Chapter - 7

Government Policy Regarding Food processing industry; A Critical Appraisal
INTRODUCTION

The government policy has its role in encouraging the food production and better utilization, marketing of existing food supply through waste reduction and value addition and facilitating the development by improving environment and explicit export potential. The government policy regarding food processing industries, suggests inter alia ways and means for operationalisation of the proposed "National Food Processing Policy". A symposium on "Task before the National Task Force on Food Processing Industries" was organised in Delhi for this purpose. After holding the interactive discussions with the concerned including the industry, state governments, Research and development organizations, industry associations and central government departments, a draft on National Food Processing policy has been drawn up. This policy envisages among other things, creation of enabling environments, infrastructural developments and linkages at firm level etc. An outline of the draft food processing development bill has also been drawn up by the Ministry which envisages inter alia setting up of a processed food development authority to formulate standards for processed foods. The government policy incorporated in the budget 2001-02 exempted the processed products of fruits and vegetables completely from central excise duty of 16%. During April – Oct. 2001, an additional capacity of 28000 tonnes has been created in fruits and vegetables processing as against 24000 tonnes during the corresponding period of the last year. As a result of this, "The prices of a number of fruits and vegetables products have come down by 8-10%. The government policy initiative under taken for 2001-02 continue to reflect the overall
macro economic priorities. The Union Budget has focussed and extended reforms to the agricultural sector\(^1\).

The performance of the agricultural sector has been receiving considerable policy attention in recent years, especially in the context of reaching the benefits of reforms to the widest sections of society. Low and variable growth of output, poor and declining yields, inadequacy of capital formation and infrastructure and degradation of natural resources due to inefficient cropping patterns have emerged as the major obstacles to rapid and sustained agricultural growth. Furthermore, in recognition of the need to coordinate a national strategy covering and use pattern consistent with the conservation and optimal use of natural resources, the union budget for 2000-01 proposed the setting up of a National Commission on land use policy. It is against the backdrop of these concerns that the "National Agricultural Policy" was announced on July 28, 2000 with the objective of achieving a growth rate of over 4 percent per annum in the sector. It emphasized sustainable growth by efficient use of soil, water, bio-resources, fertilizers and pesticides. A regional approach to the development of horticulture, floriculture poultry, fishing and animal husbandry was mooted. Identification of specific and economically viable varieties of crops, use of bio-technology, strengthening of the linkage between research and extension activities, improved input management, protection to plant varieties through legislation and breeding of new varieties are other elements of the policy framework which would guide the direction of indigenous technological transformation in agriculture. The National Agricultural Policy also emphasized micro-credit through the

promotion of farmers self help groups with linkages with the banking system.

The agriculture policy emphasized a conducive policy which would require the reforms to bring about improvements in the terms of trade for agriculture, a favourable price regime, removal of infrastructural bottlenecks and institutional reforms, taking the form of land reforms, risk management and management changes emphasizing the quality aspects of all stages of farm operations. A policy on handling and storage of food grains was announced on July 28, 2000 to deal with storage issues including mechanization of harvesting and transportation, construction of chain silos and private sector participation in integrated bulk handling, storage and transportation.

A large number of approvals for setting up of joint ventures, industrial licenses and 100% export oriented units besides provisions of financial assistance to create infrastructure in the food processing sector and financial assistance in setting up of food processing industrial estates and parks are some of the highlights of the initiatives taken by the Ministry of Food Processing Industries during 2001. The Ministry made significant achievements during the year in respect of approvals of projects regarding joint ventures industrial license and 100% export oriented units. So far projects worth Rs. 1560 crore have been approved by the Government with a foreign investment of Rs. 456 crore. The ministry has approved financial assistance of Rs. 47 crores to 170 projects for creating infrastructure and food processing units. To boost foreign investment, approval of foreign equity up to 100% for most of the processed food items were made automatic. To give a boost to research and development in the food processing industry, the ministry has also invested over Rs. 10 crore in
promoting research and development in product and process development. With the intervention of the Ministry, excise duty on processed fruits and vegetable were brought down from 16% to 0%. This step helped the availability of processed foods to the common man at affordable prices. The Ministry of Food Processing Industry has set a target of investment of Rs. 140000 crores to increase food processing level from 2% to 10%. Over a period of 10 years with a view to generate direct employment of 75 lakh and to ensure better prices to farmers for their produce, the Ministry is in the process of setting up a network of food industries in selected areas of the country. The Ministry has so far approved 20 projects under the scheme and an assistance upto Rs. 4 crore is given for each park. The Ministry made efforts to bring about synergy between food parks and the agri export zones and took steps for setting up of a network of food laboratories in the country to ensure production of quality food items, especially for exports. Acodex laboratory at CFTRI, Mysore state of the arts labs in the state of Punjab, U.P. Maharashtra, and Delhi were approved by the Ministry.

Need of A Government Policy

The need for a pragmatic Government Policy in respect of food processing can not be over emphasized. In fact, such policy is required to meet the following objects:

1. **Monopoly**: The main thrust of the policy should be to avoid monopoly in the industrial sector. For this a good number of units must come in the field so that competition may be created among these units.
2. **Quality** : There is also a great need for improvement of quality of processed food products. For this propose quality control measures should be widely undertaken to improve the consciousness for upgradation of quality. Suitable technical assistance should be provided to the entrepreneurs for improving the quality of their products.

3. **Patent and Copy Right Protection** : The Government should provide the patent and copy right protection to the entrepreneurs so that they can develop new products and production techniques.

4. Government of India should establish a stable macro economic framework through sound monetary and fiscal policies, which can control inflation, limit budgetary deficits and public sector borrowing requirements and maintain realistic exchange rates. Other important elements would be open trade policies an efficient financial system and liberal financial markets, together with free international capital movements. A favourable business environment also depends on the effectiveness of legal and regulatory constraints such as price control, investment, licensing etc.

5. In order to minimize the impact of agro-industrial residues on the environment, adequate administrative tools to limit such residues must be developed. suitable legislation prohibiting the discharge of residues may be brought in to force. This can be coupled with incentives to the entrepreneurs such as soft loans to invest in residue control measures.

6. **Pricing** : Prices of essential commodities are controlled by government under Essential Commodity Act. The government may
play a prominent role in controlling the prices of the processed food products. This would in turn help in creation of additional demand of these products in the market.

7. **Research and Development Promotion**: Research and development activities are very much needed for the rapid growth of the industry. R & D activities regarding cost reduction, quality improvements, packaging etc must be promoted. The government may provide adequate technical and financial support for the development of R & D activities.

8. **Information Regarding Product**: As per government regulations weight / price /; composition / consumption / date of manufacture / date of expiry etc are some essential informations which must be compulsorily displayed on the packing of the food products. This is very much needed as many food products are perishable in nature.

9. An Efficient industry can provide goods and services of high quality and low cost. This can be achieved only under some rules and regulations. Therefore an appropriate industrial policy may serve as a tool for these regulation.

10. The government policy may create an appropriate environment for entrepreneurs to setup food processing industries through fiscal initiatives / interventions like rationalization of tax structure on fresh foods products as well as upgraded technology and machinery used for the production of processed foods.

11. The government policy may also help in creation of a suitable network for promotion of marketing of processed products. The developed IT network may widely used for this purpose.
12. The Government policy may also facilitate such industrial unit which have multiproducts. This can be achieved with the help of cluster of transitional produces.

13. Under the government policy much emphasis should be given on development of new products. A special cell may be created with well equipped technical facilities which may concentrated in efforts for products planning and diversification.

14. For agro-industrial development to go ahead, it is important to introduce and update national food legislation. Without up to date food laws, modern approaches to food control can not be implemented. The food laws must be simple with detailed specifications regarding food processing, food standards, hygienic impact practices packaging and labelling and food additives.

On the basis of the aforesaid aspects, it may be noted that there is an urgent need for an appropriate looking this fact into consideration, the Govt. of India have from the very beginning adopted policy and made suitable modifications in it from time to time. A detailed description regarding the enforcement of policy in respect of food processing industry has been given below:

**Government Policy Regarding Food Processing Industry During Five Years Plans**

During the First Five Year Plan the top priority was assigned to the development of agriculture in the country. A good number of programmes were undertaken by the government for reorganization of the land reforms and enhancement of food production and productivity. It is however worth mentioning that during this plan period, there was no emphasis on the
development of food processing industry. In fact the government was very much conscious to solve the problem of food scarcity in order to reduce the country's dependence on the imports of food.

During the second five year plan, agriculture was the mainstay of the state's economy and was given a very high priority in this plan. A good number of programmes and schemes were undertaken by the government for reorganisation of the food grain production. It is however worth mentioning that during this plan period, there was no emphasis on the development of food processing industry, in fact to accelerate the pace of economic development high priority was accorded to the programmes of agricultural development.

During the Third five year plan, the slow rate of growth in agricultural production also led to an increase in imports of food grains and other agricultural commodities. In this plan implemented. The government food policy and Export (quality control and inspection) act 1963. The export inspection were also constituted to implement council is responsible for the operation of this act. Under the act, a large number of exportable commodities have been notified by compulsory preshipment inspection. Recently the government has exempted agriculture and food products, fruits products and fish and fishery products. From compulsory preshipment inspection. In the Third five year plan voluntary standard like the Bureau of Indian standards looked after standardization of processed foods and standardization of new agricultural produce is under the purview of Directorate of Marketing and Inspection.

During the fourth five year plan growth of agro industry in some states and the cooperative marketing structure in an important policy implemented by government. National food policy during the plan. It
remains true the most development have been partial and uneven and the
government has found it necessary to take powers to setup new
agricultural credit, cooperatives in states in which the programme evolved
after the report of the Rural Credit Survey Committee has failed to make as
appropriate agencies of national policy as their operations are expected to
be informed with a social purpose. It was expected that the planned growth
of the cooperative distributive system specially for agricultural commodities
to the development of horticulture, floriculture, poultry fishing and animal
husbandary was mooted location specific and economically viable varieties
of crops. Use of bio technology strengthening of the linkage between
research and extension activities. Improved input management, protection
to plant varieties through legislation and breeding of new varieties were the
other elements of the policy framework which would guide the direction of
endogenous technological transformation in agriculture.

During the fifth five year plan has proposed to enhance the growth of
industrial production by 7% per annum. Looking to the interdependence of
industry on Agriculture, it was decided to improve the performance of
agriculture during the plan period. Massive efforts were to be made for
generation of employment opportunities in agriculture and allied activities.
The Government of India had undertaken a number of measures as
recommended by the National Commission on Agriculture for developing
the Agro processing especially by the cooperatives. Agro industrial
complexes were to be developed for linking production with processing and
marketing of agro products. Stress was given on modernization of rice
milling industry for improving the quality of rice and its by products.

During the sixth five year plan an annual growth rate of 8% was
contemplated. The Government have given high priority for increasing
agricultural production particularly the crop production of pulses and oil seeds was to be enhanced. Emphasis was given to improve the efficiency of the rice milling industry and flour mills.

During the seventh plan, there was a growing concern for generating new farm employment opportunities in the rural sector and improving the incomes of farmers. Agro processing industries were given considerable importance under the five year plan. The Ministry of food processing industries was for the first time setup by the Govt. of India in the year 1987-88. The Government had also taken several policy decisions to facilitate the growth of food processing industry in the country. In the Union Budget for 1988-89 the Govt. of India had introduced several fiscal measures for rapid growth of the food processing industries. The important measures may be enlisted below:

1. MODVAT extended to cover 100 products

2. Reduction in excise duty from 40% to 20% on product of the regenerated cellulose, including packaging material cellphone, imposition of a levy of 50 percent and the basic excise duty of selected food items.

3. Custome duty reduced from 100% to 75% on low density polyethylene LDP which is used in packing materials.

4. Measures were taken to reduce cost in important areas of plastics.

5. Imposition of a levy of 50% and value onthe basic excise duty of selected food items.

6. Reduction in import duty on specific items of machinery and specific packing from 100% to 50%. Many more items of machinery to be imported at a concessional duty of 40%. This was a welcome
measure in the context of the food processing industry which has vast potential for generating additional employment and export earnings. The small scale units belonging to this sector were to be exempted from income tax. The ceiling for excises duty exemption in respect of goods production by small scale units, has been raised from Rs. 15 lakh to Rs. 20 lakh. Agro processing units are likely to benefited with the reintroduction of central investment subsidy for small scale units in rural areas and backward regions. Besides these policy measures, exemption from excise duty has been announced by the industry, refined rape seed and mustard oil, coffee, cattle feed, craft paper and footwear made with the help of KVIC.

Again in the Union Budget for 1989-90 provision was made for import of machinery at a concessional duty of 40%. This decision was welcome by the industrialists because this was going to help in enhancing the food processing potential and generating employment and export earnings. Besides this exemption from excise duty was also announced for the jute industry rapeseed and mustard oil, coffee, cattlefeed, craft paper and footwear made with the help of KVIC.

In July 1991, a new industrial policy was announced with several provisions for liberalization of industry in general and special incentives were provided for the agro processing industries. Some of the highlights of the new industrial policy in respect of agro based industries are mentioned below:

1. Agro based products such as sauces, ketchup, butter, cheese, skimmed milk, powder, vegetable oils, canned fruits and dried vegetables, certain soya products, starches, meat and fish products have been exempted from the excise duty.
2. Foreign investors have been allowed 51% equity participation in these units and resident Indians have been allowed 100% equity participation.

3. The cash compensatory support (CCS) scheme has been withdrawn and in place of this scheme an additional exim scrip entitlement of 10% will be allowed.

In the Eighth Five Year plan the government took keen interest in the development of food processing sector. A good number of initiatives were undertaken by the Government for their promotion. These include setting up of a separate Ministry for food processing and promotional bodies such as Marine Products Export Development Authority (MPEDA), Agricultural and Processed Food Products Export Development Authority (APEDA) and National Horticulture Board (NHB). Some measures have been taken in 1997-98 regarding dereservation of certain items including ice creams and biscuits. The proposed raising of investment limit for the small scale industry was expected to promote investments in this sector, especially in terms of upgradation of technology. The Food Processing Industry, however is primarily functioning in the informal and unorganised sector. This sector has attracted a lot of foreign investment till June 1997, 4098 Industrial Entrepreneur Memoranda (IEM) envisaging an investment of Rs. 47146 crore had been received. The Department of Food Processing Industries had launched a concessional finance scheme. The scheme covered the entire spectrum of activities involved with food processing such as post, harvest infrastructure including cold chain, food quality and safety, packaging research and development and promotion of processed foods. During the 8th plan (1992-97) the Department Provided an assistance of Rs. 177 crore for various food processing projects.
During the Ninth Plan (1997-2002) for various food processing projects an amount of Rs. 48 crore, was provided as assistance. The Ministry had constituted a National Task Force for Food Processing Industries on April 1, 2001 under the chairmanship of Shri Omesh Saigal, Former Secretary, regarding food processing industries to suggest measures for rapid development and means for operationalisation of the proposed "National food processing policy". The policy envisages among other things, creation of enabling environment, infrastructure development and linkages at farm level etc.

The department of food processing industry has launched concession finance scheme. The scheme cover the entire spectrum of activities involved with food processing such as post harvest infrastructure including cold chain, food quality and safety, packaging research and development and promotion of processed food during the plan. In this plan the ministry of food processing industry has accordingly been operating several plan schemes for the development of processed food industry since the inception of 8th plan period. Taking into account the recommendations of the working group constituted by the planning commission, the constraints faced by the industry, the need to accelerate growth of the sector and the priority status accorded to food processing industry, by government the ministry of food processing industries is operating many plan schemes during the ninth plan i.e. scheme for development of infrastructure facility, scheme for setting up expansion scheme for Research and development in food processing industries, scheme for strengthening of backward linkages in food processing industry, scheme for promotion of food processing industry, scheme for generic advertisement of processed food and marketing assistance etc.
The Tenth five year plan has been formulated against the background of a distinct step up in the growth path. The Draft Approach Paper of the Planning Commission reflects the growing concern about the deterioration in the social conditions of development. In this plan food processing industries to critically apprise the policies programmes and achievements of food processing sector in relation to production, employment (both direct and indirect) and export. In order to ensure a higher growth rate, higher value addition, reduction of wastage and reaching its benefits to the farmers and consumers, it is proposed to adopt the development of food processing clusters, promotion of exports, promotion of new technologies etc. To suggest a policy framework for the development of food processing industries activities, particularly in relatively backward states and utilization of agricultural and horticultural products of the religions. The achievement of the tenth plan target depends crucially on the expected reduction incremental capital output ratio from 4.53, during the ninth plan to 3.58 in the tenth plan. The total outlay envisaged for the tenth plan is Rs. 1968815 crore at 2001-02. Price comprising of an outlay of Rs. 706000 crore. For the central plan, Rs. 588325 crore for the states plans and 674490 crore for the public sector enterprises. The budgetary support for this outlay is envisaged at Rs. 994060 crore.

**Government Policy for the Development of Food Processing Industry in India**

The Ministry of Food Processing Industries is the central agency of the government responsible for developing a strong and vibrant food processing sector. The strategic role and functions of the ministry fall under three categories
1. Development and promotion

2. Technical and advisory

3. Regulatory

The Ministry is acting as a catalyst and facilitator for attracting domestic and foreign investments in this sector with a view to develop large integrated processing capabilities, by creating a conducive policy environment, including rationalization of taxes and duties. The Ministry processes applications for foreign collaboration, export oriented units etc. and assists / guides prospective entrepreneurs in their endeavours. After 1991, a number of initiatives have been undertaken by the Ministry to encourage foreign investment in the food processing sector. The main steps taken by the government in this direction may be enlisted as under:

1. No industrial license is required for almost all sorts of food and agro food processing industries.

2. No approval is required (including foreign technology agreement within specified norms) in this sector. Exceptions are malted foods, alcoholic beverages such as beer and items reserved exclusively for manufacturing by the small scale sector.

3. Foreign equity ownership of up to 24% is allowed in the small scale sector.

The government have taken some initiatives recently to liberalize the food processing sector which include abolishing industrial licensing for the sugar industry and permitting 100% foreign direct investment for the manufacturing of cigarettes. With the growing concern for generating new farm employment opportunities in the rural sector and improving the incomes of farmers, agro processing industries have received considerable
policy thrust in recent years. The Ministry of Food Processing Industries setup in 1987-88, has taken several policy measures to facilitate growth of food processing industry. As the initial efforts, the Ministry had introduced several fiscal measures for food processing industries.


In July 1991, a new industrial policy was announced with several provisions for liberalization of industry in general and special incentives to agro processing industries in particular. Since August 1991 to Feb. 2000 proposals for projects of over Rs. 53800 crores (US $ 13.4 billion) have been proposed in various segments of the food and agro processing industry. Besides this, government has also approved proposals for joint ventures, foreign collaboration, industrial licenses and 100% export oriented units envisaging an investment of Rs. 19100 crores (US $ 4.80 billion) during the same period. Out of this, foreign investment over Rs. 9100 crores (US $ 18.2 billion) has been received by this sector. As a result of several policy initiatives undertaken since liberalization in Aug. 1991, the industry has witnessed fast growth in most of the segments. As per a recent study on the food processing sector, the turnover of the total food market is estimated to be of approximately Rs. 250000 crores (US $ 69.4 billion) out of which value added food products comprise Rs. 80000 crores (US $ 22.2 billion)

Salient Features of Government Industrial Policy with Reference to Food Processing Industry

Since the liberalization of the Indian economy in 1991, a number of initiatives have been undertaken to encourage foreign investment in the
food processing sector. The several policy measures have been taken with regard to regulation and control, fiscal policy, export and import, taxation exchange and interest rate control, export promotion and incentives to high priority industries. Food processing and agro industries have been accorded high priority with a number of important relieves and incentives. The highlights of the current policy regarding food processing may be presented below:

1. Devaluation of the rupee by 20% will enhance the competitiveness of Indian farm goods in the world market.

2. The cash compensatory support (CCS) scheme has been withdrawn and in place of the REP scheme, a new scheme known as exim scrip to the extent of 30% to the FOB value of exports will be issued. This scrip will be allowed to be traded in the market and could used for importing items in the limited permissible list, the non sensitive canalized list and all OGL items. In the case of the value added agricultural products, an additional exim scrip entitlement of 10% will be allowed.

3. Automatic approvals to foreign investment except for items under compulsory licensing and reserved for small scale sector.

4. Development plan schemes of financial assistance have been undertaken to promote the food processing sector.

5. Foreign investors have been allowed 51% equity participation while non resident Indians have been allowed 100% equity participation.

6. "Agro based products such as sauces, ketchup, butter, cheese, skimmed milk powder, vegetable, oils, jams, jellies, and juices, canned fruits and dried vegetable, certain soya products, starches
and meat and fish products have been totally exempted from excise
duty.

7. Custom duty has been further reduced on specified machinery items
required by the marine product industry. In addition, excise duty has
been exempted for the specified materials which are generally used
for making fish nets

During the year 1992-93, the Govt. of India have abolished the exim
scrip scheme which was introduced in 1991-92. It has made the rupee
partially convertible to the extent of 60% of export earnings under the
Liberalized Exchange Rate Management System (LERMS).

According to LERMS, all foreign exchange receipts on current
account transactions such as exports and remittances, will have to be
surrendered to authorized dealers as hitherto. The rate of exchange for
these transactions, however will be the free market rate quoted by the
dealers except for 40% of the proceeds which would be based on RBI's
official rate.

The dealers in turn will surrender 40% of their purchases of foreign
currencies at the officials rate of receipts of exchange announced by RBI.
They will be free to retain the balance of 60% to sell in the market for
permissible transactions. Those who need to import goods or services or
undertake travel abroad will be able to buy foreign exchange at market
rates from the authorized dealers subject to the transaction being eligible
under the liberalized trade and exchange control regime.

It is expected that the conversion of 60% of the export earnings
would fetch about 15% premium, therefore, the benefits of the exim scrip

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2 U.K. Shrivastava and N.T. Patel, Managing Food Processing Industry in India, Published
by Oxford Publishing Co. Ltd., p. 20
scheme would continue to accrue under LERMS in a debureaucratised manner and exports will continue to be more profitable.

In addition to the radical changes in policy for food processing industry, several similar concessions have been given to agro non food industries like leather, jute and others.

The policy initiatives recently taken have made the environment for accelerating investments (both domestic and foreign) and introduction of advance technology in to the food processing sector extremely favourable. The important step of exemption of excise duty will help in expanding the domestic market base for such products.

In addition to the fiscal incentives, several other policy measures have been taken to facilitate the agro processing industries. These includes permission for joint ventures with foreign companies, permission to cooperate on raw materials product to establish contact with foreign companies for setting up units for processing exporting 100% of their produce an "Open Sky" policy for foreign freight couriers to touch Indian ports in one of their secular routes for carrying cargo. This can partly reduce the problems faced by exporters besides the policy support measures. Direct investments are contemplated for creating a chain of cold storages throughout the country for storage of processed marine fruit and vegetable product.

Since liberalization several policy measures have been taken with regard to regulation and control. Food processing and agro industries have been accorded high priority with a number of important concessions and incentives. Some of the important policy changes are discussed here in detail to highlights the existing provisions:
1. Regulation and Control

- No industrial license is required for almost all of the food and agro processing industries except for some items like beer, potable alcohol and wines, cane sugar, hydrogenated animal fats and oils etc. and items reserved for exclusive manufacture in the small scale sector. Items reserved for SSI include pickles and chutneys, bread, confectionery (excluding chocolates, toffees and chewing gum etc.) rapeseed, mustard, seasane and groundnut oils, (except solvent extracted) ground and processed spices, other than spice oil and oleoresins, sweetened cashewnut products, topica sago and tapioca flour.

- Automatic investment approvals (including foreign technology agreement within specified norms) upto 51% foreign equity or 100% NRI (including overseas corporate bodies, OCBs) equity is allowed for most of food processing sector, except malted food, alcoholic beverages including beer and those reserved for SSI for some industries dividend balancing with net foreign exchange earnings is necessary for automatic clearance.

- Upto a maximum of 24% foreign equity is allowed in SSI sector.

- Use of foreign brand names are now freely permitted.

- MRTP (Monopolies and Restrictive Trade Practice Act) rules and FERA (Foreign Exchange Regulation Act) regulations have been relaxed to encourage investment and expansion by large corporates.

- Most of the items can be freely imported and exported except for items in the negative list for imports and exports capital goods are
also freely importable, including second hand ones in the food processing sector.

2. Fiscal Policy and Taxation

- Wide ranging fiscal policy changes have been introduced progressively. Excise and import duty rates have been reduced substantially. Many processed food items have been totally exempted from excise duty.

- Custom duty rates have been substantially reduced on plant and equipments, as well as on raw materials and intermediates, especially for export production.

- Corporate taxes have been reduced and there is a shift towards market related interest rates. there are tax incentives for new manufacturing units for certain years, except for industries like, beer, wine, aerated water using flavouring concentrates, confectionery and chocolates etc.

- Indian currency (Rupee) is now fully convertible on current account and convertibility on capital account with unified exchange rate mechanism is foreseen in coming years.

- Repatriation of profits is freely permitted in many industries except for some, where there is an additional requirement of balancing the dividend payments through export earnings.

3. Export Promotion

- Food processing industry is one of the thrust areas identified for exports. Free Trade Zones (FTZ) and Export processing Zones (EPZ) have been setup with all necessary infrastructure. Also,
setting up of 100% export oriented units is encouraged in other areas. They may import free of duty all types of goods, including capital goods.

- Capital goods, including spares upto 20% of the CIF value of the capital goods may be imported at a concessional rate of custom duty subject to certain export obligations under the EPCG schemes. Export linked duty free imports are also allowed.

4. Investment Incentives

The government has given high priority to the food processing sector with a number of fiscal reliefs and incentives to encourage commercialization and to increase the value addition in agricultural production. These includes:

- Use of foreign brand names is freely permitted.

- Most items can be freely imported and exported except for certain items in the negative list.

- Capital goods are freely importable including second hand goods.

- Excise and import duties are substantially reduced and many items totally have been exempted from duty.

- Tax incentives for new manufacturing units except for certain industries have been provided.

5. The Opportunities

As a result of various policy initiatives, several multinational companies have invested in India, with total foreign investment of nearly Rs. 20 billion since 1991.
<table>
<thead>
<tr>
<th>S.N.</th>
<th>Sector</th>
<th>Industrial Entrepreneur Memoranda till Dec. 2001</th>
<th>Industrial Approval Oriented Unit Industrial license (Till Nov. 2001)</th>
<th>Total</th>
<th>Foreign investment out of total investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Grain milling and grain based products</td>
<td>368</td>
<td>104</td>
<td>472</td>
<td>6879</td>
</tr>
<tr>
<td>2.</td>
<td>Fruits and vegetables products</td>
<td>1723</td>
<td>421</td>
<td>2144</td>
<td>8431</td>
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<td>3.</td>
<td>Meat and poultry products</td>
<td>89</td>
<td>59</td>
<td>148</td>
<td>1778</td>
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<td>4.</td>
<td>Fish processing and aquaculture</td>
<td>113</td>
<td>192</td>
<td>305</td>
<td>2688</td>
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<td>5.</td>
<td>Fermentation industry</td>
<td>672</td>
<td>211</td>
<td>883</td>
<td>11374</td>
</tr>
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<td>6.</td>
<td>Consumer industry including soft drinks water confectionery</td>
<td>853</td>
<td>5814</td>
<td>931</td>
<td>13252</td>
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<td>7.</td>
<td>Milk and Milk products</td>
<td>1104</td>
<td>26</td>
<td>1130</td>
<td>14833</td>
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<tr>
<td>8.</td>
<td>Other including food addition flavours</td>
<td>-</td>
<td>71</td>
<td>71</td>
<td>934</td>
</tr>
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<td>9.</td>
<td>Edible oil/ oilseeds</td>
<td>1675</td>
<td>-</td>
<td>1675</td>
<td>13416</td>
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<td>10.</td>
<td>Total</td>
<td>6597</td>
<td>1162</td>
<td>7759</td>
<td>73645</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the year 2001-02, Ministry of Food Processing Industries, New Delhi, p. 62.

The country offers significant opportunities for investment in the food processing sector.
• Due to its diverse agro climatic conditions, India has a wide ranging
and largest raw material base suitable for food processing
industries, presently a very small percentage of these are processed
in a value added products.

• Rapid urbanization increased literacy and increased per capita
income have caused rapid growth and changes in the demand
pattern, leading to several new opportunities for exploiting the large
latent market. An average Indian spends about 50% of household
expenditure on food items.

• Expenditure on mass based, high volume, low margin, basic foods
such as wheat, wheat flour and homogenized milk is expected to
increase substantially over the next few years.

• Total value-added foods market expected to increase from US $ 20
billion (currently) at a CAGR of 12.6% to US $ 56 billion in 2005.

• Popular foods like wheat, flour and biscuits, packaged milk, fresh
poultry and soft drinks are other areas where a strong growth is
forecasted.

The National Food Processing Policy Proposal 2001

Outline

The ministry had constituted a national task force for food
processing industries on April 1, 2001, under the chairmanship of Shri
Omesh Saigal, former secretary, food processing industry to suggest inter-
alia ways and means for operationalization of the proposed "National Food
Processing Policy". A symposium on "Task before the national task force
on food processing industries was organised on September 18, 2002 at
FICCI Auditorium, New Delhi, after holding interactive discussions with the
concerned including the industry, state governments research and development organizations, industry associations and central government department. A draft for National Food Processing Policy is proposed, but it has not been finalized yet. This policy envisaged among other things creation of enabling environments, infrastructural development and linkages at farm levels etc.

**Main Features of the National Food Processing Policy**

The purpose of the policy are as under:

**1. Creating Enabling Environment**

The policy will seek to create an appropriate environment for entrepreneurs to setup food processing industries through:

A. Fiscal initiatives / interventions like rationalization of tax structure on fresh foods as well as processed foods and machinery used for the production of processed foods.

B. Harmonization and simplification of food laws by an appropriate enactment to cover all provisions relating to food products is to be done so that the existing system of multiple laws is replaced and also covering issues concerning standards, nutrition, merit goods, futures marketing, equalization fund etc.

C. A concrete promotion campaign will be undertaken to create market for processed foods by providing financial assistance to industry associations, NGO's / Cooperatives, private sector units, state government organizations for undertaking generic marketing promotion.
D. Efforts to expand the availability of the right kind and quality of raw materials round the year by increasing production and improving productivity.

E. Strengthening of database and market intelligence system through studies and surveys to be conducted in various states to enable planned investment in the appropriate sector matching with the availability of raw material and marketability of processed products.

F. Strengthening extension services to the farmers and cooperatives in the areas of post harvest management of agro-produce to encourage creation of pre processing facilities near the farms like washing, fumigation, packaging etc.

G. Efforts to encourage setting up of agro processing facilities as close to the area of production are to be made in order as possible to avoid wastage and to reduce transportation cost.

H. Promotion of investments, both foreign and domestic.

I. Simplification of documentation and procedures under taxation laws to avoid unnecessary harassment arising out of mere technicalities.

2. Infrastructural Development

Facilitate of the policy:

A. Establishment of cold storage chain, low cost pre cooling facilities near farms, cold stores and grading, sorting, packing facilities to reduce wastage, improve quality and shelf life of products.

B. Application of biotechnology, remote sensing technology, energy saving technologies and technologies for environment protection.
C. Building up a strong infrastructual base for production of value added products with special emphasis on food safety and quality matching international standards.

D. Development of packaging technologies for individual products, especially for fruits and vegetables, so as to increase their shelf life and improve consumer acceptance both in the domestic and international markets.

E. Development of new technologies in food processing industry and packaging and also to provide for the mechanism to facilitate quick transfer of technologies through a network of research and development institutions having a central institute at the national level with satellite institutions located strategically in various regions to cover up the whole country and to make available the required testing facilities. This could be done by establishing a new institution or strengthening on existing one.

F. Development of area specific agro food parks dedicated to processing of the predominant produce of the area e.g. apple in J & K, pineapple in North East, Lichi in Bihar, Mango in Maharashtra and Andhra Pradesh etc.

G. Development of anchor industrial centre and /or linkages with Anchor industrial units having network of small processing units.

H. Development of agro industrial multi-products units capable of processing a cluster of trans-seasonal produces.
3. Backward Linkages

The policy will promote:

A. Establishment of a sustained and lasting linkage between the farmers and the processors based on mutual thrust and benefits by utilizing the existing infrastructure of cooperative, village panchayat and such other institutions.

B. Development of future market in the best interest of both the farmers and the processors ensuring a minimum price stability to the farmer and a sustained supply of raw material to the processor.

C. Mechanism to reduce the gap between the farm price of agro produce and the final price paid by the consumer.

D. Setting up of an equalization fund to ensure sustained supply of raw material at a particular price level and at the same time to plough back the savings occurring in the eventuality of lower price to make the fund self regenerative.

4. Forward Linkages

The policy will promote:

A. "Establishment of a strong linkages between the processor and the market to effect cost economies by elimination of avoidable intermediaries.

B. Establishment of marketing network with an apex body to ensure proper marketing of processed products.

C. Development of marketing capabilities both with regard to infrastructure and quality in order to promote competitive capabilities
to face not only the WTO challenges but to undertake exports in a big way.\(^3\)

5. Special Provisions

The following shall receive higher priority and special consideration in policy and plans.

A. The north eastern region, the hilly areas, islands and the ITDP areas in the country are to be given not only special attention but also special consideration.

B. The fiscal incentives like excise duty / sales tax concession and the tax holidays are to be provided not only to those units which are setup in these areas. But also to those units which are though setup outside these areas near the market center, are engaged in processing the produce coming from these areas.

C. Tax holiday for food processing industry, with the exception of liquor, cigarettes and aerated drinks and similar luxury items, for a period of 10 days.

The new agriculture policy emphasized a conductive policy regime which would require the reforms to bring about improvements in the terms of trade for agriculture. A regional approach to the development of horticulture, floriculture, poultry, fishing and animal husbandry was mooted. The National Agriculture Policy also emphasized micro credit through the promotion of food processing industries.

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3 Annual Reports 2001-02, of the working of the Research Work of India, July 2000, March, Govt. of India, New Delhi, p. 3.
Critical Appraisal Of The Government Policy And Suggestions For Changes In New Policy

In a bid to attract large foreign investment in the stagnant sector of processed food, and the union governments likely to come out with a "National Food Processing Policy", during the forthcoming session of parliament to remove the bottlenecks. The proposed policy aims at doing away with constraints like high taxation structure, multiplicity of laws and agencies confronting the sunrise sector, besides making investments more profitable.

Also, the government intends to enact an umbrella legislation by synthesizing the plethora of laws, governing the agro processing sector and come out with a comprehensive processed food development act. The aim is to substantially enhance value addition and increase the processing level from a meagere two percent at present to at least ten per cent by the end of the decade, for which an investment of about Rs. 140000 crore would be required.

The policy, prepared after eliciting views of state governments, farmers, cooperatives, exporters, and other institutions would not only play a significant role in ensuring growth of the industry, but also in generating considerable employment opportunities.

Given the levels of investment required for the food processing industry to take off, the centre wants that the states and private sector should come forward to share the burden particularly it has been sought that the private sector investment in setting up a cold storage chain, processing units and food testing labs must be increased.
While food processing seems to have taken a centrestage for the time being at least, its upgradation, however requires a daunting investment of Rs. 140000 crores over ten years and this amount of money the government does not have to spare. Yet, this is also a sector that is viewed as a potentially big employer, capable of checking migration by providing jobs in rural areas. It is also one sector in which the mismatch between growing demand and supply may leave the door open for an invasion of foreign products. The new agriculture policy emphasized a conducive policy regime which would require the reforms to bring about improvements in terms of trade for agriculture, a favourable price, regime, removal of infrastructural bottlenecks and institutional reforms taking the farm of land reforms, risk management and management changes emphasizing the quality aspects of all stages of farm operations.

One of the highlights of the new policy is the identification of industrial cluster towns. Which are to be given special benefits. The Government wants to give such centers a legup and as such our efforts in this direction should not end up, hamstringing them instead. The policy should be phased but only after exports have achieved 'critical mass' in other words having got exporters used to government support over the year and decades it would not be prudent to just put them on cold. Apart from all facilities and incentive provided, it is crucial to enhance financial assistance for transport of commodities meant for export while in the agricultural sector productivity has to be improved.

In the way of critical appraisal we can say that the "National Food Processing Policy", eliciting views of state government, farmers cooperation would not only play a significant role but also generating considerable employment opportunities.
Suggestions for Changes in New Policy

As change in government policy environment has taken place for accelerating agro processing in general and food processing sector. Changes in policies with respect to liberalization and exports would also be helpful to the agro processing industry. There is now a widespread recognition about the role of agro processing industries in improving farm incomes employment opportunities, and contribution to export. The agro processing sector is now on threshold of a major breakthrough. It is expected that his sector will draw the attention of national as well as international food processing industry / agro processing giants in terms of capital investment introduction of modern processing technology and transfer of global biotechnology / research to Indian farmers for improving per hectare yields, and processable quality of raw materials. Some points which shows the changes of new policy as follows:

1. Integrated long term policy to improve the production, productivity cropping pattern, as well as processing to augment to the value added products.

2. Improvements in development and promotion of markets and products quality and packaging.

3. Encouragement to export oriented units, 100% EOUAs.

4. The deliberate reduction in the high degree of protection earlier accorded to the manufacturing sector, which has improved the relative profitability of the agriculture sector.

5. Let the farming community receive market prices so as to bring about more equitable terms of trade for this sector.
6. Development and promotion of agro industrial enterprises depend on appropriate macro economic policies, throughout the economy, this is besides sector, specific policies and interventions of the Central and State Governments.

7. These policies formed to strengthen the backward linkage with farmers should be encouraged. If this is done they can play a proactive role in generating suitable varieties for processing, accelerating farmers incomes, and in the process, improving their own profitability. The expenditure in strengthening the backward linkages should be considered as a part of expenditures and includes in fiscal incentives.

8. The policy formed the need of should be encouraged not only to research and development for generating new consumer products and for the adoptive research for transferring the global research on biotechnology, particularly seeds and plantation materials should be emphatically implemented.

9. The Policy providing stress the need of commercially useful information and assistance to their members in developing and increasing their exports.

10. To make strength of backward and forward linkages in food processing industries.

11. To encourage growth of food processing sector.

12. To build a statistical base and provide data on the exports and imports of the country, export and imports of their members, as well as other relevant international trade data.
13. At present the database for food processing is very weak. Although some commendable efforts have been made to collect data on relevant variable. This is an appropriate area for APEDA to initiate action. So the policy should be strength.

14. The cost of packaging materials is very high because of low volume of production and high taxes a time has come to consider packaging materials as part of integrated development of the food processing industry. There is a need to reduce the incidence of taxes on this intermediate input, so the policy should be prepared in this manner.

15. There is a lack of infrastructure, facilities like marketing infrastructure storage transport, communications, power, refrigeration and handling facilities. The private sector may not able to take up the initiative because of high capital cost, low returns and long gestation periods, government support is therefore recommended.

16. The proposed new policy aims at doing away with constraints like high taxation, structure multiplicity of laws and agencies confronting the sunrise sector besides making investments more profitable. So the new policy should be making in proper manner.

17. Increase the efficiency of government expenditure both the planned and non planned.

18. Encourage production of processable variety of raw material.

The new economic policy changes may be able to attract food processing and give a boost to domestic investment, but whether it will lead to more employment along with higher output growth is doubtful, besides the new policy provides a framework for enhancing India's export capability. Only its time-bound implementation in respect of various
proposals for special export zones becomes crucial for success of the new measures adopted.

Conclusion

In a bid to attract large foreign investment in the stagnant sector of processed food the union government is likely to come out with a "National Food Processing policy" during the forth coming session of the parliament aims to removing the bottlenecks. The proposed policy aims at doing away with constraints like high taxation structure, multiplicity of laws and agencies confronting the sunrise sector, besides making investment more profitable.

One of the highlights of the policy identification of industrial cluster towns which are to be given special benefits. The government wants to give such centers a leg up and as such, our efforts in this direction should not end up hamstrung them instead. The government also wants that policy should be phased but only after exports have achieved "critical mass", in other words having got exporters used to government support over the years and decades. It would not be prudent to just put them on cold turkey right away.

Apart from all facilities and incentives provided, it is crucial to enhance financial assistance for transport of commodities meant for exports while in the agricultural sector productivity has to be improved. The government has planned to provide transport assistance for export of fruits, vegetables, floriculture, poultry and dairy products as also cereals products to promote diversification of agriculture. This assistance will also be extended to the export food grains by food corporation of India in order to help solve the problem of plenty confronting the country. To make Indian
exports globally competitive, the government has set in to motion a series of steps aimed at reducing both transaction time and costs. In the medium term of 5 to 10 years, the policy framework would attempt to establish a network of research and development institution. Identification of industrial corporates and development of food parks in all the states with reference to their regional strength may be achieved during this period. One of the key resultants of the policy is the food processing development act. The proposed policy envisage a single authority for harmonizing and clarifying the function of each player. The department of food processing industries will have the role of development while food safety, distribution and other regulatory function will continue to be administered under the existing legislations. The act would have a focus on development the emphasis will be on developing the food processing sector as a whole.

To sum up, the industry and the government need to sort out an everlasting policy removing all hurdles in the way of growth of the industry. All aspects of supply, structure of the industry, distribution, consumer attitudes and policies need a through examination and overhaul so as to make the food processing industry as one that contributes a significant portion of our national income.