally and in India, CSDs is the largest segment, but per capita consumption of CSDs is lower in India compared to many countries.
- Mineral water (packaged drinking water/ natural mineral water) has the highest growth projection in Asia, with India being one of the largest markets.
- Globally, and in India there is an increase in health awareness and companies are innovating new products to cater to such need, leading to a proliferation of nutritious products.
- **Store to Non-store formats:** Sales through e-commerce channels are growing; there was a 50% growth in sales through e-commerce between 2019 and 2020.

# GLOBAL OVERVIEW & INDIA (1)

- India ranks lower than many developing countries in terms of revenue.
- Per capita Sales Volume in India (21.36 litres in 2018) is much lower than other developing countries like Philippines (111.89 litres) and Vietnam (69.75 litres).
- India is not among the top 50 countries in global trade in beverages. Exports are lower than ASEAN countries and China.
- Foreign investment inflows are below 1% and much behind what is required to become a USD17 trillion economy by 2047.

## Top 10 Markets with Highest Revenue in Non-Alcoholic Drinks and India (2019)

Rank	Country	Revenue (in USD Billion)	Revenue per Person (in USD)
1	United States	338.184	1,030.01
2	China	94.408	67.05
3	Japan	62.641	496.11
4	Germany	53.034	638.25
5	United Kingdom	37.113	551.87
6	Mexico	35.109	275.20
7	Brazil	31.434	148.94
8	Indonesia	24.646	91.07
9	France	24.387	362.64
10	Nigeria	22.419	111.56
19	<b>India</b>	<b>12.174</b>	<b>8.89</b>

# HEALTH CONCERNS AND TAXATION ON SUGARY BEVERAGES: SOME EXAMPLES

## Higher Taxes (for high-sugar content drinks)

### ■ United Kingdom

- SSBs with a sugar content of more than 8g/100 ml, the tax rate is approximately USD0.33 per litre, and for drinks with sugar content between 5g and 8g/100ml, the tax rate is approximately USD0.24 per litre.
- Drinks with sugar content of less than 5g, pure fruit and vegetable juices, and milk drinks are not taxed.

## Lower Taxes or No Taxes (for low-sugar content/ zero-sugar drinks)

### ■ France

- The tax has been imposed on the quantity of sugar present in the beverage since 2018 – 5g of added sugar per litre got taxed at EUR0.05 (approximately USD0.63) per litre and 10g at EUR0.13 (approximately USD0.15)

### ■ Sweden

- Non-alcoholic beverages such as mineral water, fruit juices and lemonade are taxed at a VAT of 12%.
- Country does not have an excise duty or sugar tax specific to SSBs.

# IS TAXATION THE ONLY SOLUTION?

- High taxes on a product can only deter consumption, if product has high price elasticity.
- Several countries have taken other initiatives.
  - Right Labelling
  - Building Consumer Awareness
  - Subsidising Nutritious Products
  - Working with Industry
    - Government and industry partnership for development of beverages with low sugar content
    - Pledge by industry

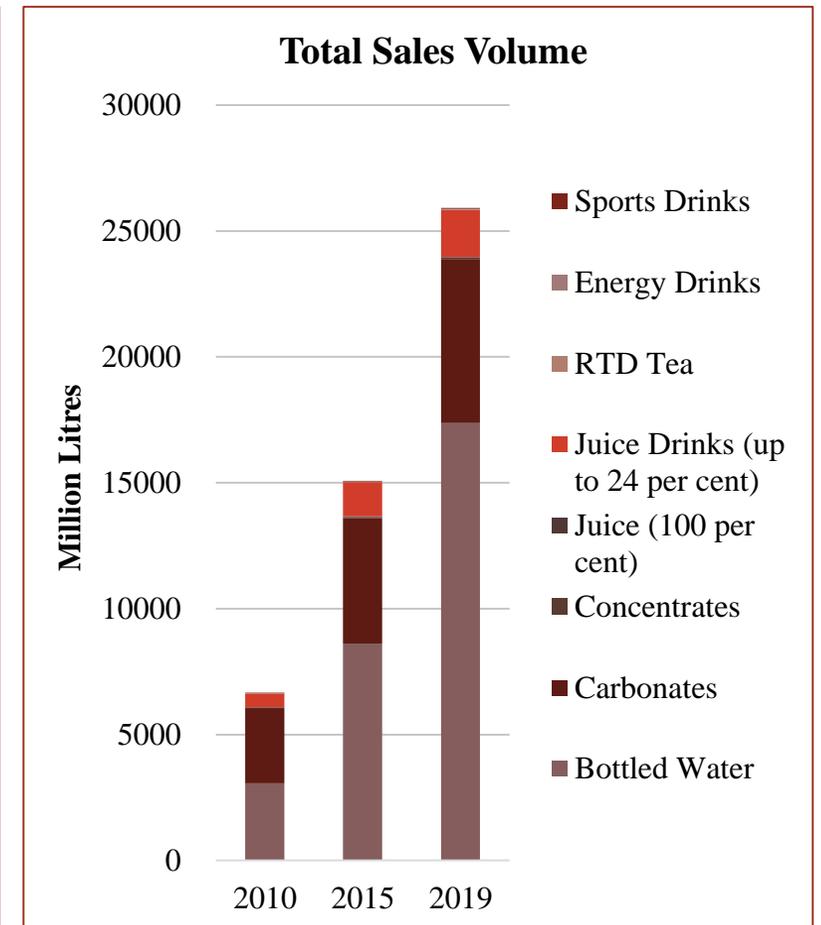
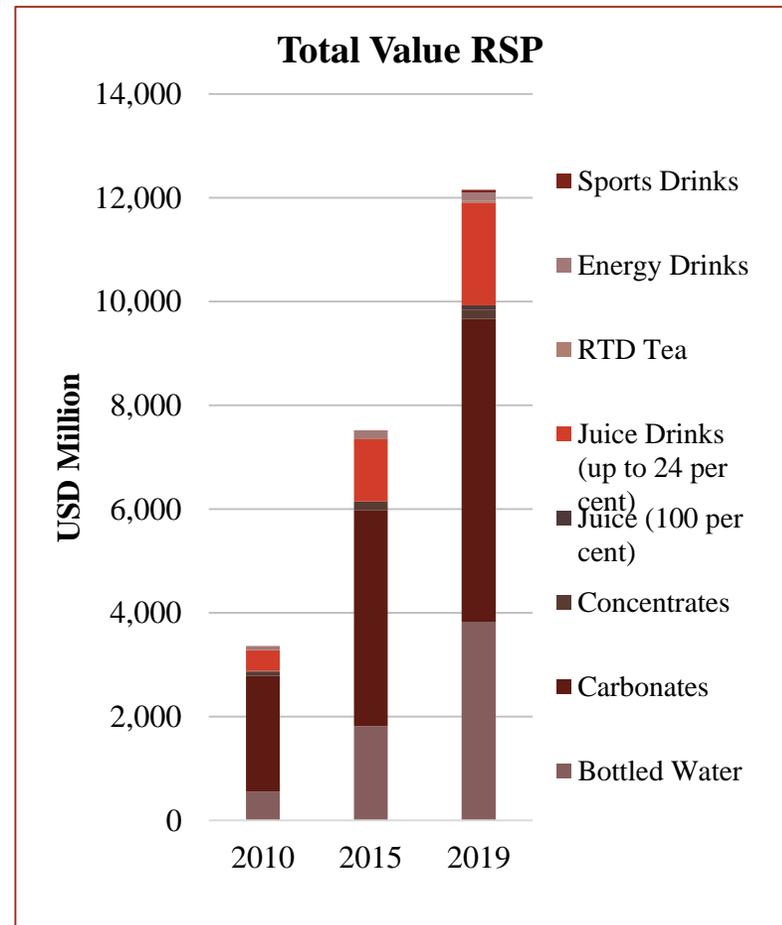
## **Impact of Higher Taxes Can be Detrimental - Examples from Global Studies**

- Higher tax passes on the tax burden to the poorest sections of the society.
- Can deter food processing and lead to job losses
- Impact varies depending on price elasticity of the product, consumer's income group and consumer purchase behaviours.

# THE INDIAN MARKET (1)

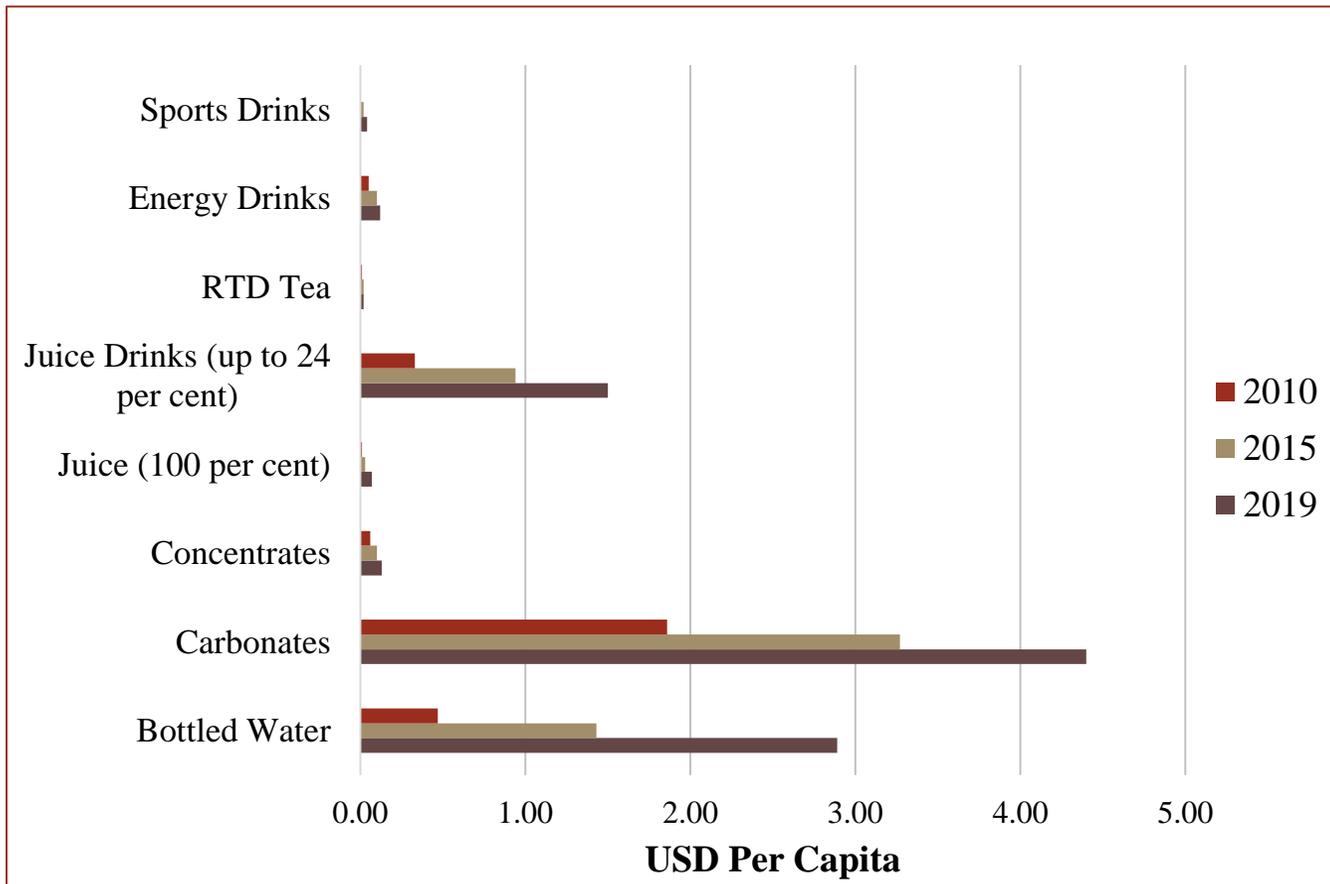
- 80% of the non-alcoholic beverage sector in India is non-corporate/ informal.
- The sector has grown with a CAGR of 14.5% in terms of total sales volume; and 13.72% in terms of total sales value.
- The size of the market was estimated at INR671 billion in 2019, which is projected to reach around INR1472.33 billion in 2030, if GDP growth is around 7.8%.

## Non-Alcoholic Beverages: Total All-India Sales Value and Volume



## THE INDIAN MARKET (2)

### Per Capita Sales Volume of Non-Alcoholic Beverages



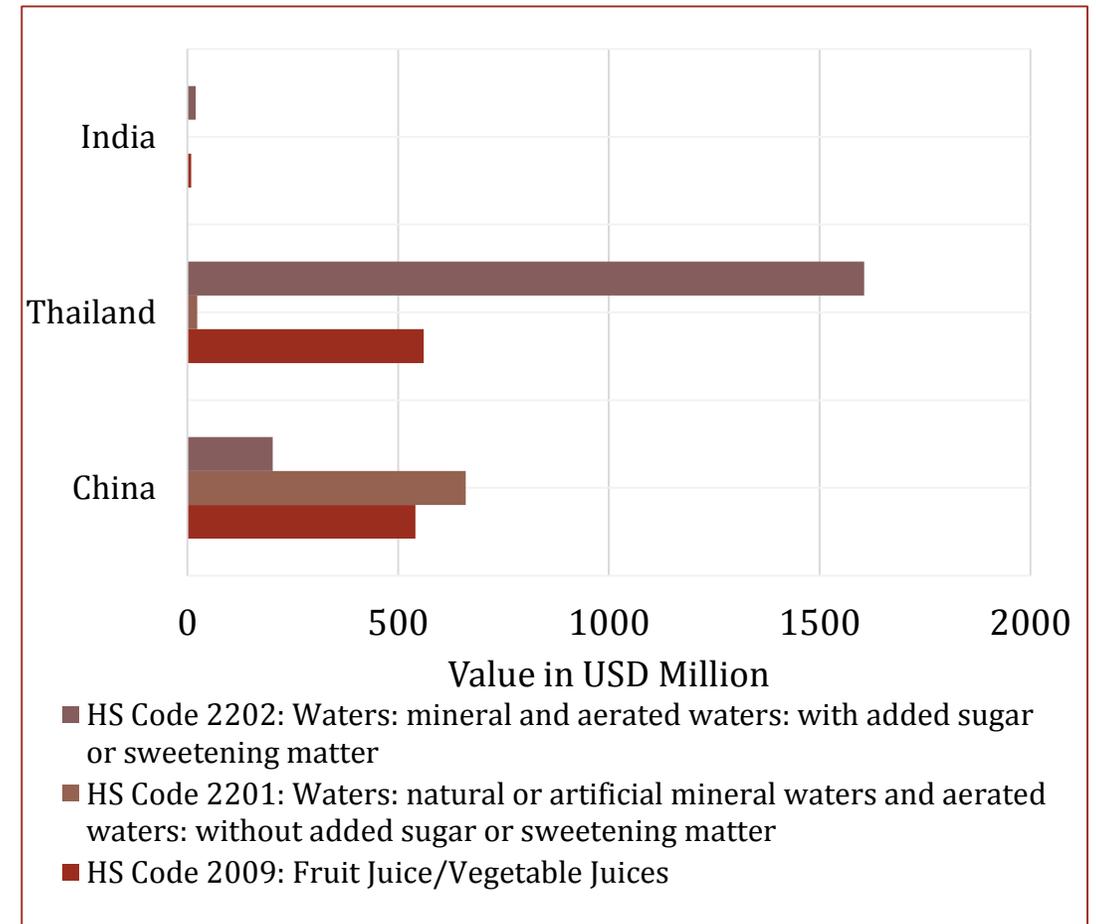
- The growth rate of CSDs is low
- Sale of mineral water, sports drinks, and tea/coffee based drinks is increasing
- Existing companies are diversifying their product portfolio
- Many start-ups and SMEs have entered this sector in the last 10 years

# CONTRIBUTION TO ECONOMY AND EXPORTS

## Positive - Economic Impact

- Non-alcoholic beverage sector contributes significantly to the Indian economy in terms of value addition and job creation.
- The combined value added to the economy is estimated at INR7,91,539 million from upstream and downstream effect.
- The total job creation from this sector is estimated to be 6,91,491, from both upstream and downstream operation.
- The Input-Output model estimates that for every INR1 crore of output produced in the non-alcoholic beverage sector, a total of 8.9 additional jobs are created in the economy due to both the direct and indirect impact.

## But Exports are Low (2020)



# CHANGING CONSUMERS & FUTURE GROWTH

- A growth forecasting model with three scenarios, namely realistic, optimistic, and pessimistic from 2020 to 2030 found that if the GDP grows at 7.88%, 9.76%, and 6.0% respectively, the sector is expected to grow at 8.70% in the realistic scenario, 10.77% in the optimistic scenario and 6.66% in the pessimistic scenario.
- The growth of non-alcoholic beverages is lower than others like chocolate and sugar confectionary and salty snacks.

**Why is growth slowing down and what will be the impact on farmers and other supply chain partners?**

**What is the impact of growth slowdown – lower revenue collection?**

## Purchase Volume in India by Socio-Economic Groups: CAGR (2012-13 to 2019-20) in Percentages

SECs	Carbonated Soft Drinks	Mango-Based Drinks	Juices
SEC: A	-2.59	3.96	1.42
SEC: B	3.49	3.49	10.98
SEC: C	6.73	4.23	15.33
SEC: D/E	13.74	17.79	13.78

*From a taxation perspective, if the highest socio-economic is reducing the consumption of CSDs while lower socio-economic groups are increasing their consumption, higher taxes can be regressive.*

## COMPANY SURVEY

- 35% of the companies have introduced new products in the Indian market, which include zero-sugar/sugar free products and other products like tea/coffee-based drinks and organic drinks.
- 90% of the companies ensure holistic growth by supporting local farmers and small enterprises in their supply chain.
- Beverage companies are engaged in taking active initiatives to help environmental sustainability and development by bringing about innovations in packaging of the products and recycling to enable a low-carbon circular economy. All the companies' surveyed had recycled packaging plan which many executed before their targeted deadline.

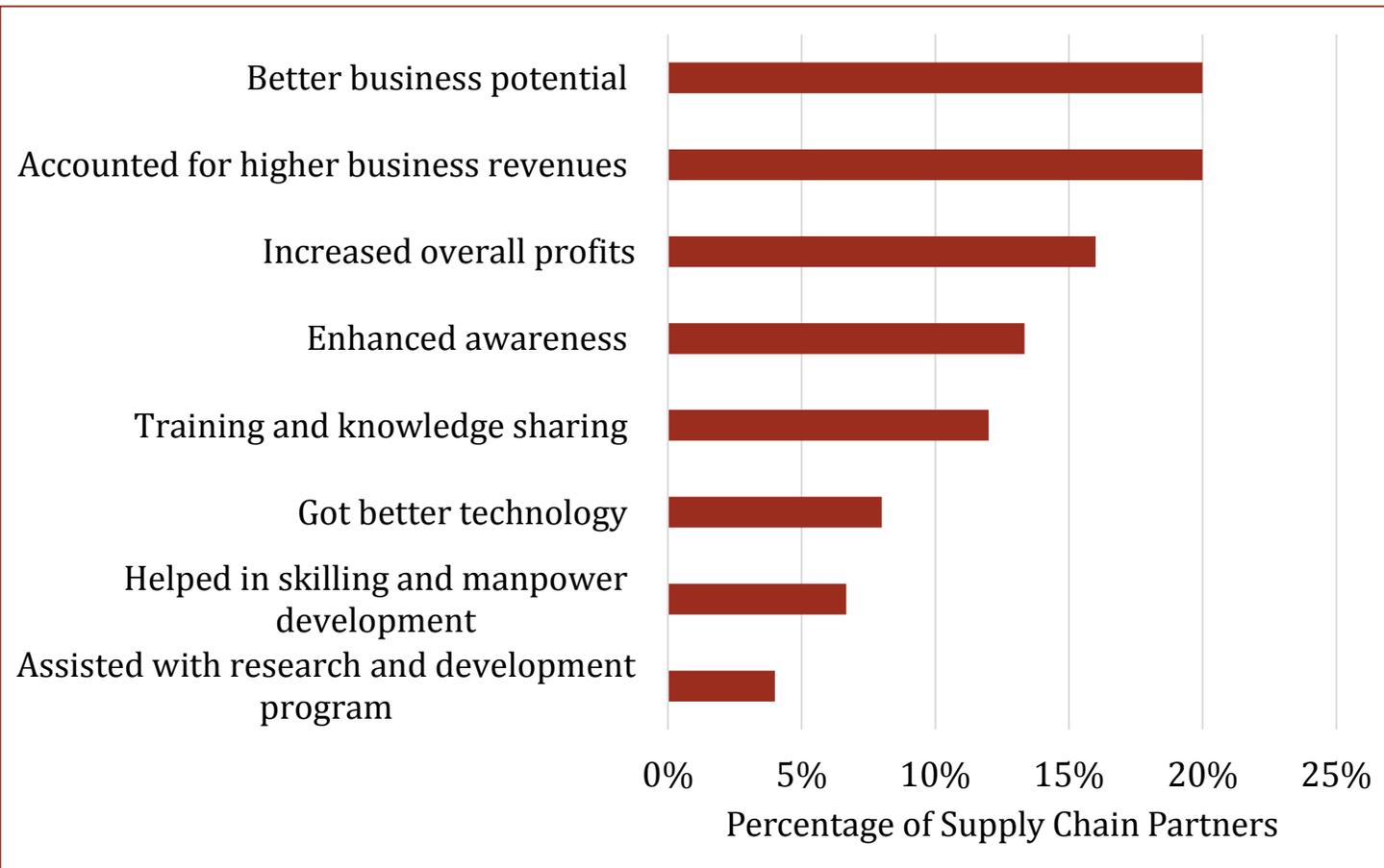
***Coca Cola India Private Limited's Meetha Sona Unnati project focuses on solving water efficiency, soil health, human rights and women's rights issues in farming by providing sustainable agricultural training and capacity building***

***Dabur Limited developed a water management strategy that provides guidance on how the company drives water efficiencies and reduces water usage within their manufacturing facilities. It also rolled out a special initiative, Project Desert Bloom, that involves local communities in water conservation and management initiatives***

***PepsiCo India Holdings Private Limited is engaged in Sustainable Water Resource Development and Management programme, which led to the formation of several village level institutions***

# SUPPLY-CHAIN PARTNERS' SURVEY

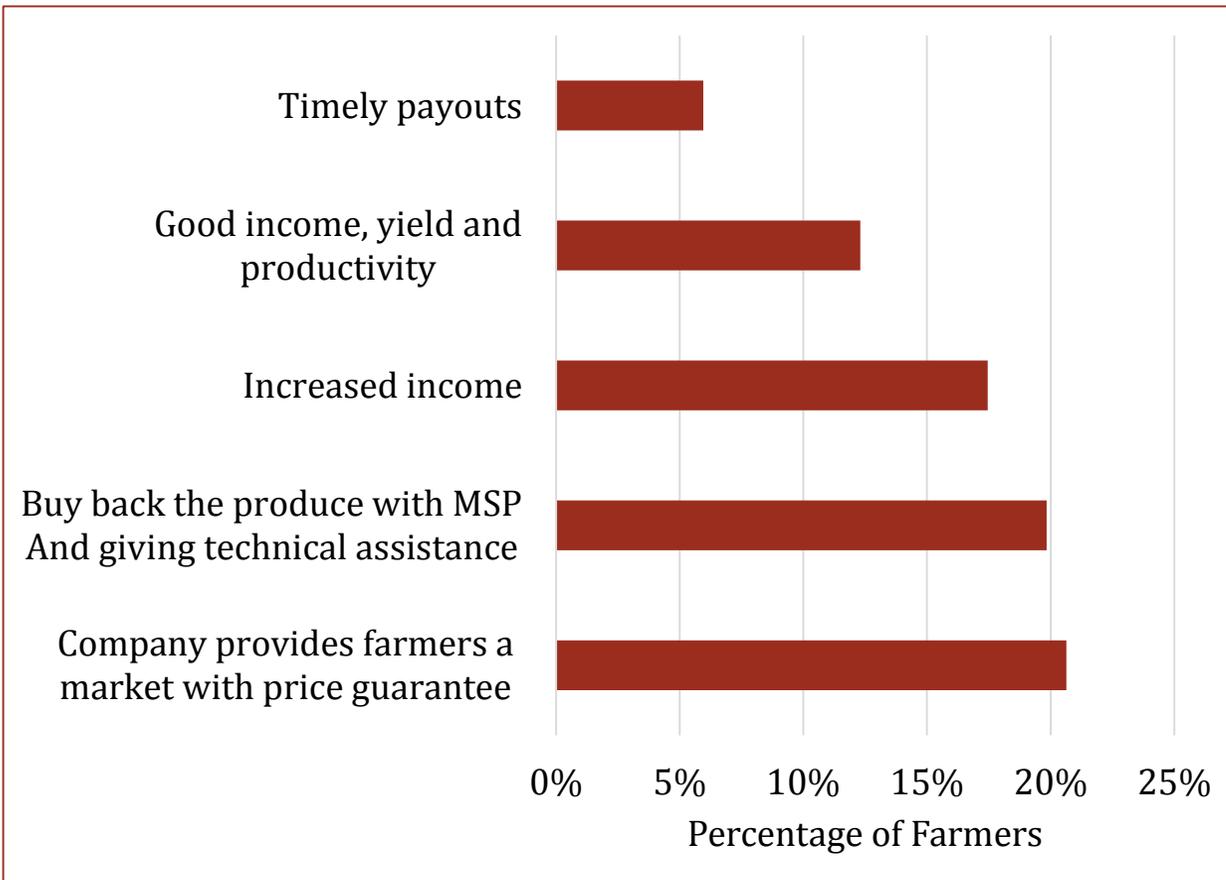
## Benefits to Supply Chain Partners: Primary Survey



- 32% of the respondents attribute the share of contribution of the non-alcoholic beverage sector to their business to be above 50% but below 75%, while 21% of respondents felt that the share is above 75% but below 99%.
- Around 16% of the respondents were completely dependent on such collaborations for 100% of their revenues.

# FARMERS' SURVEY (1)

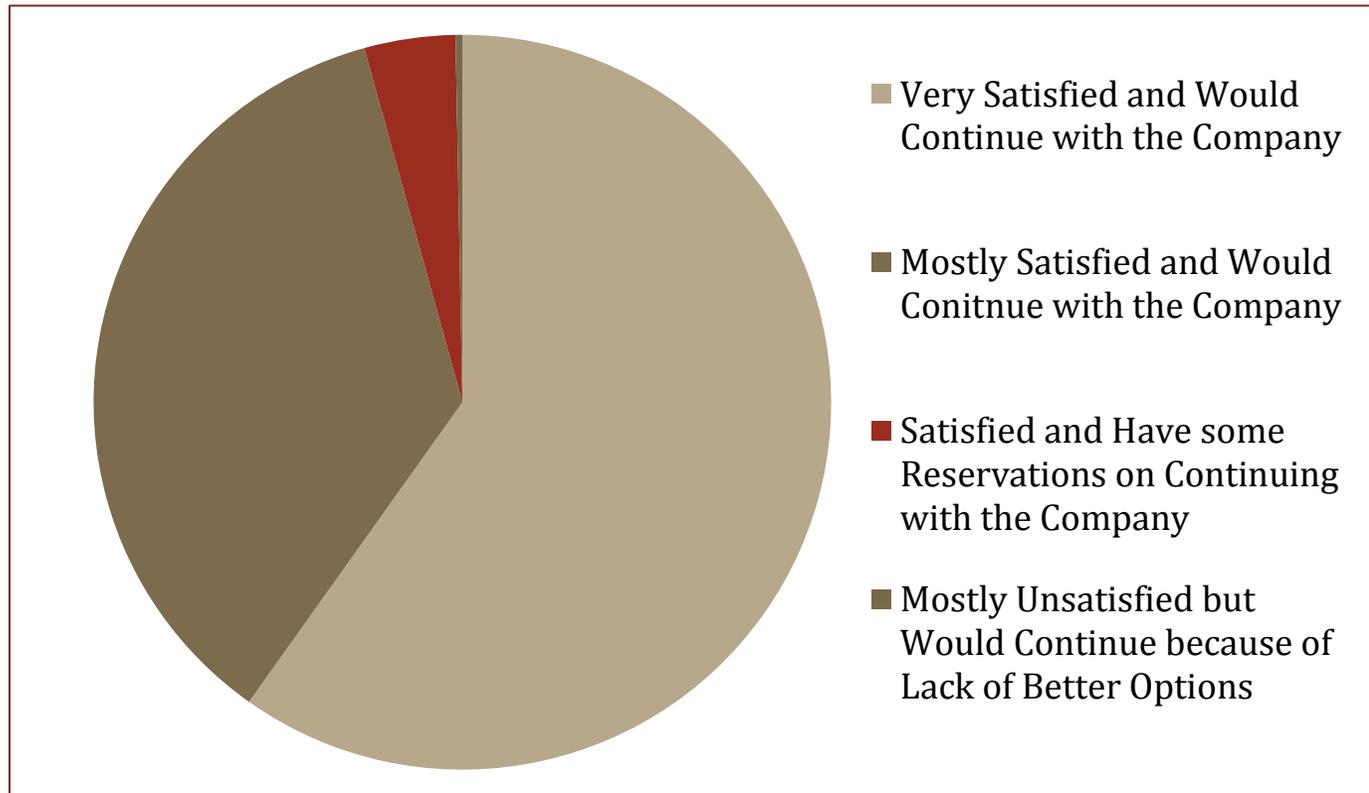
## Top 5 Benefits of Contract Farming for Farmers



- The greatest benefit the farmers received was a confirmed market with price guarantee.
- Farmers in the supply chain said that 51-75% of their income comes from fruits supplied to non-alcoholic beverage companies and a majority saw an increase in productivity through various projects supported by these companies.
- These farmers are also more likely to export, have higher income and lower household debts
- Around 62% of farmers received high yielding plant material from the companies.
- The other key areas of support included technology and equipment for drip irrigation.
- Benefits vary by product category and duration of engagement.

## FARMERS' SURVEY (2)

### Overall Experience of working with the Non-alcoholic Beverage Companies



Farmers identified the need for government support in three areas:

- financial assistance;
- training and knowledge enhancement; and
- logistics and transportation.

Private partnership can play a major role in training, increasing productivity and improving infrastructure.

# CHALLENGES TO GROWTH

## **Top Challenges**

High GST and additional “sin tax”  
(as applied based on the 2015 Subramanian Committee Report)

GST Rates not aligned with FSSAI Regulation

Unfair competition from the unorganised sector and counterfeit products

Negative perception regarding the industry

Infrastructure related issues

**Australia-Interim Agreement**

- ⑩ standard 10% for all goods
- ⑩ no sugar tax

**Chile**

- ⑩ 10% on all sugary drinks with less than 6.25 g of sugar per 100 ml
- ⑩ 18% on all sugary drinks with >6.25 g per 100 ml of sugar

**Denmark**

- ⑩ 25% for all beverages

**France**

- ⑩ reduced VAT of 10% on fruit juices, lemonade and water for immediate consumption; 5.5% if container allows for conservation
- ⑩ 5g of added sugar per litre taxed at EUR0.055 per litre; 10g of added sugar at EUR0.135

**India has one of the highest taxes globally**

- ⑩ product-wise GST rates imposed; bottled water is taxed at 12% and 18%; fruit and vegetable juices/fruit juice based drinks are taxed at 12%; tea/coffee based drinks are taxed at 18%
- ⑩ carbonated beverages (CSDs, CFDs and caffeinated drinks) have a total tax of 40% (28% GST + 12% cess)

**New Zealand**

- ⑩ standard 15% on all goods
- ⑩ no sugar tax

**Sweden**

- ⑩ reduced VAT of 12% for non-alcoholic beverages such as mineral water, fruit juices and lemonade

**United Kingdom-Negotiating Trade Agreement**

- ⑩ standard VAT of 20% is applicable on carbonated drinks such as lemonade and cola
- ⑩ zero VAT on beverages such as milk and milk flavoured drinks, tea, coffee
- ⑩ GBP0.18 per litre for drinks with 5-8 g total sugar per 100 ml; GBP0.24 per litre on drinks with >8 g total sugar per 100 ml

# HIGH TAXES AND ITS IMPACT

- Most of the non-alcoholic beverages are taxed at a standard rate of 12-18% or at the highest rate of 28%.
- Compensation cess of 12% on carbonated soft drinks, carbonated fruit drinks, along with items like tobacco.
- Natural/mineral water and aerated water are taxed at 18% but water packed in a 20-litre bottle is taxed at 12% (discouraging smaller purchases) whereas in other countries, it is taxed at an average of 5% as it is part of the Sustainable Development Goals (SDG - 6).
- Juices are taxed at 12%

## IMPACT OF HIGH TAXES

Low Per Capita Sales Volume and  
Low Revenue Collection

Burden of Taxes on Low-Income Groups

Increase in Counterfeit Products

Deterring Scale Expansion and Investments

Lack of a Level-playing Field with  
Similar Food Products

## WAY FORWARD (1)

- Tax should be nutrition-based as is applicable in other countries.
- Taxes should be designed in a way that it drives consumers to healthy consumption. Taxes should be lowest on mineral water and fruit juices with no added sugar.
- The product definitions in the GST tax slabs must be aligned with the FSSAI product regulations.
- Taxes should be data driven and evidence based.
- A moderate tax can lead to more revenue collection, enhance investment in R&D and product innovation, reduce supply chain wastages, increase farmers' income and make India one of leading World Beverage Hubs.
- Consumers should be encouraged to consume healthier products through awareness building programmes, labelling, etc.
- Companies may be encouraged through a subsidy policy to produce healthier products.

## WAY FORWARD (2)

- Beverage companies and their associations should actively participate in government initiatives like the “Eat Right Campaign” of the FSSAI. There is need for more partnerships between companies, their associations and the government to address the negative perception and promote India as the world’s beverage manufacturing hub and develop a “Brand India” in this segment. This will help India to meet UN SDG 17- Partnerships for the Goals.
- There is need for more investment in R&D and product innovation and in linking more and more farmers to the domestic and export supply chain of beverage companies.
- As India signs multiple trade agreements to promote exports, there is a need for a clear Export Strategy.

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# THANK YOU

Arpita Mukherjee [arpita@icrier.res.in](mailto:arpita@icrier.res.in)

Eshana Mukherjee [emukherjee@icrier.res.in](mailto:emukherjee@icrier.res.in)

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