

Agricultural Marketing — Professional Opportunities for Chartered Accountants

Despite much hue-and-cry about India becoming an economic superpower, the fact remains that India is still an agrarian country where nearly two thirds of its population depends on crop and animal husbandry, forestry and agro-forestry,

and 0.62 million villages and reaching them is a Herculean task. One of the major hurdles faced for rural/agricultural upliftment is a farmer's inability to access information, be it data, agro-technology or updated market intelligence on arrival of produce and their

efficient marketing and export networks to fully exploit production and export potentials in respect of these products. India's Foreign Trade Policy announced on 31st August 2004 lays special emphasis on export of fruits, vegetables, flowers, minor forest product,



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India cannot become an economic super-power until and unless it lifts its agriculture and rural sector to global standards. But despite major policy decisions and announcements pertaining to these sectors, these are yet to receive the same attention as some sectors like services and manufacturing have received over the years. Although the Government's spending on food and fertiliser subsidy has reached up to one per cent of GDP, the average Indian farmer is gaining almost nothing. However, the situation is in for a change with Corporate India's increasing interest and involvement in these sectors and the renewed focus of Central as well as State Governments on the scenario. The Indian Corporate World is in the process of tapping vast unexploited potential of rural economy and is rolling out significant high-value economic activities. This article touches upon existing and potential opportunities for the professionals in agricultural produce marketing.

fisheries and agro-processing. All the talk of economic growth rate means nothing to the man who survives on subsistence agriculture on just one bigha of land in some remote village. Agriculture provides employment to millions in rural areas, supplies raw material to scores of industries and contributes about 22% in the GDP of the country. There are over 200 million farmers and farm-workers who toil hard to make two ends meet and are constantly struggling to produce more per unit area and time from diminishing land and water resources.

Major Bottleneck of Indian Agriculture

India is a huge country, geographically. As per the 2001 census, there are 593 districts comprising 4691 towns

and rates in different *mandis*. Inadequate infrastructure of transportation, storage, processing and marketing of finished products, particularly for perishable goods, result in distress sales, affecting the returns of the farmers. The list of such negative factors seems to be endless.

Agricultural Marketing

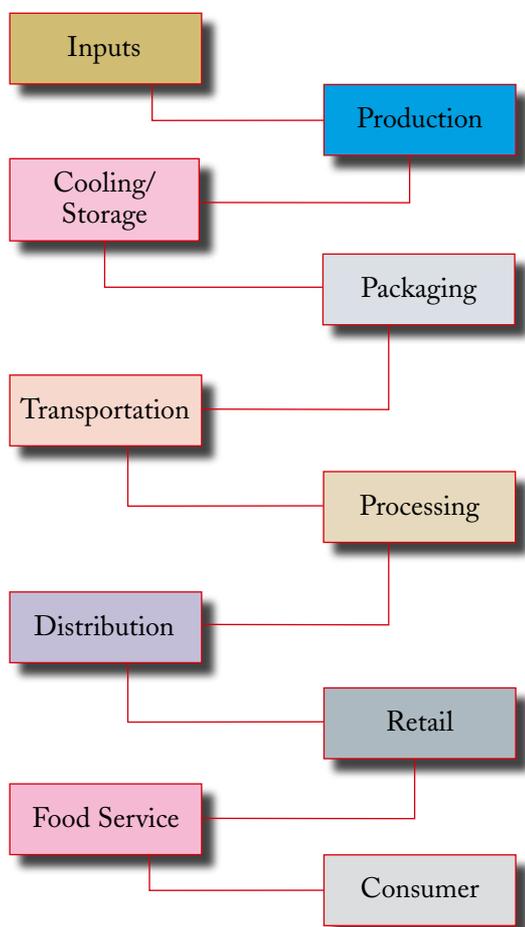
Marketing of agricultural produce is a very crucial activity for the farming community, particularly for those who are small producers and have small surpluses. Emerging areas such as horticulture, floriculture, organic farming, genetic engineering, food processing and packaging have a high potential of growth. It is necessary to improve cold storage and cold transportation facilities and develop ef-

ficient marketing and export networks to fully exploit production and export potentials in respect of these products.

A total chain of agriculture activity can be understood through the following diagram:

India's Position in Total World's Agri-business

The food processing industry is India's seventh export-worthy food sector and one of the most FDI-worthy sectors. India is one of the world's major food producers but accounts for less than 1.5% of the international food trade. The country produces a wide variety of agricultural products at prices that are at or below world values in most cases. This indicates vast scope for both investors and exporters. India exports pickles, chutneys, fruit-pulp, canned fruits and vegetables, dehydrated



vegetable and frozen fruits and vegetables to the Middle-East. Egg powder, frozen egg yolk and albumin powder is mainly exported to Europe and Japan. Exports of poultry meat products are made mainly to Japan, Malaysia, Singapore and Indonesia.

National Food Processing Policy

The changing life-style of the consumer, economic liberalisation and rising consumer prosperity is opening up new opportunities for diversification in the food processing sector. The food processing industry has been identified as a thrust area for development. This industry is included in the priority-lending sector. Most food processing industries have been exempted from

the provisions of industrial licensing under the Industries (Development and Regulation) Act, 1951 with the exception of beer and alcoholic drinks and items reserved for small-scale sectors, like vinegar, bread and bakery. As far as foreign investment is concerned, automatic approval for even 100% equity is available for a majority of processed food items.

Presently, small-scale and unorganised sectors account for 75% of the total food processing industry having only local presence without much access to knowledge, technology and marketing network. Value addition to the raw produce in the country is only 7% as compared to as much 23% in China, 45% in Philippines and 188% in the United Kingdom.

Need of Professional Approach

With the WTO regime set to cover the country, India has to prepare for meeting the requisite policy standards in order to compete with imported goods in the domestic market itself. This calls for the adoption of hi-tech machines and technologies as also development of entire chain of the infrastructure. Multiplicity of laws and regulatory authorities throttle the industry and, as such, harmonisation of laws is a must. The present situation also calls for development in administration of standards in consonance with international standards like 'Codex' through a single authority, covering issues concerning standards on nutrition, merit goods, futures marketing, equalisation fund, etc.

The need of the hour is to develop a futures market in the best interest of both farmers and processors by ensuring minimum price stability

to the farmer and a sustained supply of raw material to the processor. The documentation and procedures under taxation laws need to be simplified to avoid unnecessary harassment arising out of mere procedural technicalities. Development of marketing capabilities, both with regard to infrastructure and quality is a must to promote competitive capabilities so as to face the WTO challenge as well as to boost exports in a big way.

Regulatory Framework in Food Legislation

In recent decades food production and processing has grown from a relatively small, locally-based activity into a multi-billion dollar, globally-competitive industry. Responsibility for a safe and wholesome food supply is shared by a much broader group of stakeholders that includes producers, processors, importers, retailers, consumers and government regulators. There is a continuous need to update and modernise food standards and inspection techniques, which in turn require modernised legislation and regulation.

Laws respecting the safety and inspection of food are evolving in response to changing environment. The increasing influence of international standards setting organisations as a result of trade agreements like WTO and the North American Free Trade Agreement (NAFTA) are having a significant impact on the domestic food law policies of all major food-producing nations.

The WTO agreements place the onus on member countries to harmonise all standards, including federal and/or provincial standards, where they exist. Member countries must recognise the equivalency of standards and



inspection measures of trading partners, even if these measures differ from their own if the exporting country objectively demonstrates to the importing country that its measures achieve the importing countries' appropriate level of sanitary or phytosanitary protection.

Codex Alimentarius

The words "Codex Alimentarius" are referred to again and again in any food legislation. The name "Codex Alimentarius" is taken from Latin and translates literally as "Food Code" or "Food Law". It is a series of food standards, codes and other regulations adopted by the Codex Alimentarius Commission (CAC) that countries can use as models in their domestic food legislation and regulations and which can be applied to International Trade. The Codex Alimentarius actually assures

that any food-items produced according to its code of hygiene practices and complies with its standards, are safe, nutritious and offer adequate health protection.

The CAC was created in 1962 by two United Nations organisations – the Food and Agriculture Organisation (FAO) and the World Health Organisation (WHO). The CAC is an inter-governmental body with a membership of 165 member governments at present.

Hazard Analysis Critical Control Point

'Hazard Analysis Critical Control Point' (HACCP) is also frequently referred to in food safety laws. Process control systems based on HACCP principles place emphasis on preventing food safety hazards from occurring during production instead of detecting defects during end-product

inspection. HACCP implementation requires the industry to define hazards specific to each process or product line, to identify points in the process where hazards can occur and where control can be exercised (Critical Control Points or CCPs), define control limits, conduct regular monitoring and maintain records of results and corrective actions taken. The Government's role is to audit records and verify compliance through an effective inspection programme.

Food Safety in the US

All foods imported into US are required to meet the same standards as domestic products. They must be (i) pure (ii) wholesome (iii) safe to eat (iv) produced under sanitary conditions and (v) properly labelled. In the US, food safety is a shared responsibility with several departments of the government sharing jurisdiction

over ensuring the safety of the American Food Supply. The US Food and Drug Administration (FDA) regulate both domestic and imported foods, except meat and poultry. The FDA has the primary responsibility for enforcing food safety laws including food import and export regulations.

To ensure that the FDA is notified of all regulated products imported into the US, the importer is required to file an entry notice and an entry bond with the US Customs Service. When the FDA is notified by Customs of the entry, a decision is made about the admissibility of the product. If the FDA does not wish to examine the entry, the product is allowed to proceed into United States Commerce. If the FDA examines an entry and finds any non-compliance to US requirements, the product is denied entry into the country. There are provisions for petition to recondition the product to bring it into compliance. All petitions to recondition a product are subject to FDA review and approval. If the product is ultimately refused, the importer is required to either re-export or destroy the article under the US Customs or other approved supervisions.

In some instances, a product may be detained as soon as it is offered for entry into the United States. A product may be subject to a detention without physical examination until the shipper or importer proves that the product meets FDA guidelines or standards. Occasionally, FDA identifies the product from a country or geographic reason as a whole for detention without physical examination when the 'violative conditions' appear to be geographically widespread. Detention recommendation of this scale is rare and is initi-

ated only after other avenues for resolving the problem have been exhausted.

Tolerance for pesticide residues or many raw agricultural commodities have been established under section 408 of the Federal Food, Drug and Cosmetic Act. The term "raw agricultural commodity" means any food in its raw or natural state. Foods that have been washed, coloured, waxed or otherwise treated in their unpeeled natural form are considered to be unprocessed. Products of this kind containing pesticide residues are in violation of the Federal Food, Drug and Cosmetic Act unless (i) the pesticide chemical has been exempted from the requirement of a residue tolerance or (ii) a tolerance has been established for the particular pesticide on the specific food and the residue does not exceed the tolerance level. The Environmental Protection Agency (EPA) establishes, revokes or changes tolerance levels as and when the facts warrant such action. Firms considering offering foods or entry into the United States that may contain pesticide residues should determine if there are tolerances for the pesticides on the production in question.

US food safety laws put special emphasis on trace back system. An effective trace back system can give investigators clues that may lead to a specific region, packing facility and even cultivated field. This helps in narrowing the damage, if any, caused due to the outbreak of any hazardous situation. An effective trace back system go to the details of Date of harvest, Farm identification, Who handled the product from grower to consumer, identifying codes/lots at each distribution level for retail and so on.

Food Safety in European Union

In the wake of several food scares in the European Union (EU) that sharply undermined consumer confidence, individual EU states and the European Commission reviewed their food safety policies in toto. The European Commission (the Commission) adopted a White Paper on food safety in January 2000, which signalled a new regulatory approach aiming to restore the confidence of the European public in food safety following several food crisis (dioxins, BSE and Food-and-Mouth). This new "from the farm to the form" approach draws together, for the first time, the various aspects of food safety along the food chain.

The general principles on food safety in the EU are in a Regulation adopted in 2002 and are often known as the General Food Law. This thoroughly overhauled EU food safety legislation lays a new emphasis on feed because feed contamination has been at the root of all major food scares in the last few years. Under this law, it became compulsory from 1 January 2005 for food and feed businesses to guarantee that all foodstuffs, animal feed and feed ingredients are traceable right through the food chain. The provisions for traceability requirements require documentation, so that a product can be traced through distribution channels within the EU for as long as five years.

Science is the essential foundation on which the EU bases its decisions on any part of the food chain. For the purpose, the European Food Safety Authority (EFSA) was established to provide independent scientific advice on possible threats to food safety. EFSA has a wide brief. It can

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cover all stages of food production and supply, from primary production to the safety of animal feed, right through to the supply of food to consumers. It can also look into the properties of non-food and feed nutrition issues.

In general, all goods entering the EU are subject to import duties. The level of tariffs depends on season, country of origin and product. The trading environment on preserved fruit and vegetables for some products is liberal, but the more highly processed the product, the higher the tariff. During periods when imports compete with EU domestic production, higher tariffs are imposed. In most of the EU-member states, the food products attract reduced rate of VAT in comparison to general VAT.

Food Safety in Japan

In Japan, both national and local governments are responsible for the health inspection of imported fruits. The amended Food Sanitation Law, which is effective from August 2003, stipulates that food business operators – including producers, manufacturers, importers and distributors – must have proper knowledge and techniques, assure the safety of raw ingredients, and voluntarily conduct testing. They also must make and retain records on information needed to prevent health hazards associated with food, and they must take measures if any hazard occurs. The Product Liability Law as-

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signs liability to manufacturers, processors and importers for damages or injuries caused by defective products. Because importers are accountable for the product safety of the goods they import, they deal with this via contractual arrangements to bind foreign exporters for the payment of damages that may arise.

A statutory body called the Food Safety Commission has been established that undertakes risk assessment and is independent from risk management organisations such as the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Health and Welfare. The Food Safety Commission is headed by as many as seven commissioners who have expertise on food safety issues. There are 16 expert committees under the Commission.

Food Safety in Near East Region

The status and performance of food safety systems varies considerably throughout the Near East. Countries in the region are at very different stages of the development and operation of food safety systems. During recent years, an increasing number of countries have moved to update and strengthen their systems and infrastructure for food control and introduce risk analysis in their approaches. The majority of countries are harmonising their food standards with Codex, and introducing good manufacturing and quality assurance systems.

Many countries in the region continue to separate the control of locally-produced and imported foods. Food legislations are strictly applied to imported and exported foods but less adequately applied to foods produced and consumed locally. Food inspection activi-

ties vary greatly throughout the region.

Many countries in the region have joined the WTO and Standard Setting Bodies like Codex Alimentarius. As per a WTO report dated 24th March 2003, of the 32 countries in the region, 16 are members of the WTO, nine are in the process of negotiating accession and three have requested accession. A total of 22 countries are members of Codex and some have created National Codex Committees. Although an increasing number of countries are represented at meetings, the limited scientific, technical and financial resources continue to hinder the ability of many countries to participate actively in Codex and WTO Technical Committees. In several countries, standards and regulations are not completely in line with Codex and WTO agreements.

Given the limited natural agricultural resources, specially water, and the rapidly growing population in the region, the countries increasingly rely on imports to cover their food needs and sustain food security. Most countries are net food importers and have large deficits in food production, particularly for cereals and vegetable oils.

Food Safety in India

There are a number of food laws in India, which are implemented by various Ministries and Departments. These are primarily meant for two purposes namely, (i) regulation of specifications of food and (ii) regulation of hygienic conditions of processing/manufacturing. Some of these food laws are mandatory and some are voluntary. Followings are major laws currently in force:

1. Prevention of Food Adulteration Act (Ministry of Health)

2. Agriculture Produce (Grading & Marketing) Act (Ministry of Rural Development)
3. Essential Commodities Act
4. Laws being operated by Bureau of Indian Standards

On recommendations of the Task Force constituted by the Prime Minister under the Chairmanship of Shri Nulsi Wadia, the Ministry for Food Processing Industries tabled the Food Safety and Standards Bill 2005 in the Winter Session of Parliament, seeking to do away with nine existing laws and modifying seven others. The Bill aims at making food laws industry-friendly and marks a shift from the present 'regulatory regime' to that of self-compliance by the industry. The stated objects of the Bill are (i) to bring about a single statute relating to food so as to do away with existing multiplicity of Food Laws/Regulations (ii) to lay down standards based on science, transparency and consultation and (iii) to establish Food Safety and Standards Authority of India and to pool infrastructure, manpower, testing facilities.

The Bill clearly outlines the adoption of GMP, GHP, HACCP and brings all the food manufacturers within the ambit of food safety, be it the manufacturers of packaged food-stuff, five-star hotels, the big eateries, or the *dhabawallas* who feed the office goers in present times. The Bill will be in the interest of farmers, as most raw materials will come within its ambit. Consumers also stand to benefit with quality food.

India has been a member of the WTO since January 1995. The total membership of the WTO stands at 149 today. The export market of packaged-Indian foods is set to grow

vastly in the near future as the manufacturers concerned will have to adhere to strict quality measures as per requirements of WTO 'Committee on Sanitary and Phytosanitary measures' which will ultimately help them find a place on the shelves of European departmental stores.

Role of Chartered Accountants

In agriculture, mere articulation cannot replace action and there is an urgent need for steps to modernise agriculture, provide technology inputs and training as well as marketing access for value added products. The sixth WTO Ministerial meeting that concluded on 18th December 2005 has proposed the elimination of all export subsidies by developed countries by 2013 while reducing them considerably by 2010. We need a blue print for action to gain maximum benefit of this agreement, not a plan that is only a concept.

India is one of the largest producers of raw materials for the food processing industry, but less than 2% of fruits and vegetables are processed in the country as compared to 30% in Thailand, 70% in Brazil, 78% in Philippines and 80% in Malaysia. The value addition in the food sector is only 7%. Increasing food processing from the level of 2% to 10% by 2010 would entail an investment of Rs.1,40,000 crore and will take value addition of food products from 7% to 35%. All these ambitions cannot become reality without active participation of Chartered Accountants.

Chartered Accountants will be in great demand in establishing auditable trace-back systems matching international standards. HACCP Principals require governments to audit relevant records and verify compliances, which may be an

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assignment for Chartered Accountants. Understanding and interpreting food safety laws and representing before Food Safety and Standard Authority in various countries including India, protecting interests of Indian producers, processors and exporters in international courts would be another challenging assignment. Food safety laws are perhaps the only laws where there would not be any compromise on benchmarks for food produced indigenously or imported and therefore, rulings of courts in one country would equally apply in other countries including Indian courts.

Most countries in Near East Region have limited capacity to plan and implement policies that affect food safety and trade, to implement relevant international agreements, and to take advantage of trade opportunities. Several countries face difficulties in meeting international safety standards because of their weak capacity in scientific research, testing, conformity and equivalence. As concerns for food safety are common across the globe, Indian Chartered Accountants can play an active and very remunerative role in establishing such type of policies.

Experts believe that processed food revolution will benefit rural India the way the IT, BPO and bio-technology have benefited urban India. By virtue of their training and commercial acumen, Chartered Accountants can play a crucial role in eliminating a whole range of inefficiencies and distortions which add to a massive cost build-up in the value chain, making processed foods unaffordable to the growing Indian middle class. As is true for any other effort or profession, first-comers in the whole process will eat the cream and set the rules of the game. □