

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Report Highlights:**

\*Kharif crop brightens GDP hopes in coming quarters\*, \*Cotton exports to be permitted only from November 1\*, \*Cotton traders look at renegotiating export contracts\*, \*Duty-free rice import to continue\*, \*Finally, monsoon rains start withdrawing\*, \*Food inflation at 16.44%, Fear of rate hike looms\*, \*FDI in retail: Finance Ministry forms internal panel\*, \*Coffee exports up 50% in 2009-10\*, \*Metro Cash & Carry in talks with MFIS\*, \*Packaged food may be exempted from GST\*, \*Levy obligation of sugar mills cut to 10 percent\*, \*Vegetable oil consumption likely to hit record high\*.

**General Information:**

Welcome to Hot Bites from India, a weekly summary of issues of interest to the U. S. agricultural community. The report includes information that has been garnered during travel within India, reported in the local media, or offered by host country officials and agricultural analysts. Press articles are included and summarized in this report. Significant issues will be expanded upon in subsequent reports from this office. Minor grammatical changes have been made for clarification.

**DISCLAIMER:** Any press summary contained herein does NOT reflect USDA's, the U.S. Embassy's, or any other U.S. government agency's point of view or official policy.

**KHARIF CROP BRIGHTENS GDP HOPES IN COMING QUARTERS**

On the back of a bright kharif (winter harvest) crop outlook, experts expect 5.5 percent agricultural growth in the Indian fiscal year 2010/11 (April/March), the highest in the 11<sup>th</sup> plan period (2007-2012). Analysts expect second quarter growth of 8.2 to 8.7 percent, while third quarter growth is forecast at 9 percent. Planning Commission Deputy Chairman said that the overall growth in the economy is expected to be more than 8.5 percent backed by strong growth in the agriculture sector. Experts believe that the strong agriculture growth will also bring food inflation down to single digits as supply pressures ease. (Source: [Business Standard](#), 09/26/2010)

**COTTON EXPORTS TO BE PERMITTED ONLY FROM NOV 1**

A Group of Ministers (GoM) took the decision to permit exports of up to 5.5 million bales of cotton from November 1, 2010. The registration of export contracts will begin on October 1, 2010. The GoM decision struck a compromise between the conflicting interests of cotton growers and the textile industry. The GoM also decided that the 5.5 million bales for export will not be subject to any export duty. (Source: [Hindu Business Line](#), 09/29/2010)

**COTTON TRADERS LOOK AT RENEGOTIATING EXPORT CONTRACTS**

Cotton traders may have to renegotiate export contracts or cancel some due to a surge in local cotton prices and the government's decision to delay cotton shipments. Exporters have already contracted to ship about 1.65 million bales between October and February, and more than 70 percent of it is destined for China and Pakistan. Meanwhile Agriculture Minister Sharad Pawar has stated that while the government may have fixed an export cap of 5.5 million bales for the 2010/11 season, there is scope for increasing it to 7.5 to 8.0 million bales. The cotton situation will be reviewed in December end, and the government will take a balanced view to protect cotton

growers as well as the industry. (Source: [Financial Express](#), 09/30/2010 and [Financial Express](#), 09/30/2010)

### **DUTY-FREE RICE IMPORT TO CONTINUE**

With food inflation at a high of more than 15 percent for the week ending September 11, the government on Tuesday decided to continue imports of duty free rice, wheat and edible oils, as well as the ban on non-basmati rice exports. The Empowered Group of Minister's also decided to extend open market sales for both wheat and rice by another six months up to March 2011.

Under the scheme, the government releases stocks in the open market to both bulk and retail consumers at concessional prices. The government will take stock of the situation again in January after assessing the 2010/11 crop production. (Source: [Financial Express](#), 09/29/2010)

### **FINALLY, MONSOON RAINS START WITHDRAWING**

According to the National Climate Centre, India, the 2010 monsoon has started retreating from major grain producing areas, easing concerns that prolonged rainfall would damage crops. This year, total rainfall in the June-September 2010 season has been 3 per cent above normal. Monsoon rains usually start retreating on September 1 in India. This year's rains have continued beyond that date. Last year, by comparison, there was not enough rain, and severe drought curbed output in India, one of the world's biggest producers and consumers of rice, corn, sugar, and cotton. India's import needs can have a huge influence on global markets. Last year, international sugar prices hit a record high when the country had to buy extra supplies to cover the shortfall. According to government estimates, the output of rabi grains is likely to rise by 10 per cent and cane production is to increase by 17 percent. (Source: [Mint](#), 09/28/2010)

### **FOOD INFLATION AT 16.44%, FEAR OF RATE HIKE LOOMS**

The rate of Wholesale food inflation rose to 16.44 per cent for the week ending September 18, compared to 15.46 per cent the previous week, mainly due to heavy rains and floods in some parts of India resulting in temporary disruption in supply of essential foods items. According to the Government, inflation has increased, particularly in food items like pearl millet, sorghum, pulses, fruit, vegetable, meat, and eggs; and rising inflation is a matter of concern. The Indian government believes that its monetary policy will mop up excess liquidity from the market. On the other hand, economists and analysts are not ruling out any action by the Reserve Bank of India (RBI) in its review of monetary policy in November, even as it has already tightened its grip to a large extent. The RBI has raised its short term borrowing rates by 50 basis points to 5 per cent and lending rates by 25 basis points to 6 per cent. According to the RBI governor, inflation might continue to be high for a few months. (Source: [Business Standard](#), 10/01/2010)

## **FDI IN RETAIL: FINANCE MINISTRY FORMS INTERNAL PANEL**

The finance ministry has formed an internal panel to finalize its view on the politically contentious issue of foreign direct investment (FDI) in the multi-brand retail sector. The discussion paper has also sought to know whether it should not be made mandatory for 50 per cent of all foreign investment to be invested in the creation of back-end infrastructure, and reserve half of all jobs in the retail sector for rural youth. The finance ministry, while not taking any position on the issue, has maintained that the paper "comprehensively captures the scenario in multi-brand retail in the Indian context." The ministry of food, consumer affairs and public distribution, however, said FDI should be permitted with a cap of 49 per cent. "This will help local enterprise to upgrade their technology and practices to face competition from MNCs," the food ministry said in its comments on the discussion paper. (Source: [Hindustan Times](#), 09/28/2010)

## **COFFEE EXPORTS UP 50% IN 2009-10**

The coffee season for 2009-10, which ends in September, is likely to witness more than a 50% increase in coffee exports. As per the latest statistics available with the Coffee Board, exports climbed 53% in the current coffee year. Foreign exchange fetched by coffee exports surged a whopping 44% to \$569 million till September 17, 2010 from \$ 396 million in the same period a year ago. Exports surged on the back of increased coffee production in the country. Coffee production in the 2009-10 crop year climbed to 289,600 tons from 262,300 tons in the previous season. Nearly 90% of the coffee produced in the country was exported in the current crop year against 67% in the last crop year, a Coffee Board official said. The increase in export volume was also due to decline in output in other exporting countries like Brazil, Vietnam and Colombia. (Source: [Financial Express](#), 09/27/2010)

## **METRO CASH & CARRY IN TALKS WITH MFIS**

In a bid to spread its reach in the country, Metro Cash & Carry is trying to cash in on the potential of the micro finance institutions (MFIs) network in the country. Presently, it caters exclusively to professional business customers like hotels, restaurants and small retailers like mom & pop stores. The company is now in talks with leading MFIs across six states—Andhra Pradesh, Tamil Nadu, West Bengal, Punjab, Karnataka and Maharashtra. As a pilot project, it has tied up with SKS Microfinance in Andhra Pradesh. SKS provides interest-free working capital loans to its mom & pop stores who use this to purchase stocks from Metro at wholesale prices while SKS gets a commission from Metro. (Source: [Financial Express](#), 09/24/2010)

## **PACKAGED FOOD MAY BE EXEMPTED FROM GST**

The Food Processing Industry can breathe easy as packaged food items may be exempted from the proposed Goods and Services Tax (GST). At present, processed food products are exempted from central excise, but most states levy Value Added Tax (VAT) on these. Analysts, however,

think taxing processed food in GST at a lower rate would not have much impact on prices. The Centre is looking at a single rate of 16 per cent in three years from the date of introduction of GST. The goods like cold drinks, which are taxed at 12.5 per cent, by the states may not be impacted much, but fruit juices, tea, edible oil, which are taxed at 4 per cent, will be hit if taxed in GST. At present, 350 items are exempted by the Centre, whereas states have excluded 99 items. A joint group of the Centre and states will work out a list of items to be exempted. The Centre may prefer to keep some other goods exempted from the excise duty under the zero-tax category in GST. (Source: [Business Standard](#), 09/17/2010)

### **LEVY OBLIGATION OF SUGAR MILLS CUT TO 10 PERCENT**

The Centre has decided to revert to a 10 percent levy sugar obligation on mills from the new 2010-11 crushing season (October-September). During the 2009-10 season, mills surrendered 20 percent of their production as levy for the public distribution system. The higher levy obligation was imposed following the fall in domestic sugar production. "We will take 10 percent as levy sugar for 2010-11 in view of the prediction of a bumper crop", the Union Food and Agriculture Minister, Mr Sharad Pawar, said at the Annual Meeting of National Federation of Cooperative Sugar Factories Ltd (NFC SFL) in New Delhi. Regarding the issue of decontrol, as demanded by the industry, he said the Centre was "actively considering" the proposal. A final decision, however, will only be taken after consulting the various stakeholders, including State Governments. (Source: [Hindu Business Line](#), 09/30/10)

### **VEGETABLE OIL CONSUMPTION LIKELY TO HIT RECORD HIGH**

The vegetable oil industry in India is likely to set two records this year. First, consumption is estimated to hit a record high at 15.7 million tons (mt) during oil year 2010-11 (November-October). Second, soymeal exports will hit a high of 3.4 mt against the earlier record of 3.2 mt in the pre-economic crisis year of 2007-08. With an estimated rise in per capita consumption to 12.75 kg in 2010-11, (compared to 12.2 kg this year), total consumption of vegetable oil is forecast to increase 4.4 percent this year. Availability from domestic seed crushing is also likely to increase this year by 600,000 tons, as a bumper kharif crop will raise seed output, resulting in higher crushing. Total oilseed output is forecast to rise to 14.08 mt during the 2010-11 kharif season. As a result, soymeal exports, which slipped to 2.38 mt last year, will see a record rise this year. (Source: [Business Standard](#), 09/28/10)

### **RECENT REPORTS SUBMITTED BY FAS/NEW DELHI**

<b>REPORT #</b>	<b>SUBJECT</b>	<b>DATE SUBMITTED</b>
IN1090	Weekly Hot Bites, #38	09/24/2010
IN1092	FSSAI Drafts New Approach for Implementing Food Standards	09/28/2010

IN1093	Sugar – Semi-Annual	10/01/2010
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