News Brief

5 – 12 June 2020

Government Aid and Policies

The government will be creating 3,500 farmer producer organisations (FPOs) based on one-product-one-district initiative in the next three years to ensure farmers get remunerative prices for their produce. With the one-product-one-district initiative, the FPOs will primarily promote and trade a particular commodity. An FPO is formed by a group of farm producers and takes care of their business activities and brings them a collective negotiation power. It will acquire a larger role now as the government has allowed agriculture trading outside designated *Mandis* or government approved agricultural markets. Currently there are around 5,000 functional FPOs in the country.

Agricultural Reforms

Announced as part of the EUR 235 billion economic package for Self-Reliant India released in mid-May, amendments to Essential Commodities Act and 2 ordinances were approved by the Union Cabinet on 5th June and have now been promulgated by the President.

65-year-old Essential Commodities Act has been amended to deregulate food items like cereals, pulses, oilseeds, edible oil, onion and potatoes, and to remove restrictions on stocking of these commodities by processors, millers, importers, exporters and traders, except under very exceptional circumstances like natural calamities and famines. This will remove fears among private investors of excessive regulatory interference.

The first ordinance announced - 'The Farming Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020', will promote barrier-free inter-state and intra-state trade and commerce outside the physical premises of markets notified under State Agricultural Produce Marketing legislations.

The second ordinance - 'Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020' will provide for a national framework on farming agreements that protects and empowers farmers to engage with agri- business firms, processors, wholesalers, exporters or large retailers for farm services and sale of future farming produce. Farmers will be able to engage with large processors for minimum one crop season and maximum of five years.

The government has provided some more details on the 'TOP to TOTAL' scheme with an outlay of EUR 58 million, announced as part of the Self-reliant India package. It will provide 50% subsidy on the storage and transportation costs of all fruits and vegetables where prices have fallen below the average price or are 15% lower than last year's prices. The scheme will be applicable for road, rail and air transportation. This will be a six-month pilot and the minimum distance between the centre of production and consumption will be 100 km.

As the transportation cost continues to be 30% higher than what it was before the lockdown due to the unavailability of drivers and high diesel prices, this subsidy will help farmers to get a good price for their produce in faraway markets or for storing it till the prices go up.

Trade

The first phase of the Faceless Assessment of Cargo program has been launched from June 8 in the southern ports of Chennai and Bengaluru. Launched as part of the next generation reforms called 'Turant Customs' which are aimed at speedy clearance of goods at air and sea ports to improve the ease of doing business in India, faceless assessment will be implemented across the country by the year end. To begin with, imports covered by Chapters 84 and 85 of the Customs Tariff Act, 1975 which include machinery, mechanical appliances, electrical equipment and parts, will be allowed for faceless assessment while going through customs.

The government is looking to make India an industrial powerhouse, to increase exports and reduce import reliance in the post-Covid 19 era. 12 sectors have been identified, including food processing, organic farming, leather, industrial machinery, where focus would be given with a view to make India a self-reliant country and a global supplier.

To reduce import reliance, India is also considering raising import taxes on edible oils and boosting local oilseed production with the help of tax revenues. India is the biggest importer of edible oils in the world and imports around 15 million tonnes worth 9 billion euros every year. The increase in taxes will help make imported oil costlier, thereby curbing imports and will help in increasing the local prices of oilseeds such as rapeseed, soybean and ground nut.

In order to increase export of hides and skins of bovine from India, the government is considering reducing duty on exports of these products from the current 40%. The All India Meat and Livestock Exporters Association (AIMLEA) has been demanding removal of export duty as the industry is getting large number of enquiries from global markets. However, domestic leather product manufacturers are against the idea and want the raw material to be available for domestic manufacturers so that value added goods can be exported, a sentiment shared by some departments in the government. India is one of the major producers of raw hides and skins for tanning. But the share of raw hides and leather skin in India's total leather and leather goods exports, which was EUR 4.12 billion in 2019-20, is almost negligible.

Buffalo meat exports have suffered a loss of EUR 622 million since the beginning of the lockdown in March. While the export units in North India have started reopening, the States of Maharashtra and Telangana are still to reopen offices and factories. Maharashtra is the worst Covid-19 affected State so far, but the exporters expect some relaxations in activities from June 8. India exports 100,000 – 120,000 tonnes of buffalo meat valued at EUR 2.35 billion in a year.

Food Safety

The Food Safety and Standards Authority of India (FSSAI) has launched its online, cloud-based, upgraded new food safety compliance platform- Food Safety Compliance System (FoSCoS), which replaces the existing Food Licensing and Registration System (FLRS). FoSCoS will serve as the one point stop for all regulatory compliance transactions for the Food Business Operators (FBOs). The process flow will essentially be similar to FLRS except that the methodology of licensing for manufacturers will now be based on standardised product list. This entails that all manufacturers holding valid FSSAI licence will have to modify their licence to choose from the available list of standardised products before December 31, 2020. In case, not falling under standardised product, FBO will have to apply under proprietary food, non-specified food or supplements, nutraceuticals, as the case may be.

Regulations

In order to remove the duplicity in regulations that govern the fortification of food products, in 2019, the FSSAI had removed the clauses related to standards for fortified flour, refined flour and salt in the Food Safety and Standards (Food Product and Food Additive) Regulations. This amendment has now been operationalized to avoid any further legal issues faced by manufacturers, as its notification may take some more time. Fortified food will now be governed under only one regulation, the Food Safety and Standards (Fortification of Foods) Regulations.

The FSSAI has amended the clause prohibiting sale of pulses containing incidental presence of Khesari gram (lathyrus sativus) or any edible grain in the Food Safety and Standards (Prohibition and Restriction on Sales) Regulations. The presence of these grains has now been limited to 2% by mass. According to traders, Khesari gram grows as weeds with pulses' plants and since the farmers don't have modern equipment to separate the two, it becomes extremely difficult to do so manually after the harvest.

Impact of Covid-19

Alcohol sales are an important source of revenue for the Indian States. But with economic activities at a standstill across the country due to the pandemic induced lockdown, all the alcohol shops were closed during the initial period of the lockdown. In the beginning of May, with relaxation of lockdown rules, alcohol shops started opening up in some States but with hiked taxes and fees. A 'special corona fee' was imposed on the Maximum Retail Price (MRP) of liquor bottles as the State governments looked to earn additional revenue and make up for the revenue lost due to the lockdown. In Delhi, a special corona fee of 70% was imposed on liquor, which has now been removed after a month. The decision to impose the fee turned counterproductive because despite an initial surge, sale of liquor fell drastically in May. The State government has, however, increased the Value Added Tax (VAT) on all categories of liquor from 20% to 25%.

Industry Insights

The Indian frozen foods market which was valued at around EUR 860 million in 2018 and is projected to reach a value of EUR 2.2 billion by 2024, expanding at a CAGR of around 17% from 2019 to 2024. The food habits and lifestyles of urban Indians are changing under the influence of the western culture.

Flourishing e-commerce sector which offers online platforms that have a high product visibility compared to traditional platforms, has also facilitated greater penetration of frozen food products in India. Lately, with people working from home and not being able to order food from restaurants due to Covid-19, the demand for frozen food products has further increased. However, the category is still in its nascent stage in India as consumer penetration in the category is approximately only 1%.

The frozen food's standard product offerings which were previously limited to options like green peas, nuggets, French fries and sausages is also seen evolving as companies come up with new and more Indian variants within frozen foods with items like samosas, cutlets, kebabs, and parathas.

Tractor makers Mahindra, Tractors and Farm Equipment (Tafe) and Sonalika are looking to step up rental services as there is a rising demand from the migrant workforce who have gone back to their homes in other States. The migrants will have less cash in hand to own a tractor and renting it will increase productivity immediately. With a good winter crop good and promises of a bumper harvest due to a normal monsoon and procurement of crops by the government, migrant workers see a future for themselves in agriculture. According to some industry experts, they may stay back in their home States till November. So far, 65-70% of the districts remain Covid-19 free, fueling belief that agricultural activities will see an increase.

Sugar Industry

On 8th June, the Food Minister Ram Vilas Paswan held a meeting with senior officials from the Ministry to discuss the issues related to the sugar industry. Indian sugar mills have produced 27 million tonnes of sugar so far in the ongoing 2019-20 season (Oct – Sept), and the production in 2020-21 is expected to be about 31 million tonnes. However, the sugar mills are cash strapped and owe farmers EUR 2.5 billion for the current season and the Ministry is looking at ways to help the sugar mills. It will issue necessary guidelines for timely payments of outstanding arrears of sugarcane farmers by sugar mills.

Exports have been higher this year with 4.3 million tonnes of sugar already exported against the mandatory export quota of 6 million tonnes for the current season. The export earned money is expected to help sugar mills in clearing dues to farmers. However, the sugar industry expects the government to soon announce a new export policy for sugar for 2020-21 (Oct-Sept) as the reduction in domestic consumption along with excess production of sugar, may force India to look at more exports to clear sugar stocks. Currently, the government is providing assistance at EUR 122 per tonne to sugar mills to meet expenses on export of 6 million tonnes of sugar with the likely expenditure of about EUR 729 million. This scheme is likely to continue next year.

Last year, the government had announced the creation of a buffer stock of 4 million tonnes sugar in 2019-20 to help the sugar industry deal with excess sugar in the country. It had also subsidized the carrying cost for 4 million tonnes of sugar for one year, amounting to a direct subsidy of EUR 195 million. According to industry experts, this assistance is also likely to continue in 2020-21.

During the meeting, several other industry demands were also discussed, like the introduction of a new soft loan scheme, increasing the minimum selling price (MSP) of sugar and the demand for reduction of interest rate on delayed cane payment to farmers from 15% to 8%.