# INDIA – AGRICULTURAL ECONOMY AND POLICY REPORT

**January 2009**

## I. General political situation and trends

With more than one billion people, India is the world's second most populous country and the largest democracy. India's April 2004 national election brought the Congress Party-led coalition (United Progressive Alliance or the UPA) government to power, which is supported from the outside and by several regional parties.

## II. Macroeconomic situation and trends

With a per-capita GDP of $900 (approximately $2,700 in purchasing-power parity), India is among the world's poorest countries. According to the UN Development Program "Human Development Report 2007/08," 34.3 percent of the country's population of 1.1 billion is surviving on less than $1 per day. Nonetheless, India has a growing middle class, aspiring for world-class products and services. Structural reforms and stabilization programs during the 1990s have contributed to India's sustained economic growth, which has been relatively strong over the past two decades, averaging over 6 percent. GDP growth in Indian fiscal year (IFY) 2007/08 (Apr-Mar) is estimated at 9.0 percent, on top of 9.6 percent growth in the previous year. The strong growth was powered mainly by services, which grew by around 12 percent. Farm sector growth also increased to 4.5 percent in IFY 2007/08 from 3.8 percent in IFY 2006/07. In IFY 2008/09, the GDP growth rate is forecast to slow down to around 7 percent..

Concerns about rising inflationary pressure on the economy in the past year, largely due to supply constraints, have led the government to be more cautious on the economic reform process.

## III. The economy as it relates to agriculture

India remains an agricultural economy in many important respects. The share of agriculture in the country's GDP constitutes about 18 percent. Agriculture provides a livelihood for approximately 600 million citizens, at least indirectly. However, Indian agriculture is not very efficient, and the sector continues to limit overall economic growth.

India is endowed with rich land, water, and labor resources, although water resources are overexploited in some states due to non-economic pricing of irrigation water and power. Indian agriculture is characterized by low productivity, with average crop yields for most crops well below world levels. The average farm size is 3.3 acres and getting smaller as farms are broken up as they pass from one generation to the next. "Large" farms (>25 acres) account for only 1.0 percent of the total of 119.2 million farms in India. State land-ceiling laws restrict farm size to 10 to 20 acres (irrigated, double-cropped) and 15 to 60 acres (non-irrigated) in various states. Only 35 percent of the net cropped area (141 million ha) is fully or partly irrigated; 65 percent depends on monsoon rains.

With the beginning of economic liberalization in 1991, the Indian Government (GOI)
encouraged foreign direct investment in agriculture and food processing. Although the GOI banned 100 percent foreign direct investment in the retail sector, there are opportunities for foreign retailers to enter India through "cash & carry" (wholesaling) and franchising routes where 100 percent FDI is permitted.

## IV. Domestic agricultural policy overview

Agricultural price policy is primarily focused on achieving self-sufficiency in India's two food staples - wheat and rice. Concerns about the widening supply/demand gap for basic food items such as wheat, rice, and pulses have prompted the government recently to launch a National Food Security Mission (NFSM), which aims to increase the country's wheat, rice, and pulse production by 8, 10 and 2 million tons, respectively, by the end of the 11th Five Year Plan (2011/12) to ensure food security. The approach of the NFSM is to bridge the yield gap in these crops through dissemination of improved technologies and farm management practices.

Marketing chains are highly fragmented, often including six to eight intermediaries, and are dominated by smallscale enterprises. Transportation infrastructure and the cold-chain system remain inadequate. Farmers tend to receive a small share of the final consumer price. However, "organized" retailing is now in full swing in India, with several large Indian corporations entering and expanding their operations. Optimism in the food retail sector stems from a vibrant and growing economy, increasing purchasing power, and a growing number of urban consumers demanding a modern shopping experience.

Concerns over adequate supplies of essential food items have led the government to both reduce some import restrictions and impose export restrictions on items such as wheat, rice and vegetables oils. This has led to stock-building of government supplies in wheat and rice during the 2008/2009 period. India was one of the first Asian countries to invest in agricultural biotechnology research and to set up a biosafety system to regulate the approval of genetically modified (GM) crops. Despite the government of India's acknowledged interest in encouraging growth in the biotechnology sector and the increasing number of research initiatives in the public and private domains, the commercial approval of new transgenic crops has been slow. The country has only approved one GM crop, Bt (Bacillus thuringiensis) cotton, which was planted on 7.7 million hectares by 3.8 million farmers in 2007/08. There are several other GM crops and traits in the biotechnology regulatory pipeline.

## V. General and agricultural trade situation

Although a founding party of both the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), the Indian government continues to use high tariffs and non-tariff barriers to limit imports of agricultural products. India's average WTO bound agricultural tariff is 112 percent; however, the median applied agricultural duty is 35.2 percent. This differs significantly from tariffs on non-agricultural products which have been gradually reduced to the current peak level of 10 percent. Some sensitive food items such as wine, alcoholic beverages, poultry meat, raisins, rice, wheat, and vegetable oils, are protected by much higher bound duties, ranging from 50 to 150 percent. For most agricultural products, the government levies a countervailing duty equal to domestic excise taxes, a three percent education cess (surcharge), and a four percent "special" countervailing duty on all direct and indirect taxes, including custom tariffs, which results in higher tariff rates.

India is a net agricultural exporter with exports valued at $19.33 billion and imports valued at $7.5 billion in IFY 2007/08. Imports are growing and include vegetable oils, wheat, pulses, raw cashews, dry fruits, cotton, wool, hides and skins, and fruits and vegetables. India is the largest global importer of pulses (beans, peas, and lentils) and soybean oil and second largest importer of palm oil. In 2006/07 India emerged as the third largest importer of wheat in the world, with total imports of around 6.2 million tons. Imports declined to around two million tons in 2007/08. However, no U.S. wheat was imported due to the Indian government's unreasonable phytosanitary requirements. Total U.S. agricultural exports to India in CY 2007 were valued at $483 million, up 30 percent from 2006, driven mostly by almonds, apples, peas, cotton, and planting seeds. With pulse imports from the U.S. valued at a record $60 million in CY 2007, India is now the largest market for U.S. pulses. Imports of various consumer-oriented food products from the United States, including fruits like apples and grapes are increasing, reaching a record $265 million in CY 2007. India's agricultural exports to the United States, valued at $1.5 billion in CY 2007, were three times U.S. agricultural exports to India, and consisted mainly of shrimp, rice, cashews, sugar, tea, spices, oil meals, and coffee.

**VI. SPS and regulatory systems**

In November 2003, the GOI notified the Plant Quarantine (Regulation of Import into India) Order, 2003, which established new import procedures and quarantine requirements for agricultural products. This, and some amendments to the Prevention of Food Adulteration (PFA) Rules implemented in recent years, had significant negative ramifications on U.S. agricultural exports to India. Furthermore, livestock importation regulations are framed on the basis of an outdated Livestock Importation Act of 1898.

In January 2009, a new, single window food safety authority was established. The Food Safety and Standards Authority (FSSA), while not fully operational, aims to consolidate and harmonize India's wide-ranging food safety laws under a single umbrella regulatory agency. The FSSA is an independent regulatory entity within the Ministry of Health.

India has several domestic regulations that restrain its agricultural production and marketing systems. The Agricultural Produce Marketing Committee (APMC) Act, a federal rule that is implemented by individual state legislation, restricts who may sell what in which quantities and where. However, a revised Model APMC Act, which was endorsed by the Indian government in 2003, has been implemented fully or partially by 15 states; while others have either partially adopted the Act or are yet to implement it. The Model Act encourages the establishment of private markets, direct purchase centers and consumer/farmer markets for direct sale to be promoted through public -private partnerships. The Act also promotes contract-farming arrangements and provides model legislation to regulate this activity.

The Essential Commodities Act (ECA) imposes restrictions on commodities' (including agricultural) procurement, storage (maximum levels), and transportation (geographic restrictions). Consolidating production on larger holdings is constrained because land leasing lacks legal sanction in all states. Contract farming is also limited, as contract enforcement and dispute resolution mechanisms are poor.

**VII. USDA Stakeholders**

FAS Cooperators based in India include the U.S. Dry Pea and Lentil Council, the U.S. Grains Council, Cotton Council International, the Almond Board of California, Blue Diamond Growers, the Washington State Apple Commission, the American Soybean Association, the California Dried Plum Board, the California Pistachio Commission, the Pear Bureau Northwest, the California Table Grapes Commission, the Southern United States Trade Association (SUSTA), the Mid-America International Agri-Trade Council, and Food Export USA – Northwest.

Many U.S. agriculture and food companies now have a presence in India. These include Cargill, ConAgra, ADM, Pillsbury, Kellogg's, McDonald's, Pizza Hut, Kentucky Fried Chicken, Subway, TGIF, Pepsi, Coca-Cola, Corn Products International, Monsanto, Dow, John Deere, and DuPont. Most of them source their input requirements locally. Select U.S. hotel chains such as Radisson, Best Western, Hilton, and Marriott have also established a presence through franchising.