UNIT 6 AN OVERVIEW OF AGRIBUSINESS POLICIES

Structure

6.0 OBJECTIVES

After studying this unit, the learner shall be able to:

- distinguish between agriculture and agribusiness;

- discuss the concept of agribusiness policies;
- appreciate the difference between agricultural policy and agribusiness policy;
- learn about the different dimensions of agribusiness policies;
- perceive how possible conflicts can arise from the implementation of any agribusiness policy;
- identify the ways and means of overcoming constraints faced by the agribusiness sector; and
- Chart out how the agribusiness environment can be improved.

6.1 INTRODUCTION

In India, agribusiness is treated separately from agriculture, which focuses on production. Supply of agricultural inputs, credit, and marketing of agricultural produce, including value addition through processing, transportation and storage, and distribution are the major concerns of agribusiness. But, in western countries, agricultural production is also treated as a part of agribusiness. Agribusiness policies of respective Governments are aimed at increasing agricultural production and value addition such that resource productivity increases and the income of the farmers and improvement in the overall conditions of agricultural laborers. Generally, agricultural and agribusiness policies are complementing each other but, at times, they can be conflicting as well. As the agribusiness companies grow in size and number, they are in a position to influence the policies of the Government to corner a major part of the benefits to the detriment of the farmers. Subject to protecting the interest of farmers, Governments should try to encourage more investments in agribusiness to reduce the physical losses and add value to the agricultural produce. The unique disadvantages like seasonality and high working capital requirements inherent in agribusiness should be kept in mind while designing the agribusiness policies in the country. This unit discusses the trends in agribusiness policies and focuses on the problems and prospects of the agribusiness sector in the country.

6.2 AGRICULTURE AND AGRIBUSINESS

You may, perhaps aware of what agriculture means and how it is different from agribusiness. In developed countries, agribusiness is defined as the total output arising from farm production and product processing both at the farm level as well as after it leaves the farm gate. In India, it is so far distinguished from farm production and has three distinct sub-

sectors, *viz.* (i) farm inputs, (ii) agro-processing, and (iii) marketing and trade. The National Income Statistics treat agricultural production as the unit of the primary sector and agribusiness activities as part of the secondary and tertiary sectors. To conform to the global view, we can redefine agribusiness as "an integrating and encompassing science and practices, with backward and forward linkages, related to production, processing, marketing, trade, and distribution of raw and processed food, feed and fiber, including the supply of inputs and services for these activities."

Agriculture has been one of the oldest crafts that human beings have learned while the concept of agribusiness is of the most recent origin. India, being one of the cradles of ancient civilization, has a long history of the evolution of agricultural practices. At one stage, like anywhere else, human beings in India were hunters and gatherers. They were collecting useful grains, roots, leaves, and fruits from nature and feeding on them. They were also hunting the animals and eating their meat. But this method of survival did not provide them assured supply of food. So, they gradually learned to select and collect the seeds of useful plants and sow them nearer their homes. This method of raising food grains, leaves, roots, and fruits helped them to have a settled life and relatively more abundant food. They also domesticated useful animals to have access to milk and meat. The remnants of the plow and plant systems that the ancient tribes developed can be seen in the hilly and remote areas of the country even now!

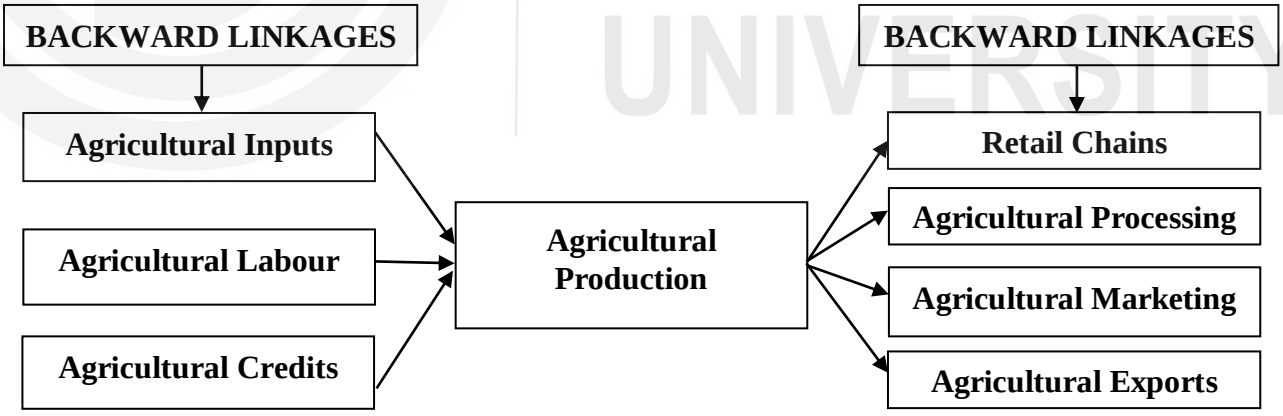

Fig. 6.1: Agriculture and Agribusiness

In Fig.6.1, Agricultural production, which is used synonymous with agriculture, is the central activity. Agricultural credit, agricultural inputs, and agricultural labour are classified under backward linkages and they contribute inputs to agricultural production. Retail chains, agricultural processing, agricultural marketing, and agricultural exports are the forward linkages to agricultural production activity and are classified under output marketing. The

entire set of activities may be considered agri-business as per modern convention. The traditional view treats agricultural production as agriculture and all other activities in the other seven boxes as agribusiness.

Activity 1:

Visit a village nearer to your place and talk to a few farmers about farming and how they access their inputs and market their outputs. After the visit, list down three agricultural activities and three agribusiness activities commonly seen in the village.

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6.2.1 Traditional Farming

As the growth in human population kept on increasing, farmers started developing new and better methods of farming to achieve higher yields from a unit area. As the people observed that total dependence on rain was yielding smaller harvests, they gradually learned how to supplement rainwater with stored water to secure higher yields from the crops. Yet, they were suffering from droughts and floods, often facing famines and starvation deaths. After the British colonized India, they introduced improved methods of farming in tea, coffee, and other plantation crops to secure higher yields by investing more capital. But the bulk of India was still following traditional methods of farming using mostly land and labor. Even as late as 1942-43, India suffered from the Great Bengal Famine in which nearly three million people died of hunger and disease. The partition of the country into India and Pakistan also caused supply shocks and the country had to import food grains from other countries. The dependence of the country on imports increased till the mid- 1960s when we imported one ton of food grains for every five tons produced in the country! This became necessary

because of the fast growth in population despite increasing food grain production substantially through horizontal expansion i.e., by using more land and labor. The use of capital was very less and it comprised only selected seeds, organic manures, and bullock-drawn implements.

6.2.2 Green Revolution

Our political leadership and scientists wanted to achieve self-sufficiency in food grain production and gradually mastered the new methods of breeding and evolved improved and hybrid varieties of crops that yielded higher levels of output. These new varieties also responded well to water application and higher doses of nutrients. As organic sources of nutrients were inadequate, chemical fertilizers were applied to improve higher yields. Farm mechanization gained momentum and drilling technologies made the use of groundwater possible. All these new inputs required more capital and conversion from organic to inorganic farming. These new methods of cultivation and new crop varieties made it possible to achieve higher crop yields and helped the country to achieve self-sufficiency in food grain production by around 1990. Similar advances in milk production, fish production, and oilseed production added the shades of white, blue, and brown revolutions to the green revolution to supplement the cereal diets with more and better quality foods. Potato, fruits, and vegetables also registered impressive growth to provide food and nutrition security to the ever-growing population of the country. While the population increased by nearly three and a half times, food production increased by nearly four and a half times! While we still have poverty, hunger, and malnutrition to a considerable extent in the country, we travelled a long way from the days of famines and moved towards ensuring food security for the vulnerable sections of the people in the country.

6.2.3 Development of Agribusiness

Indian agriculture comprised largely of subsistence farmers at the time of Independence and they were trying to produce most of the needed agricultural products on their own farms. Some of the agricultural commodities and most of the services were traded in and around the villages through the barter method of exchange. Farmers were using mostly farm-produced inputs and were marketing their surplus outputs in the local markets. The index of commercialization was very low. But after Independence, it grew quite fast due to the integration of markets and gained further momentum after the green revolution. Several companies started producing and marketing modern agricultural inputs like improved/ hybrid seeds, chemical fertilizers, micronutrients, pesticides, growth hormones, tractors, farm

equipment, sprinklers, drip irrigation systems, greenhouses, shade nets, poultry and animal feeds, poultry cage systems, milking machines, meat processing equipment, etc., Similarly, several marketing and processing firms have come up to procure, process, store, transport, and export agricultural products. Cash transactions of farmers increased many folds and agriculture has become more of a business than a way of life. The agribusiness companies which supply inputs to farmers and those which procure and process farm produce have invested in improved technologies to reduce the losses and wastages and to improve the precision in farming. Thus, agribusiness firms have become extensions of the agricultural sector on either side.

Despite the phenomenal growth of the agribusiness sector during the last five decades, it contributes only about 4 to 5 percent of the GDP in the country, while agriculture still has a share of 15.4% percent of the GDP. In the United States of America, the agribusiness sector contributes about 13 percent to GDP, while agriculture adds a mere 2 percent to the GDP. It shows that the agribusiness sector in India still has a lot of potential for growth.

6.3 ROLE OF POLICY

The policy is defined as a course of action, guiding principle, or procedure considered expedient, prudent, or advantageous to attain some desired outcomes. While an individual or a business company or a cooperative may also have a policy, we generally have an interest in the policy of a Government towards agribusiness policies. As Governments are expected to work for the common good of the people, most of the debate is about the stated policy of the Government and the actual impact of the policy on different sections of society.

For example, the policy of government may be framed to achieve one or some or all the purposes stated below:

1. To attain self-sufficiency in food production and also to minimize the quantum of imports of food into the country
2. To ensure that there is food security for all the people in the country, minimizing the incidence of hunger and malnutrition among the people
3. To maximize the comparative advantage of the country and export commodities that can be produced cheaply and import the commodities that can only be produced at a high cost
4. To ensure that the farmers and agricultural labour have decent incomes to sustain their families

5. To aim at the improvement in the quality of soil and water required in agriculture while producing the agricultural commodities needed by the people

While all the above five objectives appear to be desirable, each of them will entail different policy instruments and strategies. Some of them can be attained only with a sacrifice in the fulfillment of other objectives. Often these conflicts are ignored and the concerned Governments aim to achieve a large number of desired outcomes by overlooking the inconsistencies between them.

Regarding agriculture and agribusiness sub-sectors, the policies of maximizing agricultural production, minimizing physical losses and wastages of agricultural commodities, and reducing marketing costs and margins appear to be desirable. Yet, the choice of policy instruments may result in more benefits to one sub-sector and less or no benefit to the other sub-sectors. Thus, policy-making and implementation is a complex and arduous task, often requiring changes and mid-course corrections to balance the interests of different stakeholders.

In the United States of America, the lobbying power of agribusiness companies is so great that agricultural policies are largely influenced as well as shaped by their desires. The interests of the farmers are served through income support measures and minimum guaranteed prices. In India, where farmers and agricultural labor form the bulk of the population, the policies are framed in their favor but the loopholes in the implementation bring benefits in favor of the companies to a larger extent.

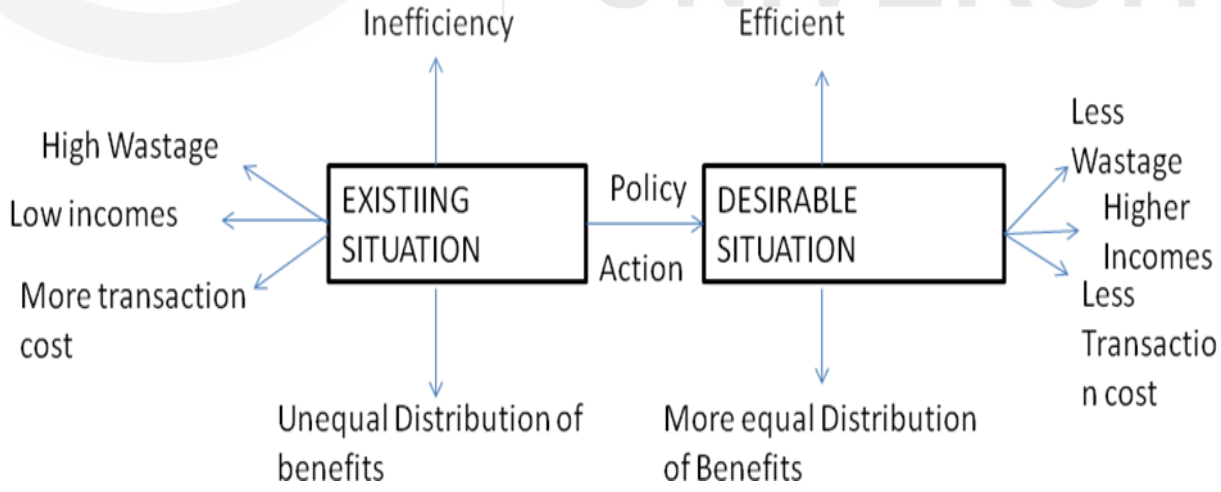

Fig. 6.2: Role of Government Policy

6.4 AGRICULTURAL POLICIES VS. AGRIBUSINESS POLICIES

The Government can frame agricultural policies with the focus and emphasis that modern agricultural inputs should be produced in large quantities in a competitive environment so that the farmers can buy them at the lowest possible prices and produce them at a lesser cost and get remunerative prices to their outputs. In this policy stance, the interests of agribusiness companies become secondary to the interests of farmers. But with this policy slant of perfect competition, some of the less efficient agribusiness companies may incur losses and will have to exit the scene. Gradually, the competition gets restricted to a few efficient and financially strong companies and they will acquire the capacity to dictate the prices of the inputs. The multinational companies which have access to the latest technologies and finances may emerge, as winners, often leaving the farmers at their mercy and paying higher prices for the inputs. The Governments may resort to price controls and impose limits on the profits earned by the companies. The experiences far have shown that these policies do not succeed and may create shortages of inputs which will enhance their prices in the parallel or illegal market. Even the best possible intentions to promote farmers' welfare are defeated in the course of implementation.

6.4.1 Support to Domestic Companies

The Government, on the other hand, may seek to promote domestic agribusiness companies to grow by ensuring a reasonable return on their investment with the hope that the economies of scale will eventually reduce the input prices. 'Entry barriers' may also be placed on foreign multinational companies for an initial few years to protect domestic agribusiness companies in their infancy. But such policies in the past have only ended up in having domestic monopolies with outmoded technologies, resulting in inferior quality inputs selling at higher prices. The agricultural outputs will then be produced at a higher cost and will not be competitive in the international market. The issue of Intellectual Property Rights protection will be raised by the companies and the grant of product and process patents will give them monopoly power to charge higher prices for the inputs. At some stage, when foreign firms are allowed to enter, the domestic companies seek to enter into alliances and collaborations with them, often ending up in mergers.

6.4.2 Competition from International Companies

India followed largely the Import Substitution Policies till 1991 and later opened the field to international competition. Both these phases have yielded some positive and some negative

impacts. It is a matter of debate and difference of opinion as to which policy has better served the interests of the country and the farmers. The Bt cotton has become the bone of contention. Many argue that cotton productivity improved in the country at a rapid pace and the use of pesticides declined to result in benefits to the farmers. But the critics point to the loss of biodiversity and the enormous profits earned by Monsanto and Monsanto Mahyco Biotech Foundation are at perils to the environment. The resistance by some NGOs is delaying the commercialization of Bt technology in vegetables like brinjal, cabbage, and cauliflower. The issue has many dimensions of technology, foreign capital, food safety, and appropriate price of seeds thereby making it difficult for the Government to arrive at meaningful and purposeful decisions. Similar are the issues in allowing multinationals in multi-brand retail trade. This move is temporarily stalled but may soon be allowed.

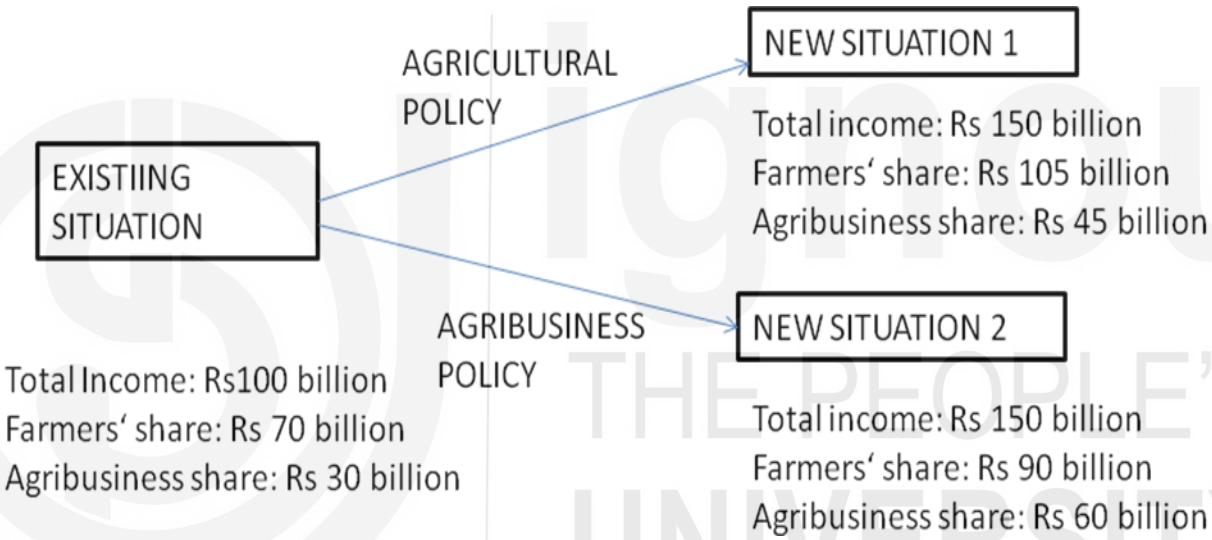

Fig. 6.3: Possible conflict between agricultural and agri-business policies

In figure 6.3, it is portrayed that both the agricultural and agri-business policies result in the same increase of 50% in the total income. But, with the agricultural policy, farmers continue to get the same 70% share in the benefits as earlier (new situation 1) while their share falls to 60% in the benefits in the case of agribusiness policy (new situation 2). Obviously, the policy favouring the agri-business results in a 40% share in the benefits to the agribusiness sector when compared to the 30% share which the agri-business was getting earlier.

Check Your Progress 1

Note: a) Use the space given below for your answers.

b) Check your answer with those given at the end of the unit.

1) Is the use of an oil engine for the lifting of water an agribusiness activity? If yes, why? and if not, why not?

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2) Do you consider a vermin-compost making unit of a small entrepreneur for the sale of vermin compost to farmers an agribusiness activity? Why?

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3) Give an example of agricultural policy.

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4) Why permitting of a fertilizer mixing plant is an agribusiness policy?

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5) Whether increasing the Minimum Support Price (MSP) of paddy help the farmers and the consumers of rice in the same way or in the opposite way?

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6.5 DIMENSIONS OF AGRIBUSINESS POLICY

The Governments have been encouraging the setting up of agribusiness companies ever since Independence. Initially, when the private sector was hesitant to invest in agribusiness

companies, the Government of India set up the National Seeds Corporation (1963) and Fertilizer Corporation of India (1961) in the public sector to produce and supply the seeds and fertilizers needed by the agriculture sector. It has also established some modern farms under the State Farms Corporation of India (1969) to demonstrate modern technologies and to produce the seeds of improved varieties. State Seed Corporations were set up virtually in all the states to enhance seed production and supply seeds to farmers.

6.5.1 Retention Price Scheme for Fertilizer Companies

One major policy initiative taken by the Government of India was to encourage private and cooperative investment in the fertilizer industry. After the oil crisis of 1973, the Government of India introduced the retention price scheme for the production of fertilizers. Each fertilizer plant's cost of production would be calculated by allowing 12% post-tax profit on the equity capital invested in the company. The Government announces the uniform sale price for all types of fertilizers and the difference between the cost of production and the sale price will be paid to the plant as a subsidy. This policy helped to nurture the fertilizer industry in the country and ensured the supply of required fertilizers in the country. The gap between the demand and supply was bridged by fertilizer imports. Such a stable policy helped in increasing the production of food grains and other agricultural commodities.

6.5.2 Era of Liberalization

The liberalization policies ushered in 1991 onwards have removed the entry barriers to agribusiness companies. There is competition between the states to attract investment into their states. Agri-Export Zones (AEZ) were set up in the states to promote value addition and exports. A few State governments are either allocating land for the agribusiness companies or helping them to procure land to set up the agribusiness units. The Ministry of Food Processing Industries, Government of India is encouraging them by providing capital subsidies, while the state governments are providing their sales tax exemptions and power tariff concessions to some extent. The Mega Food Parks that are being set up in some parts of the country are providing several integrated services to help agribusiness companies prosper.

6.5.3 Research and Development Investments

Several seed companies have invested in Research and Development (R&D) and developed hybrid varieties. They were protecting their Intellectual Property Rights by trade secrecy method. The Protection of Plant Varieties and Farmers Rights Act, 2001 has offered

protection to the intellectual property of the companies and enabled them to register their novel varieties with the notified authority. The new molecules developed by agrochemical companies can seek patent protection. This method of providing exclusive marketing rights on the new molecules offers the companies enough incentive to invest in Research and Development activities. Similarly, agricultural engineering companies can claim petty patents for their new machinery designs.

6.5.4 Contract Farming[1] and Private Markets

Different methods of contract farming are in vogue in the country. The companies are able to access agricultural commodities of a specified quality for meeting their marketing/ export or processing requirements. Since corporate farming is not feasible on a large scale, companies are resorting to contract farming by providing the farmers with all the necessary quality inputs to obtain outputs of desired quality. The governments are encouraging such contract farming arrangements.

As a part of marketing reforms, even private companies and cooperatives are allowed to set up their own markets. The idea is to promote more competition and choice to farmers to sell their produce by eliminating the monopoly power of Agricultural Produce Market Committees (APMCs) presently in vogue. Retail marketing chains can have their own procurement centers. Even multinational firms may be allowed soon to enter procurement and retail marketing.

Thus, agribusiness policies are designed to encourage both domestic and international companies to produce and supply quality inputs to farmers and to take up value addition activities through the establishment of cold chains, processing, and marketing facilities with the objectives of minimizing physical losses and improving marketing efficiency.

Activity 2:

Visit a Sugar factory or any other factory or units engaged in Agricultural activities nearer to your place and talk to factory staff and farmers to know about the terms of contract farming between the farmers and the factory. What role do commercial banks play to support contract farming arrangements between the farmers and the factory?

[1] Please refer to Contact farming ventures in India. A few successful cases, SPICE, Vol. 1, No.4, March, 2003

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6.6 CONFLICTS IN THE IMPLEMENTATION OF AGRIBUSINESS POLICIES

When agribusiness policies are formulated, they appear to be lofty and beneficial to all. Let us take the example of regulated markets. At the time of Independence, there were only 272 regulated markets in the country. In most of the markets, the traders were arbitrarily deciding the prices for different marketing lots of the farmers. The weighing was not proper. Instead of 75 kg, they were placing 77 or 78 kg weights and were paying for 75 kg. The payments to farmers were often delayed by a week or two or even more. It was thought that by regulating the functioning of the markets, the competition among the traders can be increased and that the prices will be determined by open auction or sealed tender method. Correct weighing of produce and same-day payment to farmers was ensured in regulated markets. The number of regulated markets had increased to 72000 over the last 75 years or so. But the marketing problems of farmers largely remained unsolved. There is often collusion between the traders thereby leading to lower prices paid to farmers. Because of the connivance of the officials of the marketing department with the traders, the problems of over-weighing and delayed payments are not eradicated completely. Even when the farmers do not bring their produce to the regulated market and sell their produce either to traders or processors or exporters, the produce attracts a marketing fee when it enters the jurisdiction of a particular market. Because of the monopoly power given to the Agricultural Produce Market Committee (APMC), the fee is collected without providing any service. The implementation of the policy of regulated markets has only increased marketing costs. Several APMCs even started levying entry-free regardless of the facilitation of the sale of produce brought in.

6.6.1 Failure of Regulation

The Government of India has off late realized that it is the competition and not the regulation that will benefit the farmers. In order to increase the competition, it has suggested setting up multiple markets. Even private marketing companies or cooperatives have been enabled to set up agricultural markets. The Government of India prepared a model marketing act and circulated it to all the State Governments to amend their Agricultural Produce Market Committee (APMC) Acts and facilitate setting up more markets. Even the retail marketing chains are allowed to establish such markets or procurement centers for effective backward integration. In the present scenario, this appears to be a better policy option.

6.6.2 Apprehension of Exploitation in Private Markets

There is a genuine apprehension that once the policy is implemented, some farmers may complain of exploitation in the private markets and seek their regulation. Implementation is as important as the formulation of well-meaning policies. Many good plans and policies in India are defeated in implementation. Why is the implementation bad?

It is because there are several conflicting interests and the powerful people are able to have their way. The weak and unorganized farmers are often exploited by the strong and organized lobbies of traders and officials.

6.6.3 Fear of entry by Multinational Companies

Theoretically, the entry of big firms with the latest technologies and strong finances should increase competition and lead to better prices for farmers and a better product range for consumers at competitive prices. But, going by the experience of several countries where such policies were tried, there is an apprehension that the farmers, consumers, and petty traders will have to bow before the financial might of marketing giants.

Intellectual Property Rights (IPR): Intellectual Property Rights (IPR) are the rights given to persons over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creation for a certain period of time (eg.: 20 years in the case of patents). Unless there is an incentive of benefiting from exclusive marketing rights, companies would not make the heavy investments needed for developing a new product. Research and Development activities are very capital-intensive and there are risks at every stage of product development and marketing. To induce companies to make heavy and risky investments, society will have to offer the promise of providing product/ process patents and

the right of exclusive marketing rights for a specified period under respective laws. As an example, Du Pont, a chemical company, made substantial investments in the invention of plastic. That company obtained a patent and made considerable profit by marketing it for several years. But eventually, the whole world benefited from the use of plastic. In developed countries, strong IPR protection is provided to encourage R&D activity and to keep the innovation activity going on. But, in the context of developing countries like India, there is fear and opposition to a strong IPR regime as it leads to the emergence of monopolies with exploitative power. Much of the opposition in India to biotechnology comes not so much because of the technology but because of the ownership of technology by a multinational giant like Monsanto.

Check Your Progress 2

Note: a) Use the space given below for your answers.

b) Check your answer with those given at the end of the unit.

1) In the retention price cum subsidy scheme for fertilizers, how much profit is ensured for the fertilizer companies?

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2) Have the liberalization policies restricted or improved the competition between companies?

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3) Do the Intellectual Property Rights (IPR) promote or inhibit technological progress?

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4) How many regulated markets are established in the country?

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5) Which company invented plastic?

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Source: Ministry of Commerce and Industry, GOI, 75th Azadi Ka Amrit Mahotsav.

Activity 3:

Visit a regulated market nearby your place and note down the facilities provided to the farmers for marketing their produce. Interact with a few farmers and find out the changes needed for improving the functioning of markets further.

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6.7 CONSTRAINTS IN AGRIBUSINESS SECTOR IN INDIA

Despite rapid growth in the index of commercialization, the agribusiness sector still has a lot of potential for growth. In the wake of liberalization policies in India, one of the leading consultancy firms, Mckinsey & Co., came out with a FAIDA report in 1995 in which it was predicted that the food processing industry in India will grow rapidly at a rate of 15 to 20 percent per year. But the actual growth registered by the food processing industry in India during the decade of 1995-2005 was only by 6 to 7 percent. The agricultural inputs sub-

sector, which includes seeds, fertilizers, pesticides/ insecticides, farm and irrigation equipment, repair and maintenance services, organic manures, livestock feeds, and fodders, electricity/ diesel etc. has an annual sales turnover of Rs. 150,000 crores.

India's agricultural and processed food products exports had grown at a steady pace in the last decade notwithstanding challenges faced by them in the global trade of commerce. Exports of products under the APEDA (Agricultural and Processed Food Products Export Development Authority) basket rose to USD 20,674 million during 2020-21 from USD 17,321 million during 2011-2012.

Cereals (non-basmati rice and wheat) and livestock products exports have a major share in APEDA's export basket[2].

APEDA has been engaged with state governments for the implementation of the Agriculture Export Policy. Several states like Maharashtra, Tamil Nadu, Punjab, Karnataka, and 14 other states have finalized the State Specific Action plan for exports.

According to World Trade Organisation (WTO) data, India's Agricultural Exports touched USD 37,371 million in 2019 against 23,106 million in 2010, recording a compound annual growth rate of 5.49% during the last 10 years.

The slower than expected growth in the agribusiness sector, in general, and the food processing sector, in particular, has many reasons:

1. **Diversity of Indian Agriculture:** India is a sub-continent with a large diversity of climate, soils, and growing environment. As we move from south to north, the climate changes from tropical to sub-tropical and to temperate. The soil types change from sandy red soils (20% area) in the south to black soils in the middle of the country (about 40% of the area) and to the alluviums in the north (about 40% area). A little more than one-third of the area is irrigated, while about one-third of the area is rain-fed but with adequate rain to see through a crop. About one-third of the area is rainfed with low and highly variable rainfall and the probability of raising a successful crop is quite low. But because of diverse ecologies and agricultural conditions, many crops can be grown around the year in some parts of the country or the other. Some fresh produce of many commodities is always seen in the market but in varying quantities and prices. Because of this situation, there is a preference for buying agricultural commodities in fresh form rather than in processed form.

[2] ***Source***: Ministry of Commerce & Industry, GoI, 75th Azadi Ka Amrit Mahotsav.

2. **Non- suitability of produce for Processing:** Most of the agricultural commodities are produced for the fresh market and they are not often suitable for processing. The varieties suited for processing are different from those meant for the fresh market. The processing firms have to motivate the farmers to grow varieties suited for processing through some contract farming or marketing arrangements including private marketing arrangements.

3. **Land laws and small size of farms:** The land reform policies were aimed at providing security to the tiller and tenants. The average size of farm holdings is less than a hectare with many fragments. Although land leasing is prevalent on a substantial scale, most of the lease agreements are oral. Large farms are rare and the scope for corporate farming is very limited. The only possibility of accessing land for the production of a specific quality of produce is through contract farming. While there are a few cases of contract farming that stood the test of time, it is difficult to enforce contract farming on a wide scale. Both the companies as well as farmers may jump the contracts when the market conditions are favorable to them.

4. **Significant costs of the procurement:** Due to the dispersed nature and small size of farms, the cost of supervising the quality of production as well as the cost of procurement and assembling the produce is substantial. Grading and processing of agricultural commodities also add to the cost of processed products. Due to the availability of raw materials for a limited period of a year, the working capital requirements of food processing firms are enormous. The processing units can be operated only for a limited period. The interest and depreciation costs per unit quantity processed goes up because of these reasons.

5. **Taxes and overhead costs:** The Governments do levy various taxes on processed foods, as they are considered as luxury and status symbols of consumption for the well-to-do and rich consumers. The limited period of raw material availability and operation of the units imposes high fixed costs per unit.

6. **High costs of distribution and retailing:** The costs of distribution and retailing margins add up to raise the prices of processed products while trying to reach the consumers through a network of traders. Costs of packaging, advertising, and brand building are also substantial. The final prices of processed products are easily three to five times the comparable cost of fresh produce.

7. **Widespread sickness:** There are many failed enterprises in food processing because of their inability to market their products at a sufficiently large margin to keep them floating. For every successful food processing unit, there is at least one failed unit. A lot of investment remains wasted and remains idle as the sick units close down after a few years of operation. Policymakers need to devise appropriate policies that can make at least 70% of the units profitable. Only those companies with financial power or with foreign collaborations and investments have the capacity to withstand the losses in the initial years and survive in the market successfully. Many small firms perish in the competition due to inefficient technology, inability to build brands, and inadequate financial base.

Check Your Progress 3

Note: a) Use the space given below for your answers.

b) Check your answer with those given at the end of the unit.

1) Which is the report that raised a lot of expectations about the food processing sector in India?

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2) What is the average size of a farm in India?

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3) What problems do the agribusiness units face due to the seasonal availability of raw materials?

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4) What do you understand by contract farming?

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5) What is the estimated annual sales turnover of the agricultural inputs sub-sector in India?

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6.8 GOVERNMENT SUPPORT TO FOOD PROCESSING AND AGRIBUSINESS SECTORS

The Government of India has set up a Ministry of Food Processing in 1988 with a view to developing a strong and vibrant food processing industry in the Country. It is responsible for the formulation and administration of the rules, laws, and regulations relating to the food processing industry. It acts as a catalyst and facilitator for attracting domestic and foreign investments towards developing large integrated processing facilities and in creating a conducive policy environment, including rationalization of taxes and duties. It processes the applications for setting up Export-Oriented Units (EOUs). It deals with fruits and vegetable processing industries, the food grain milling industry, the dairy industry, the processing of eggs and poultry, meat and meat products, fish processing, confectionary units, convenience foods, Oil seed, and oil meal processing, beer, alcoholic drinks, aerated waters, soft drinks, specialized packaging and technical assistance to the food processing industry. It also works closely with promotional bodies like Agricultural Products Export Development Authority (APEDA), Marine Products Export Development Authority (MPEDA), Coffee Board, Tea Board, Cashew Board, National Horticulture Board (NHB), National Research Development Corporation (NRDC) and National Cooperative Development Corporation (NCDC), National Dairy Development Board (NDDB).

Despite all the encouragement given to the food processing industry and the rising per capita incomes of the people over the last two decades, the level of processing remains quite low, particularly in the case of fruits and vegetables. Only about 2 to 3 percent of fruits and vegetables in India are processed. It is much lower compared to other countries like the Philippines (78 percent), the United States (65 percent), and China (23 percent), etc., India's

production accounts for about 9% of world fruit production and 11% of world vegetable production. The share of fruits and vegetables processed in India is much less when compared to other agricultural products such as milk (35%) and marine products (26%). Lack of processing and storage facilities in the case of fruits and vegetables results in huge wastages estimated at 35% of production in physical terms and valued at Rs. 33,000 crores per year in value terms. The vision 2015 statement developed by the Government proposed to increase the processing level of perishables from 6% to 20%; value addition from 20% to 35% and the share in global agricultural trade from 1.5% to 3%. The investment requirements of the food processing industry during 2005-15 were estimated at Rs. 100,000 crores. The private sector was expected to invest Rs. 45,000 crores and raise Rs. 45,000 crores from the financial institutions, with the Government sector putting in the remaining Rs. 10,000 crores towards the infrastructure and incentives. During the eleventh plan period, the Government outlay for this sector was fixed at Rs. 5, 006 crores. During the twelfth plan period, the Ministry of food processing sought an allocation of Rs. 15, 000 crore for the food processing sector. The Government of India proposed to set up a Mission on Food Processing in partnership with the state governments during the twelfth five-year plan period.

Activity 4:

Visit an agro-processing unit in your area and find out how many days in a year it is operating and the constraints it is facing towards increasing its turnover and profitability.

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6.9 IMPROVING AGRIBUSINESS ENVIRONMENT

As the population grows, we need to improve the production-oriented technologies and quality of inputs used in agriculture to meet the growing food requirements, both in quantity, quality, and variety. The wastages in storage, processing, and transportation have to be drastically minimized by making investments in cold chains, rural warehouses, and improved processing technologies. The proposed Mission on Food Processing should help in improving the efficiency of the food processing sector in particular and the agribusiness sector in general. The government should also act on the policy front to reduce sickness in the agribusiness sector. Contract farming has to be promoted in a big way to benefit the farmers as well as the food processing firms. Marketing reforms have to be pursued to improve competition and to increase the share of the farmer in the consumer's sale price. For a few years, Governments should resist the temptation to tax processed farm products. The growth in agricultural production and agribusiness sectors is crucial to maintain growth momentum in the economy and also to ensuring food and nutrition security to the people in general and the poorer sections of the population in particular. Hundreds of institutions are offering courses in agribusiness management to supply trained manpower to agribusiness firms and public sector entities to pursue their business plans. Appropriate risk-sharing and insurance schemes have to be devised to share the greater risks inherent in agriculture and agribusiness by the society and economy at large. Let us hope that all these initiatives will improve the agribusiness environment and remove the constraints faced by agribusiness firms to a considerable extent.

6.10 INDIAN FOOD PROCESSING INDUSTRY: CURRENT SCENARIO

Indian Food Processing Industry is the world's second-largest producer of food next only to China. The Indian Food Processing Industry accounts for 32% of the total food market. The Government of India has played a very major role in increasing the said share.

During the last five years ending 2019-20, the Food Processing Industries sector has been growing at an annual growth rate of around 11.18%. As per the Annual Survey of Industries (ASI) 2018-19, Indian food processing was ranked 1st in total persons engaged in the manufacturing sector.

Under PMKSY, 41 Maha Food Parks, 348 Cold Chain Projects, 68 Agro-Processing Clusters, 281 proposals under creation/expansion of Food Processing and Preservation Capacities (CEFPPC), etc. across the country stand approved.

The key sub-segments of Food Processing in Industry inter-alia, inched: Poultry and Meat Processing, Fruits and vegetables, Fish and fishery Products, and Food Retailing, Dairy Industry.

India's Food Processing Sector is one of the largest in the world and its output is expected to reach USD 535 billion by 2025-26.

The new initiatives like a planned infrastructure spend of around Rs.100/- lakh crore (around $ 1 Trn.) and Rs.25 lakh crore to boost the rural economy have put the food processing sector on a high growth path.

6.11 LET US SUM UP

Agriculture in India has a long history but it remained largely traditional till the time of Independence. But the population pressure and the desire to attain self-sufficiency have seen the country pass through green, white, blue, and brown revolutions and many modern agricultural inputs are being used by the farmers. Production and supply of new agricultural inputs and processing of agricultural produce for value addition required the development of agribusiness in the country on a very large scale. Initially, domestic agribusiness firms received the support of the Union and state governments, but many multinational companies have entered the scene after the advent of the era of liberalization policies. Initially, the governments emphasized more on the regulation of the agricultural markets but have shifted the stance more toward promoting competition. It was expected that the agribusiness sector would develop by leaps and bounds but the actual growth has been much slower than anticipated. A good number of constraints are limiting the growth of agribusiness in India. In general, the Governments are supportive of value addition activities by agribusiness firms but they are apprehensive about the monopoly control and exploitation by agribusiness firms in general and multi-national firms in particular. Governments have implemented several agricultural policies in the past, but recent policies are favoring the development of agribusiness. Some conflicts may arise between the interests of the farmers and those of the agribusiness firms. The governments have to balance the interests of both the farmers and agribusiness firms to ensure the development of production as well as value addition activities in agriculture.

6.12 KEYWORDS

Agriculture **:** Farming, Cultivation, Crop growing.

Agribusiness : Is a generic term for the various businesses involved in food production, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing, and retail sales.

Intellectual property : It is any creative work or invention considered to be the property of its creator. Often, intellectual property rights are recognized and protected under the corresponding fields of law.

Liberalization : It is a very broad term that usually refers to fewer government regulations and restrictions to encourage faster growth.

Policy : A principle or rule to guide decisions and achieve desired outcomes.

Regulation : A principle, rule, or law designed to control or govern the conduct of the persons or companies.

6.13 SUGGESTED FURTHER READINGS / REFERENCES

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6.14 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. It is an agricultural activity because the farmer is using the oil engine to lift water and irrigate his field.
2. It is an agri-business activity because the entrepreneur is producing the vermin compost to farmers at a profit.
3. The interest subvention scheme of the Government of India is aimed at reducing the interest burden of the farmers. This is an agricultural policy formulated to increase production.
4. Permitting a fertilizer mixing plant is an agri-business policy as it augments the supply of fertilizers to the famers.
5. Increasing the minimum support price of paddy helps the farmers but it hurts the consumers by raising the price of rice in the market.

Check Your Progress 2

1. 12 percent profit after tax.
2. Liberalization policies promote competition between the incumbent and new companies.
3. Intellectual property rights encourage firms to invest more in research and development which contributes to technological progress.
4. More than 72 thousand regulated markets are established in the country after the Independence.
5. Du Pont invented plastic.

Check Your Progress 3

1. FAIDA report prepared by Mc Kinsey raised expectations about the development of the food processing sector in India.
2. The average size of a farm in India is about one hectare.
3. Due to the seasonal availability of raw materials, the interest and depreciation costs of agribusiness companies go up.
4. A farmer producing to supply a commodity of specific standards at a pre-determined price to a company is called contract farming.
5. Rs 150,000 crores