News Brief

13-19 June, 2020

Indian Monsoon

The southwest monsoon, after covering southern India, has now reached central and western India two weeks ahead of the schedule and will head to the northern and eastern states next. In the first two weeks, rainfall has been 31% above normal across the country, with central India alone receiving double its normal rainfall. The monsoon delivers about 75% of India's rainfall and its performance has a huge impact on the agricultural output and rural incomes. With *Kharif* crop (monsoon crop) planting 13% more than last year's, and indications of a good monsoon, India is expected to see another record harvest and strong agricultural growth. India's rice output could also hit record this year as farmers are seen expanding the area under paddy because of the promise of good monsoon rains and an increase in the minimum support price (the price at which the government procures the foodgrains).

However, the projection of a good monsoon, combined with farm labor shortage triggered by the Covid19 crisis, is likely to increase the use of herbicides by the farmers. Migrant workers, mostly from eastern parts of India, have returned to their native places following the lockdown, leading to labour shortage in western States of Punjab, Haryana, Gujarat and Maharashtra and thus a higher cost of manpower. Farmers are depending on the use of chemicals for weeding to save costs and protect their crops. The domestic herbicide market is estimated to be EUR 527 million in 2019, and is the second largest segment of the total domestic crop protection market, estimated at EUR 2463 million.

Government Policies and Aid

The government has procured a record 38.2 million tonnes of wheat, surpassing the previous peak of 38.14 million tonnes in 2012-13. The procurement is still going on and is expected to exceed the target of 40.7 million tonnes. Madhya Pradesh emerged as the new wheat procurement centre of the country leaving behind Punjab, which had been contributing around 70% in the central pool together with Haryana for decades. The procurement is done at Minimum Support Price, announced by the government before the season and helps farmers get an assured price for their produce. The procured grains are used by the government for maintaining stocks and for public distribution of food grains under various schemes. During the pandemic, the government decided to procure more food grains from farmers in order to help them through the crisis. They had also announced free food grains to poor people and migrant workers for three months beginning April.

The government is planning to increase the Minimum Selling Price of sugar by INR 2 per kg in order to help the sugar mills to clear cane farmers' dues, which have crossed EUR 2.57 billion. The minimum selling price of sugar is fixed taking into account the components of Fair and remunerative price (FRP) of sugarcane and minimum conversion cost of the most efficient sugar mills. The increase of INR 2 per kg has been recommended by *Niti Aayog*, Indian government's think-tank, and is likely to be implemented as the *Commission for Agricultural Costs and Prices* has also recommended raising the '*fair and remunerative price'* (FRP) of sugarcane by INR 10 per quintal for 2020-21. According to the industry, the Minimum Selling Price increase will not affect the public as 65% of sugar is being used by the bulk consumers like manufacturers of food products and soft drinks and will rather help the industry to have extra liquidity.

Telangana

In May, Telangana government regulated the cropping pattern in the State by mandating the acreage for different crops. Although the plan was opposed by farmers' unions and NGOs, initial reports suggest that farmers are complying with the State government's suggestions on crop coverage to regulate output. The government had said that the farmers who violate the cropping suggestions would be ineligible for the *Rythu Bandhu* scheme under which farmers get a financial assistance of EUR 145 per hectare each for the two crop seasons, Kharif (monsoon) and Rabi (winter). Of the 5 million hectares, cotton will be sown in 2.4 million hectares, paddy in 1.7 million hectares, red gram in 500000 hectares and corn in 61000 hectares. Farmers have sown over 445000 hectares so far. The Government decided to regulate the cropping area after the State witnessed a record output of 10 million tonnes of paddy last year. The Chief Minister of the State said that focusing on only one-two major crops, with no control over the area, could result in poor prices for farmers.

The State is also aiming to be self-sufficient in fruits and vegetables. Farmers on the outskirts of big cities are being urged to grow fruits and vegetables to cater to the consumers in these cities. The government is also going to study the demand and pricing of different fruits and vegetables worldwide to advise farmers on what to grow for best export opportunities. The State is also forming a special economic zone (SEZ) for food processing industries in 565 hectares of land. Units in SEZ enjoy special tax and other benefits.

Food Safety

The *Food Safety and Standards Authority of India* (FSSAI) has reinstated the *Specific Marker for Rice Syrup* (SMR) testing method related to honey standards after removing it from the regulations in 2019. This parameter detects even a slight presence of syrups in the final product. Previously, honey was tested based on parameters of SMR, Trace Marker for Rice Syrup (TMR), and foreign oligosaccharides. However, FSSAI had deleted these parameters from the regulations in 2019. In a recent meeting, FSSAI's scientific committee decided to reinstate the SMR Parameter. The importers of golden syrup/invert sugar & rice syrup will now have to submit necessary documents at the scrutiny stage before clearance, including the details of end-users of the imported food item.

Trade

As Vietnam signs a free trade agreement (FTA) with the European Union, trade body *Federation of Indian Export Organisations* (FIEO) has urged the government to expedite the negotiations on the India-

EU FTA, officially called the *Bilateral Trade and Investment Agreement* (BTIA). The EU is the largest market for Indian exports, with a share of almost 18%. India exported goods worth EUR 52.3 billion to the EU in 2019 and Vietnam, a close competitor, exported goods worth EUR 46.7 billion. The FEIO fears that with the signing of the agreement, Vietnamese products will get an edge in the EU markets as their products will become cheaper compared to Indian products. This may have an impact on the exports of apparel, footwear, leather goods, furniture, tea, coffee and marine products.

India's rice exports to Africa, Saudi Arabia, Iraq, Iran and the United Arab Emirates have been hit by labour shortage and scarcity of containers at the ports. The country wide lockdown due to the pandemic has forced labour to return to their native places, leaving a shortage of workforce in the industry and farmlands. Moreover, since imports of all products have reduced, containers are not coming to the ports, leading to exports getting delayed. This year, Saudi Arabia and the UAE have emerged as the biggest buyers of basmati rice, bypassing Iran, where traders are experiencing payment issues. Africa has a huge demand for non-basmati rice and had imported 1.1 million tonnes of rice at an estimated cost of EUR 293 million.

The demand for edible oil in India has gone down and has led to a 10% decrease in imports since the beginning of lockdown. The supply chain was disrupted with the closure of processing units, lack of labour and transport for movement of goods which led to an increase in retail prices. Although the supply is slowly getting back on track, demand is not expected to go up much as commercial consumption remains low. Moreover, with lesser income and in many cases no job at all, the uncertain prospects of revival of business activities, demand for cooking oil is unlikely to be robust during the festive season from August till November.

The seafood exports are expected to pick up in the second half of 2020 as the import of shrimp broodstock resumes after stopping for almost 2 months following the Covid 19 lockdown. Shrimps account for 70% of the EUR 6 billion worth Indian seafood exports and the country depends heavily on broodstock import of Vannamei shrimp. The US is currently the largest buyer of Indian seafood followed by China. The demand for seafood is subdued but has gone up slightly compared to last month. In Europe, there is a 10-15% decrease in demand. The exporters are also seeing a drop in prices, marginal for the US but a decrease of 20-25% for various products in China. Due to the two-month gap in broodstock imports, the production is expected to go down by 10-12 % from last year.

Following the pandemic, more and more companies in East Asian nations are exploring other sourcing destinations than China and are looking for alternative suppliers for frozen food. India is preparing itself for the opportunity by helping local companies take advantage of the situation and is speeding up capacity additions for cold storage chains, reefer vehicles and mega food parks to support the food processing industry. India ranks second in terms of global food production but its capacity to processes is only 10% of its total output due to infrastructure challenges such as the shortage of cold storages and warehouses. Currently, the food processing industry accounts for 25% of India's agricultural exports and is growing at about 8% per annum. In 2019-20, the country exported processed and tinned marine products worth EUR 409 million.

Alcohol

Reuters has reported that Pernod Ricard and Diageo have stopped receiving orders for their imported liquor brands from India's defence canteen stores where they are sold at concessional prices. The canteens provide access to both local and imported products such as liquor, food and electronics at less-than-market rates to soldiers, ex-servicemen and their families. This follows the announcement of Prime Minister Narendra Modi's "vocal for local" campaign initiated in May, in which he has called for promotion of indigenous products to make India self-reliant, and curbing imports. However, no official order has been given by the government to stop the sale of imported liquor in canteens yet. The imported liquor sales generate about EUR 15 million of the total EUR 403 million liquor sales at defence canteens. Disallowing sale of other imported goods in defence canteens is also feared.

Local liquor stores may see an increase in demand for premium alcohols like scotch, cognac, imported vodka and rum as international travel comes to a near halt due to the pandemic, leading to no access to airport duty-free stores. The price disparity between domestic market and duty free in India is among the highest in the world. With import duties on foreign wines and spirits exceeding 150%, most imported liquor sees their prices nearly double at the local retail stores compared to duty-free shops at airports. As a result, sales of bottled in origin, or BIO, segment, including Scotch and premium vodka brands, in duty free is twice the size of the local market.

Enterprises

Epigamia, the Mumbai based Greek yogurt brand, has received an extension to the Series C funding provided in 2019 from the venture capital arm of French dairy giant Danone and investment firm Mousse Partners. The majority of the EUR 4.6 million is contributed by Danone Manifesto Ventures (DMV) and New York-based Mousse Partners. In 2019, Belgium-based investment house Verlinvest led the Series C round with EUR 22.9 million and DMV had acquired an undisclosed stake in Epigamia. The company was founded in 2015 and has 24 SKUs spread across yogurt, smoothies, *ghee*-based spreads, curd and traditional Bengali desserts. The company has also recently ventured into the plant-based category with the launch of coconut milk yogurt.