



AGRI EXPORT ADVANTAGE



EXPORT-IMPORT BANK OF INDIA

Visit us at www.eximbankagro.com

Published in English, Hindi, Marathi, Assamese, Bengali, Gujarati, Kannada, Malayalam, Oriya, Punjabi, Tamil and Telugu

JANUARY 2006

VOL V ISSUE I

contents

- ★ WTO Negotiations in Agriculture: Post Hong Kong 1
- ★ Exim Bank Study Highlights: Vanilla and its Potential in India 2
- ★ Processed Fruits and Vegetables in India: A sunrise industry 3-4
- ★ WTO & Chinese Agriculture: A Review 5-6
- ★ Indian Red Chilli: Export Potential 7
- ★ Kenya Tea Industry: Challenges & Prospects 8
- ★ Ecuador: An Agriculture Economy 9
- ★ Indian Dairy Industry: A Snapshot 10-11
- ★ News Focus 12

WTO NEGOTIATIONS IN AGRICULTURE: POST HONG KONG

Between Seattle and Hong Kong, the trade talks meandered through Doha and Cancun with regular stopovers at Geneva. At each stopover, the trade negotiations have been changing in tone and character. The Hong Kong ministerial has come and gone. Both sides claiming victory, the developed and the developing. The important thing that emerged at Hong Kong is the unity of the developing economies in the form of grand alliance (G-110), which united on the need to keep the development focus on the Doha Round of trade talks.

The first draft text on agriculture negotiations reached a crucial non-offensive breakthrough aiming to ensure that nobody is rubbed the wrong way. Export subsidies of rich nations, including those contained in US food aid programmes, subsidies involved in the activities of monopolistic trading companies in Australia, New Zealand, Canada and the EU, have to phase out by 2013, out of which a substantial portion by 2010. But the end date of 2010 has been put within brackets and tied to elimination of other kinds of subsidies like food aid and subsidies to state trading enterprises. The draft also brought out to deliver a development package to the poorest countries and set a new deadline of April 30, 2006, to complete the full modalities of the agreement, that includes disciplines on export credits, export credit guarantees or insurance programmes, state trading enterprises and food aids. For cotton, export subsidies will be eliminated by developed countries in 2006. On market access, developed countries will give duty and quota free access for cotton exports from least-developed countries (LDCs) from the commencement of the implementation period. Trade distorting domestic subsidies for cotton production should be reduced more ambitiously than under whatever general formula is agreed

and that it should be implemented over a shorter period of time than generally applicable.

For the developing countries, the draft stated that there should be products designated as special products for food security, livelihood security and rural development. However, the percentage of products to be designated as such has been put in brackets (still to be negotiated). A provision for Special Safeguard Mechanism is also agreed upon to include both price and volume triggers for protecting domestic producers in case of surge in imports. Developing country members with no AMS commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support. Thus, India can continue to support their farmers as the text exempts them completely from making any reductions in subsidies. The text also has adequate provisions to restrict developed countries' practice of shifting domestic subsidies from one box to another to continue with them in other different forms.

For many reasons the sixth ministerial meeting of the WTO was nothing short of a historic development. The text however left a lot to be desired as all essential things are within brackets (still to be negotiated). Though the Hong Kong ministerial has been an important milestone in the struggle to see Doha Development Agenda take shape, equally interesting will be to see how the contradictions unfold in the months ahead especially in view of the fact that the stakes are high.

Reference:

- www.wto.org
- Ministry of Commerce, Govt. of India



EXIM BANK STUDY HIGHLIGHTS: VANILLA AND ITS POTENTIAL IN INDIA

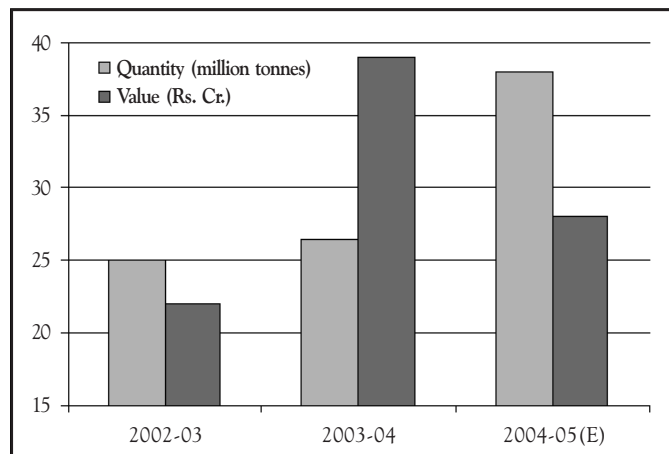
Exim Bank's latest study titled 'Vanilla and its Potential in India' observed that with certain policy intervention by Govt. of India and with more and more private and public partnership, India can emerge as significant player in the global vanilla industry. With highest price realizations amongst spices and comparatively low cost of cultivation, vanilla stands out as a highly profitable cash crop for Indian farmers when grown as an inter crop. Being a labour intensive crop, it is ideal for small and marginal farmers. Uncertainty of supply from Madagascar and reasonably high quality of Indian vanilla has driven importers in the developed countries to look at India as an alternative supply base of vanilla. Besides, India also has the potential to emerge as a key player in the organic or gourmet variety of vanilla. Cultivated mostly in Karnataka and Kerala and to a lesser extent in Tamil Nadu, Northeast Region, Lakshwadweep and the Andaman and Nicobar islands, India's vanilla production is currently about 131 MT from cultivated area of approx. 3543 ha.

Almost 90% of the world vanilla production comes from the Indian Ocean Island Nations - Madagascar and Indonesia. Madagascar, being the leading exporter, has a 70% market share followed by Indonesia, Comoros, and Reunion Island. With its modest annual supply of about 100 MT, India is currently the sixth largest exporter. USA is the major importer accounting for almost two-third of the world imports followed by the Netherlands, France, United Kingdom and Germany.

The price of cured beans of vanilla is conventionally administered by Madagascar; however, due to uncertainty of supply owing to political instability and frequent natural calamities, prices fluctuate tremendously. The current prevailing price of vanilla is in between US\$ 30 to US\$ 40 a kg. Wide price fluctuation has driven the user industries of natural vanilla switch to synthetic vanillin produced from wood, lignin and other sources because of its low price (almost one tenth) and easy availability.

The study observed that there is practically no demand for natural vanilla in the domestic market. India imports about 600-700 MT of synthetic vanillin annually, which is mostly consumed by food and beverages industry. In the absence of domestic demand, India exports almost its entire production in the form of cured beans without much value addition.

Vanilla Exports Trend from India



The study observed that the issue of price volatility affecting Indian farmers could be addressed through creating domestic demand for vanilla, which will require setting up of state-of-art extraction units for higher value addition, benefits of which can be passed on to the farmers. The study reviewed several initiatives taken by institutions like Spices Board, Central Food Technology Research Institute (CFTRI), Indian Institute of Technology (IIT), Mumbai etc. for development of the industry, particularly for accelerated curing technology and Super Critical Fluid Extraction and also identified various constraints faced by the industry and the farmers in vanilla cultivation.

In order to create sizeable demand for vanilla within the country, the study has recommended appropriate policy intervention by Govt. of India and enactment of laws for mandatory use of natural vanilla concentrates in the high price ice cream segment and introducing labelling requirements to distinguish ice creams using natural vanillin from synthetic ones. If through such measures, a mere 10% of the present synthetic vanillin consumption can be converted to natural vanillin, domestic demand of about 750 MT of cured beans can be created within the country, which is almost 8 times the country's present production.

Reference:

- Exim Bank's Working Paper 'Vanilla and its Potential in India'

PROCESSED FRUITS AND VEGETABLES IN INDIA: A SUNRISE INDUSTRY

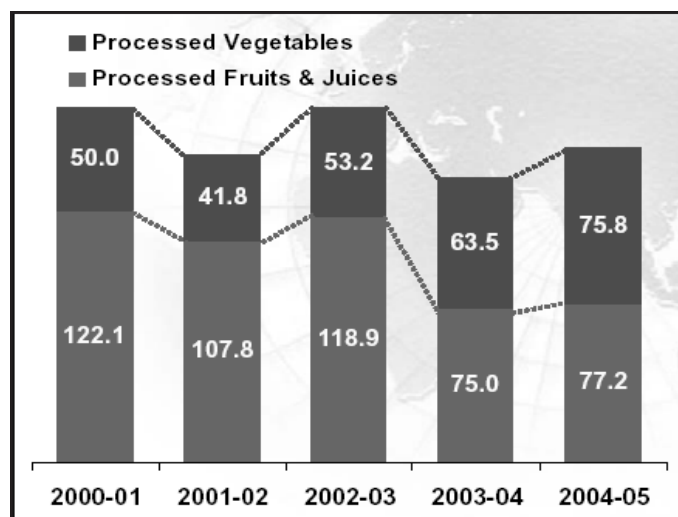
Processing of fruits and vegetables in its simplest forms like pickles or sun drying has been a home industry in India since ancient times. Nonetheless, Indian food processing sector ranks 5th in the world in terms of its volume produced and consumed. Representing nearly 6.3% of GDP and 13% of the country's exports (2004-05), there are an estimated 9,000 manufacturing units in the food processing industry, out of which an estimated 5198 units are engaged in the processing of fruits and vegetables. A large number of these units belong to the cottage / small-scale sector with installed capacities of upto 250 tonnes/annum. But larger integrated firms have capacities in the range of 30 tonnes per hour.

The important items manufactured in the country are fruit pulps particularly of tomatoes & mangoes to serve juices, canned fruits, jams, pickles and squashes. After economic liberalisation, industries producing pulp, tomato paste, aseptic packing and freeze-drying of many fruits and vegetables gained prominence. More recently, items like frozen fruits, dehydrated & freeze dried vegetables and canned mushrooms have been making a niche market for themselves.

Trade

India is the second largest producer of fresh fruits and vegetables in the world, with a share of around 10% each. However, in India processing of fruits and vegetables is estimated to be only around 2% (2004-05) of the total production as compared to Malaysia (80%), Thailand (30%) and China (23%). In terms of exports, India ranked at 39th position in the world processed fruits exports with exports of US\$ 27 million (UNCTAD PCTAS Database)¹ and 15th in the world processed vegetable exports in 2003 with exports of US\$ 304 million (UNCTAD PCTAS Database).

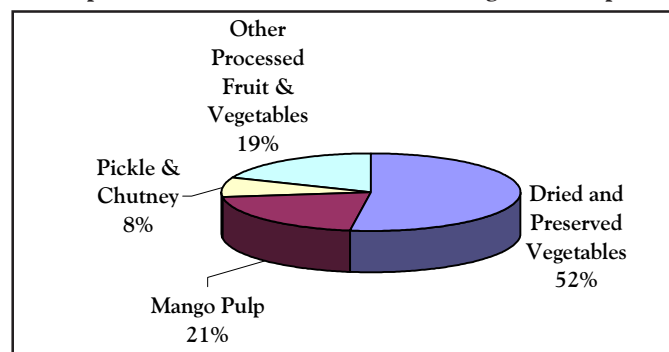
Exports of processed fruits and vegetables



Source: DGCIS, MoCI

As far as the composition of Indian processed fruits and vegetables exports is concerned, dried and preserved vegetables constitute a major part followed by mango pulp, pickle and chutney.

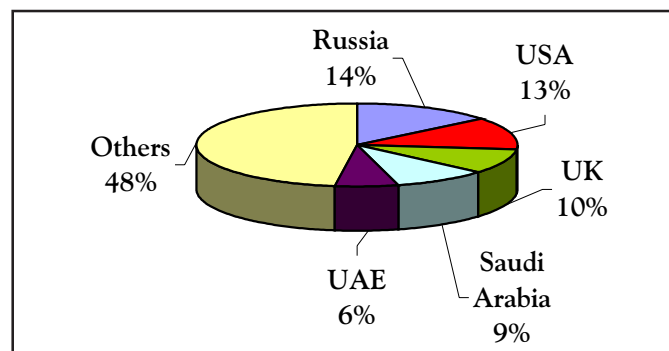
Composition of Processed Fruit and Vegetable Exports



Source: DGCIS, MoCI

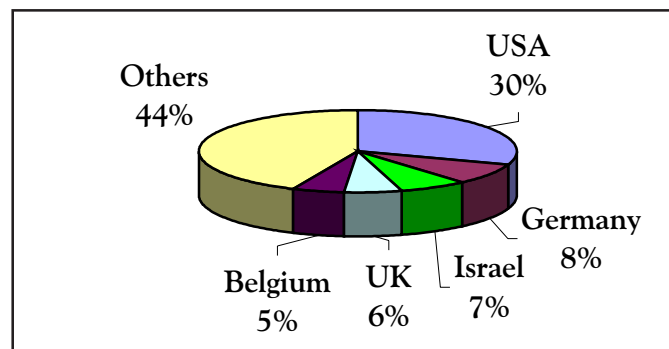
The export markets of the sector are largely product specific. Saudi Arabia, Kuwait, UAE, Netherlands and Hong Kong are the main markets for mango pulp. In case of mango products like chutneys and pickles, the main markets are USA, UK, UAE, Germany and Singapore. Other items like tomato paste, jams, jellies and juices are exported to USA, Russia, UAE and Netherlands.

Processed Fruits Exports



Source: DGCIS, MoCI

Processed Vegetables Exports



Source: DGCIS, MoCI

¹ The differences in data presented graphically and in figures is due to two different databases

Among the major countries that export processed fruit, China ranks first with around US\$ 888 million worth of exports during 2003. Exports from China have increased consistently

AGRI EXPORT ADVANTAGE

over the past few years at an average rate of 10%. The main processed fruit export from China is apple juice. Its major markets are Japan, USA and Netherlands. Germany ranked second in terms of export of processed fruit. Germany also ranked first in terms of import of processed fruit. Major imports of processed fruit to Germany are in the form of pulp and fruit juices.

Netherlands is one of the largest importers of processed vegetables, with freeze dried vegetables comprising the largest import item. However, the two main markets for processed food continue to be the USA and the UK. The market for dried tropical fruit in the USA is estimated to be about 5,000 MT, of which a major part (around 3,500 MT) is of banana chips. India has competition from Thailand and the Philippines, because of the variety of banana chips the two countries are exporting. India's variety of banana chip exports is limited to the plain and peppered varieties.

As regards dehydrated and freeze dried products, the USA is the biggest importer of Onion Flakes (38%), Grapes (9%), Mangoes and Mango Pulp (15%). India clearly has an advantage in the export of these products, since it is already the largest exporter of Onion Flakes, Mangoes and Mango Pulp. In fact, export of dried and preserved vegetables recorded a healthy growth of 13% in 2004-05.

The opportunities of Indian products in the European Union market is mainly dependent on dehydrated and freeze dried fruits and vegetables. The major customers of dried tropical fruits and vegetables are companies who cater to breakfast cereals, health foods and confectionery industry. The estimated import market size of dehydrated tropical fruits in Europe is estimated at about 11,500 MT.

Constraints

The constraints faced by the Indian food processing industry can be broadly categorized into demand and supply side constraints. Apart from demand side constraint in the domestic market such as low income, quality issues and socio-cultural factors, in the international markets, the industry is constantly exposed to constraints posed by the importing countries by imposition of growing stringent regulations on the sector. In addition to the use of quality raw materials, appropriate methods involving minimal chemicals and toxic compounds, eco-friendly packaging materials, manufacturing and processing parameters and ensuring safe distribution, the Indian Food Processing Industry has to comply with a host of international standards and regulations. Critical among these standards are the CODEX Laws. The CODEX laws were preceded by the Hazard Analysis and Critical Control Points (HACCP) certification, which has become mandatory for food processing industry worldwide. Moreover, the agreement on Sanitary and Phytosanitary (SPS) measures, which deals with food safety, animal and plant health and special treatment for developing countries under the auspices of the World Trade Organisation (WTO), endorsed the recommendations of the Codex Alimentarius Commission (CAC). The United States Food and Drug Administration (USFDA) and the European Union both have implemented the CAC recommendations in their respective food laws.

Main International Bodies for Food Regulation:

- Codex Alimentarius Commission (CAC) - A global organisation involved in harmonization of food standards. It works in tandem with the World Health Organisation.
- European Food Safety Authority (EFSA)- An independent scientific advisor to the EU, which provides advice on existing and emerging risks, regarding food and feed safety.
- United States Food & Drug Administration (USFDA) - America's premier consumer protection and health agency
- The International Association of Consumer Food Organisations (IACFO) - An association of non-governmental organizations that represent consumer interests in areas of food safety, nutrition and related matters.

Supply side constraints largely include high cost and poor quality of raw material, presence of intermediaries, high cost of packaging and high cost and poor quality of distribution.

Future Outlook

As part of the strategy to develop the food processing industry, the Ministry of Food Processing Industries (MoFPI) and the Government of India (GoI) has taken number of initiatives such as setting up of Agri Export Zones (AEZ) and Export Processing Zones (EPZ), tax concessions, amendments in Food Laws, concession in duties, drafting the Food Safety and Standards Bill, National Food Processing Policy and joint ventures for technical collaboration with USA, UK, the Netherlands, Switzerland and Germany. The Ministry has also been proactively setting up food parks in different parts of the country to facilitate the small and medium entrepreneurs, which mostly dominate the industry. In addition, the Ministry has envisaged a plan "Vision 2015" to realize the vast potential of Indian agriculture by trebling the size of the processed food sector so as to enhance farmer income, generate employment opportunities and contribute to overall national growth. This is to be achieved by increasing the level of processing of perishables from 6% to 20%, value addition from 20% to 35%, and raising the share in global food trade from 1 % to 3 %. As per the stated vision, the market size for processed foods will increase from Rs. 4, 600 bn in 2003-04 to Rs. 13, 500 bn in 2014-15. The share of value added products in processed food consumption is estimated to grow from 38% to 58% by the year 2015.

Some of the other measures that could be considered to boost export of value added agro products include creation of an Agri Export Infrastructure Development Fund within Rural Infrastructure Development Fund of NABARD, an Export Market Development Fund and a Fund for promotion of Organic Agriculture. As the global market of processed agriculture products is expanding fast. India with its strong position in a number of agricultural commodities should take advantage of the market potential by strengthening its post harvest management and infrastructure.

Reference:

- Proceedings of "National Consultative Convention on Processed Fruits and Vegetables": Mumbai

WTO & CHINESE AGRICULTURE: A REVIEW

China joined the WTO in December 2001. Apart from the bilateral agreements undertaken with individual trading partners, China's WTO accession includes multilateral trade agreements covering all sectors. It also means China must comply with some basic principles under the General Agreement on Tariffs and Trade (GATT). These, inter alia, include principle of most favoured nation (MFN), which means any trade advantage conferred by China on one WTO member must be extended to all other WTO members, and the principle of national treatment, which requires that foreign products must be treated equally to their domestically produced equivalents.

Agriculture in China is more import sensitive. Reports indicate that China's joining the WTO is likely to result in major upheaval for rural China. Without complementary domestic policy changes, increased agricultural imports is likely to reduce both the demand and wages for farm labour. Speculations are also that accession may cause many of those who are in the agricultural sector to switch production to those products in which China has a comparative advantage such as horticulture and meats for export. Agriculture as a percentage of internationally traded Chinese goods has dropped from 10.1 % in 1995 to 5.1% in 2003. Nevertheless, China is the fifth largest exporter and fourth largest importer of agricultural products in the world and in purchasing power parity, world's second largest economy. Within two years of joining the WTO, Chinese imports of soybeans has contributed considerably to the rise in the world market price, confirming the power of the Chinese market to affect worldwide supply and demand.

While the current share of agriculture in China's GDP has fallen to 13.1% from 50%, three decades ago, the sector still accounts for 50% of the country's labour market. The major agricultural products include rice, wheat, potatoes, corn, peanuts, tea, millet, barley, apples, cotton, oilseed, pork and fish. In terms of agriculture exports there is a net deficit of US\$ 8.3 billion. China's growing economy and the changing Chinese diet has drawn the agri exporters considerably to China's agri market. Both imports and exports have increased over the last two decades. Though, majority of the China's agricultural trade is concentrated in Asia, trading partner like US is gaining ground, with exports from the country to China increasing by 71 % from 2002 to 2003 largely due to doubling of soybean exports from 11.3 to 20.7 million metric tonnes.

Chinese exports and imports of agricultural products (in billions USD)

	1990	1995	2001	2002	2003
Exports	10.10	15	16.60	18.80	22.20
Import	7.90	16.10	20.10	22	30.50

Source: WTO, International Trade Statistics, 2004

Top Chinese agriculture import products (2003)

Major Imports	Value (millions USD)	Volume (1,000 tons)
Soybeans	5,417.50	20,744
Palm oil	1,445.80	3,326
Natural rubber	1,154.80	1,203
Raw cotton	1,162.80	870
Soybean oil	1,016.20	1,885
Poultry meat, offal	644	461.8
Pork	149	90.6

Source: ERS, USDA, 2004

Top Chinese agriculture export products (2003)

Major Exports	Value (millions USD)	Volume (1,000 tons)
Preserved food *	2,168.80	–
Vegetables	2,119.70	4,848
Corn	1,766.60	16,389
Fruit and nuts	751.6	1,630
Poultry meat, offal	319.5	276
Pork	269.3	214
Live Swine	216.3	**1,887
Live Poultry	67.4	**39,083

*Preserved food is generally defined as salted, dried, frequently pickled or candied, and canned food

** Counted as head

Source: ERS, USDA 2004

With its entry into the WTO, China has agreed to limit both tariff and non-tariff measures, with Tariff Rate Quotas (TRQs) determining levels of sensitive commodities admitted to China. Import volumes over the quota are subject to much higher tariffs. Average tariff for China's agricultural

AGRI EXPORT ADVANTAGE

imports are down from 22 % to 17.5 %. Initial import volume quotas are set at much higher tariffs so spike in over tariff rates is not expected to happen soon. Cotton is a major exception, where TRQ volume is set at only 0.89 million metric tonnes. China has also agreed to shift TRQ allocations from state-owned enterprises to private firms allowing foreign firms greater market access and making China's agricultural policy less volatile and more predictable for trading partners.

Under the non-tariff measures, China has to do away with all export subsidies and to cap domestic support at 8.5 % (10% de minimus allowed for developing countries) of the total value of national agricultural production. It has to also ensure that its food, animal health and plant health measures conformed to Agreement on Sanitary and Phytosanitary measures of WTO.

China's WTO accession is also likely to result in it becoming a net importer of grains putting its food security at risk and agriculture switching over from land to labour intensive food production. Recent years have seen China importing more cotton and soybeans, and exporting vegetables, meat and fruits. With only 15% of arable land, a review of agricultural trade in light of factor-intensity (i.e. crops with more land input versus crops with more labour input) thus, reveals an upward trend of trade in labour intensive products and decrease in land intensive crop trade. Trade liberalization and dependence on grain imports has led to decrease in grain consumption as a percentage of the Chinese diet and increase in consumption of vegetables and meats. Maize was a major export till 2002-03, which has declined by 86% in 2004. Similarly, decline in production and exports have been observed for rice (exports declined from 2.6 million tonnes in 2003 to 0.9 million tonnes in 2004) and wheat (production fell from 114 million tonnes in 1999 to 91 million tonnes in 2004). Predictions are that, with WTO accession, prices of wheat, soybean and cotton may eventually fall between 2-4%. As exports of labour intensive foods increase, domestic price of vegetables may increase 4-6 % between 2005 and 2010, while pork and poultry prices may increase 14% by 2010 and fish by almost 10%.

China has been self sufficient in vegetables and fruit supply, with exports of these commodities rising even as the Chinese diet diversifies and domestic consumption increases. Fruit output surpassed consumption by 6.5 million tonnes in 2002, while vegetables were 2.5 to 5 million tonnes surplus every year from 1996 to 2002. Output of meat (beef, pork, mutton and poultry) has also increased from 45.8 million tonnes in 1996 to 65.8 million tonnes in 2002.

Other speculated impacts of accession are those on Chinese markets, prices, income and rural employment. It is assumed that trade liberalization and opening of new markets will

result in increased mechanization of farming in China and increased food imports, thereby reducing farmers and labourers needed to maintain food security, increasing the already large income gap between urban and poorer rural workers, increase in unemployment and downward pressure on farm wages, and rural labourers migrating to cities. Effects of accession on markets and prices may be realized if markets are integrated nationwide. There are also possibilities that farmers and farm labour could also benefit from more open borders. For example, the export of products that had previously saturated the domestic market could be beneficial for the farm labour market.

Price changes since accession

Product	% increase import price (2002-04)	2001 domestic price RMB	2005 domestic price RMB	Median change (%)
Soybeans	57	1950	2740-2850	43
Wheat	34	1250	1460-1580	21
Cotton	59	9500	11,431-13,329	30
Soybean oil	31	-	-	-
Palm oil	25	-	-	-
Rice	-2	1954	1398-1523	-25
Natural rubber	64	-	-	-
Hides	24	-	-	-
Maize	-	1150	1147-1350	8.7

Source: RMB/USD

Hence, immediate challenges faced by the Chinese government on accession are increasing rural unemployment and threat to food security due to decreased grain production and consumption. To address the latter, Ministry of Agriculture, Government of China has already pledged to cultivate and develop qualified grain distribution network, in part, by developing and standardizing future markets. Perceptibly, China has many advantages to manage this transition, as the country is well capitalized, heavily courted by foreign investors and the government having capacity to understand and work in a global context. However, the need to create some 15 million jobs a year for 30 years is likely to put tremendous strain on China's economy.

Reference:

- Ministry of Agriculture, China
- IATP
- USDA
- ABARE

INDIAN RED CHILLI: EXPORT POTENTIAL

India is the world's largest producer, consumer and exporter of chillies with the largest area under chillies in the world. Total chilli production in the country last fiscal was around 11 lakh tonnes with an average productivity of about 1,200 kg a hectare from a total area of about 8.82 lakh hectare. Almost all the states of India produce the crop. Major growing states are Andhra Pradesh (49%), Karnataka (15%) Orissa (8%), Maharashtra (6%), West Bengal (5%), Rajasthan (4%) and Tamil Nadu (3%). Chillies can be grown during the entire year at one or the other part of the country. However, the major arrival season extends from February to April. Chilli has two important commercial qualities. Some varieties are famous for red colour because of the pigment casanthin, others are known for biting pungency attributed by capsaicin. India is the only country rich in many varieties with different quality factors. Of the several varieties of chilli cultivated, the most popular are, Sannam, LC 334, Byadgi, Wonder Hot, Jwala etc. Being the largest consumer of chilli in the world, around 90% of India's production, is consumed within the country.

Trade

Currently the global demand is estimated at 1,13,000 tonnes. Demand is growing for value-added products such as chilli paste, curry powders and other sauces for the convenience food industry. In the extraction industry, there is always demand for high capsaicin content (over 1 %) chillies, as this offers extractors a direct saving on unit costs of extraction. It is estimated that around 25-30% of the chilly crop is used for powder preparation, with the branded chilly powder manufacturers accounting for around 5% of the total volume. India exports around 80,000 - 1 lakh tons of chillies a year, mainly in the form of dried chillies, chilly powder, picked chillies and chilly oleoresins. Despite the Sudan scare, chilli export increased in 2004-05 to 138,000 tons, worth Rs. 480 crore (US\$ 105.5 million) from 86575 tons in 2003-04 worth Rs.366.8 crores (US \$ 79.95 million), rising by almost 60% in volume terms. However, to sustain the rise in exports and to avoid a repetition of the damaging Sudan events with effect from 10 March 2005, no consignment of chilli, chilli products can be exported unless certified by the Spices Board for Sudan I to IV, or aflatoxin free and fit for export.

Spice oils and oleoresins are exported to the US, EU, Australia and Japan, while the exports of chilli is mainly to the US, Sri Lanka, Bangladesh, West Asia and the Far-East. Chilli displays high volatility, with the prices heavily dependent on season, production in different producing tracts spread across the country, demand from exporters and the stock available at the cold storages.

Chilli oleoresin constitutes about 50% of the total exports of oleoresins from the country. April-September export figures for the current fiscal show that the shipments of spice oils and oleoresins increased to 3,025 tonnes valued at Rs 246.08 crore from 2,884 tonnes worth Rs 237.87 crore in the corresponding period last fiscal.

Chilli production in the country has declined by around 30% due to unusual and prolonged rains this year particularly in Karnataka. This has reduced the availability of high quality chilli for the oleoresin industry. Exports of paprika oleoresin, which touched 2,000 tonnes, valued at Rs 175 crore last year, has also declined this fiscal. The exportable surplus of other varieties of chillies is also expected to be less this year because of the fall in production.

Shrinkage in availability for exports coupled with increased availability from other origins has already pushed down the country's export of chilli to 59,500 tonnes valued at Rs 201.01 crore in April-September of the current fiscal from 75,997 tonnes valued at Rs 277.78 crore in the corresponding period last fiscal. The unit value during April-September 2005 was Rs 33.78 a kg as against Rs 36.55 a kg in the same period last year. An increase in chilli price would depend on the availability from other major producing countries such as Mexico and South Africa.

Reference:

- Spices Board
- Multi Commodity Exchange

KENYA TEA INDUSTRY: CHALLENGES & PROSPECTS

The Kenya tea sector, heavily dependent on weather conditions and well-distributed rainfall, has been one of the major contributors to Kenya's exports. The success story of Kenyan tea is a product of three main developments, the government policy post independence to integrate small growers into the mainstream of tea growing, inclusion of the small-scale growers under the umbrella of Kenya Tea Development Agency (KTDA), accounting for 60 % of the total tea production while the multinationals and large scale growers accounting for remaining 40 %, and the establishment of an efficient estate sector under the British tea companies resulting in five-fold increase in output.

Trade

Kenya is the world's largest exporter and third largest producer of black tea after Sri Lanka and India. Production of tea climbed by 10.5% to a record 325 million kg in 2004, and is expected to rise to 328 million kg in 2005. In 2004, export rose by 24% to 334 million kg, a figure higher than production because of stocks carried over from previous year. However, the industry reported depression in prices and export earnings due to over production. Mombasa tea auction market, where Kenya accounts for two-third of the tea on sale, dropped 5.2% in 2005 to US\$ 1.47 a kg. During the first eleven months of 2005 Kenya exported 317 million kg, 3.9% more than the corresponding period of the previous year, Pakistan being the leading market, importing 88.5 million kg, 28% of Kenya's total tea export. The top export markets of the Kenyan tea in 2004 were Pakistan (77 m kg), Egypt (63 m kg), the UK (50 m kg), Afghanistan (28 m kg) and Sudan (11 m kg).

Production

Production is shared between multinational companies and small-scale growers. Both have benefited from many scientific advances in tea cultivation, although average yields in the small scale sector is below those in estate sectors, standing at around 1800 kg ha⁻¹. Despite the yield disparities, the small-scale sector has managed to achieve higher quality standards resulting in consistently higher auction prices. The industry is the largest employer in the private sector, with more than 80,000 people working on the estate and about 3 million

people earning livelihood from the sector. Kenya Tea Development Agency (KTDA) is the pioneer body dealing with small-scale tea growers having 51 factories spread in 24 districts owned by 380,000 growers, who cultivate 92, 800 ha of tea. Although the tea industry has been completely liberalized, government control still exists under the Tea Board of Kenya (TBK) that oversees licensing, research and maintenance of infrastructures.

Challenges and Prospects

The main challenges faced by the industry is from the weak trend in the export price of tea as a consequence of worldwide increase of tea export than world consumption, which is also resulting in depressing auction prices, unchanged dollar price realization since the past 10 years, and rising costs of production applying mostly to the estates. Daily rates paid by smallholders in rural areas are half those of estates. The basic wage rate in estates has risen 10 times and gone up by more than 50%. In addition, drought period affecting production, unavailability of drought tolerant clones, lack of credit facilities, poor infrastructure, interference by the tea brokerage firms, lack of institutional and managerial capacity and, more recently, compulsory compliance with labour laws, environmental regulations and other standards set up by importing countries in EU are some of the major concerns to the small scale growers.

To overcome these challenges the Kenyan government is already set to regulate the supply of tea to the world market. It has also decided to give all the tea factories Export Processing Zone (EPZ) status, thereby assuring constant electrical power and lower tariffs. Other steps include signing of agreements by the Kenya Tea Packers Association (KeTePa) with USA to secure 10% of the market and KTDA with Safari Tea Canada for Canadian markets, and the government's negotiation with Pakistan on a free trade agreement.

Reference:

- FAO
- Kenya Tea Development Authority

ECUADOR: AN AGRICULTURE ECONOMY

Ecuador's main economic activity has long been agriculture, although only about 11% of the land is arable or under permanent crops, and another 18% is permanent pasture. According to FAO, around one-quarter of the population depends on agriculture for its livelihood. Agriculture's contribution to the GDP has declined from around 25% of total output (at factor cost) in the 1960s to around 14% in 1990s and further to 9% in 2000-03.

Traditionally, agricultural products have included bananas, coffee, cocoa, tea, rice, sugar, beans, corn, potatoes, and tropical fruit. Exported products of more recent prominence include roses and carnations, strawberries, melons, asparagus, heart of palm, and tomatoes. In recent years, the cut flowers have surpassed coffee and cocoa in value added and exports earnings. The major crops of the highlands are corn, barley, wheat, kidney beans, potatoes, horsebeans, peas, and soybeans, all for domestic consumption. Agriculture on the coast is largely oriented toward the export market. Increased acreage and improved yields, as well as the government's price-support program, have caused rapid growth in agriculture. Most of the cacao crop is produced on plantations of 60 hectares (150 acres) or larger, but the more important banana and coffee crops are grown mainly on small landholdings by independent farmers. Other non-traditional products that have flourished include broccoli and organic vegetables.

Ecuador is the world's largest banana exporter. Banana plantations employ around 200,000 people and exports are worth around US\$ 1 bn a year. Banana exports rose by 5.3% y-o-y basis in early 2005. EU, the main destination accounting for around 43% of Ecuadorean banana exports, is in the process of moving from its current complex tariff rate quota system to a tariff-only system, scheduled to be in place from January 1st 2006 in compliance with WTO regulations. The uncertainty surrounding the new EU regime as well as the falling world prices has been prompting local producers for crop diversifications. Few have already shifted their productions to pineapples, lemons, mangoes and cocoa.

Cocoa was the country's main export crop until bananas took over in the 1940s. The sector recovered quickly from the damage caused by El Nino in 1998-99 and export earnings rose to US\$ 159 mn in 2003. In 2004 cocoa exports was worth over US\$ 100 mn a year in export earnings and another US\$ 50 mn in exports of cocoa products.

Coffee sector has been slower to recover from the after-effects of the El Nino phenomenon. However, export earnings from coffee and coffee derivatives recovered in 2003-04 to reach over US\$ 80 mn, and has currently climbed by 17.7% due to stronger demand from Colombia and higher organic coffee production and exports to the EU markets. Coffee derivatives accounts for most of the sector's export earnings.

Ecuador was the world's fourth largest shrimp producer after Thailand, the US and India, and the third largest export earner prior to the outbreak of white spot and yellow head viruses that devastated the industry by slashing the export earnings by two-third. However, shrimp exports grew by 26.3% y-o-y during early 2005, despite the 3.4% tariff imposed by the US following an anti-dumping suit filed by the North American Shrimp Alliance.

Recently, cut flower is making a head way in the country's export earning, growing by 117% y-o-y in early 2005. Stiff competition from neighboring countries has led several growers turn to organic production in an attempt to tap into this small, but rapidly growing market.

Crops for domestic consumption, particularly rice, barley, maize, African palm, and potatoes, continue to show growth due to increased area planted and improved yields. Other segments likely to grow are nontraditional agricultural products such as flowers, fresh fruit, and vegetables, and processed foods. The government's agricultural policy focuses on integration into the WTO, import tariffs, and ensuring adequate flow of credit in the agricultural sector.

Reference:

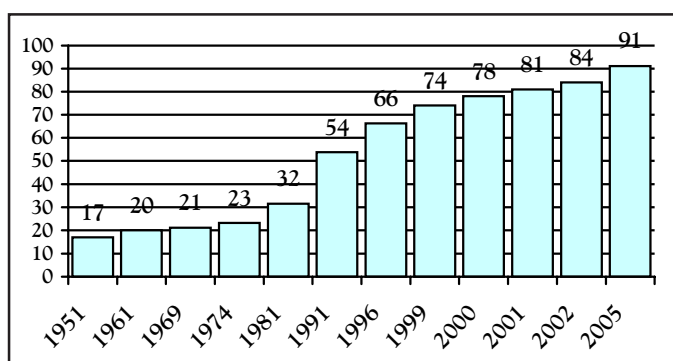
- Ministry of Agriculture & Livestock, Ecuador
- USFDA

INDIAN DAIRY INDUSTRY: A SNAPSHOT

The dairy sector in India has shown remarkable development in the past decades and the country is now the largest producer of milk in the world. Developed by the cooperative movement, India's dairy cooperative continues to be unparalleled in the world in terms of its scope and scale.

The total milk produced in the world is estimated at 613 million tonne, growing at a CAGR 1.1 %. India is the world's largest producer with 91.1 million tonnes of production per annum (2003-04). Accounting for 21% of the country's agricultural production, overall growth rate of Indian dairy industry is 4 %, three times of global dairy industry. Buffalo milk accounts for 60 % of the total milk production in India.

Milk Production Trend in India

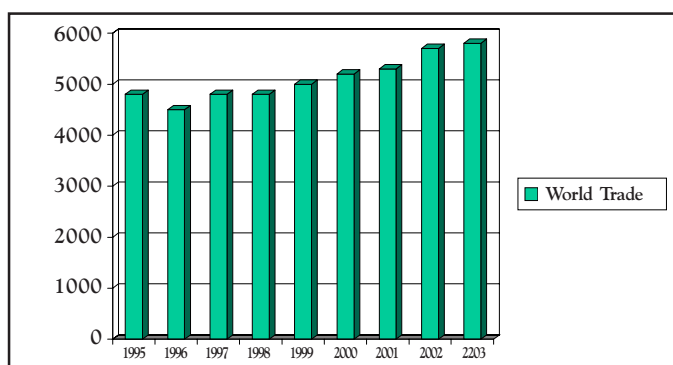


Source: NDDB

Global Dairy Industry

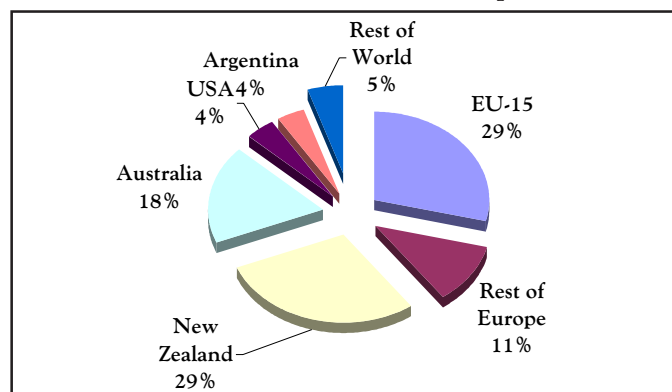
Milk being perishable in nature, only 7% of world production is traded (excluding intra-EU trade). Dairy products globally traded include butter and milk fats, cheese, condensed milk, whey, casein and ingredients. The share of liquid milk is restricted to Ultra Heat Treatment (UHT) milk in small quantities from Australia to South East Asia. Surplus regions such as Australia and New Zealand, and the EU dominate world exports with Asia, North America and Middle East being the key importers. The EU played a dominant role in world dairy trade but its share has been declining in recent years due to reduction in subsidies under WTO regime.

World Trade in Milk Products '000 tonnes of Milk



Source: NDDB

Global Market Shares in Milk Equivalents



Source: Dutch Dairy Board, Rabobank, 2004

Global Trade in Dairy Products

Figures in mn MT

Product	World Production	World Trade	Intra EU Trade	World Trade as % of Production
Liquid milk, retail pack	> 100	< 0.5	1.7	< 0.5
Cream, retail pack	~ 5	0.1	0.1	~ 2
Yogurt, fermented milk	~ 15	0.4-0.5	0.75	~ 3
Cheese	15	1.1-1.2	1.8	7-8
Condensed milk, retail pack	4	0.5-0.6	0.2	10-15
Butter	6.5	0.8-0.9	0.6	10-15
Whole milk powder	2.5	~ 1.3	0.25	50
Skim milk powder	3.5	~ 1	0.5	30

Source: CFCE/IDF, Rabobank International

Indian Dairy Industry

Despite being the largest milk producer, India's export has an insignificant share in the global dairy trade (< 1 %). Primarily due to significant growth in the consumption of milk products in the domestic market leading to limited surplus for exports, low quality and hygiene standards, low milk yield per animal and lack of experience in marketing products in international markets.

Exports of Dairy Products

Year	World (US\$ mn)	India (US\$ mn)	India's share in Global Trade (%)
1998	26,752	4	0.02
1999	25,417	11	0.04
2000	25,333	23	0.09
2001	26,742	42	0.16
2002	25,922	26	0.10
CAGR	1 %	58%	

Source: FAO

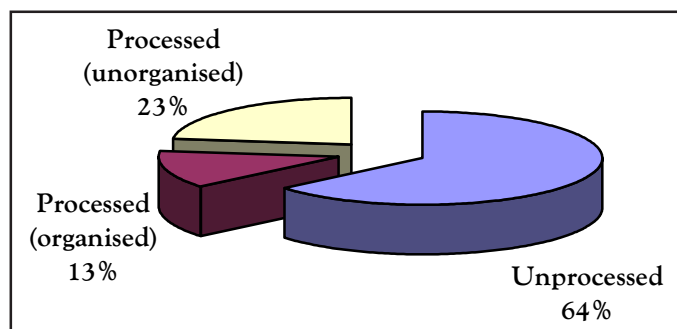
Dairy Farm

Approximately 70 million rural households (primarily small and marginal farmers and landless labourers) in the country are engaged in milk production. Over 11 million farmers are organized into about 0.1 million village Dairy Cooperative Societies (DCS), forming part of a national milk grid which links milk producers and consumers in more than 700 towns and cities all over the country. Cumulative milk handled by DCS across the country is about 18 million kg of milk per day. Around twenty two state federations are affiliated to National Dairy Development Board (NDDB) of which, Gujarat Milk Marketing Federation Ltd. (GCMMF) the Amul brand and Mother Dairy have acquired a national presence.

Milk Processing

About 35% of milk produced in India is processed. The organized sector comprising large-scale dairy plants processes about 13 million tonnes annually, while the unorganized sector processes about 22 million tonnes per annum. There are 676 dairy plants in organized sector, spread over in the cooperative, private and government sectors. The organized and the unorganized sector differ from each other mainly with respect to investments in quality preservation of the milk, processing technology and compliance with food standards. The solution to this lies in promoting investment in quality control and developing scalable efficient technologies for the unorganized sector.

Processing of milk in India in organized and unorganized sector



Source: 'Technology of Indian Milk Products' handbook – Dairy India Yearbook, Rabobank Analysis

Export Potential

India's traditional dairy product sector is poised for rapid expansion, even in terms of attracting world market. Significantly, technological innovations have come at a time when ethnic milk products are attracting worldwide attention. Besides, India to enhance exports can leverage its two distinct competitive advantages:

Low farm gate prices: Amongst the major milk producing countries, Argentina, New Zealand and Australia have slightly lower farm gate prices than India. However, these account for only 10% of the global milk production.

Proximity to milk deficit markets: India has a locational advantage to cater to milk deficit neighboring countries.

The markets of these neighboring countries are considerably import dependence. In addition, demand for milk products in these markets is expected to be strong and increasing.

Milk Production and Share of Imported Milk and Milk Products

Countries	Milk Production ('000 tonnes)	Share of imported milk (%)
Bangladesh	NA	40
Indonesia	498	40
Malaysia	39	95
Philippines	10	97
South Korea	NA	97
Sri Lanka	NA	65
Thailand	480	79

Source: 'Dairy India', Dairy India Yearbook, New Delhi

With recent developments under new regulations in global dairy trade countries like, USA have to grant increased market access for butter, cheese and skimmed milk powder, while reducing export subsidies for butter and EU has to reduce its subsidized exports of cheese and meet production deficit through imports, India, with no subsidies in the sector, holds fair chance to export its dairy products with its competitive milk producers. With New Zealand, Australia and Argentina already capitalising on the opportunities emerging from the increase in market access required by the WTO, India needs to develop competitiveness in products that are being imported by markets such as China, Japan and Thailand. The products include skimmed milk powder and butter oil. Another potential product used as feed ingredient is whey powder. Its importance in high-end food and non-food applications is also growing.

To make a mark in global dairy market, India should have a consistent exportable surplus and also meet quality requirements of importing nations. Further, India should also focus primarily on milk deficit markets in South East Asia, Middle East and Africa. Majority of the markets in these countries import dairy products like skimmed milk powder and butter oil. However, there is steep competition in these commodities from EU, Australia and New Zealand. Cost competitiveness coupled with aggressive promotions would help India make a dent into these markets.

Another potential area for exports is Indian traditional milk products and sweets, which is gradually gaining popularity in the overseas markets. The mainstay of this market is the Indian Diaspora of around 20 million, over half of them leaving in the West. The market of these products is estimated at Rs. 5,000 crore. Besides, potential also lies in popularizing these products amongst the local consumers abroad.

Reference:

- FAO
- Rabobank Analysis
- National Dairy Development Board (NDDB)
- Amul: Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF)

NEWS FOCUS

EC food mission finds Indian groundnuts safe

A European Commission-Food and Veterinary Office (FVO) Mission has found the new Agricultural and Processed Food Products' Export Development Authority (APEDA) systems for testing of Indian peanut for exports satisfactory. It has also not found anything negative for human consumption to report about the peanut industry. The mission visited groundnut-processing units in Gujarat, the groundnut bowl of India, laboratories carrying out the sampling analysis of groundnut export consignments to the EU countries, the Groundnut Research Institute and groundnut farms. The team however suggested that all units should move towards a Hazard Analysis and Critical Control Point- (HACCP) system. The mission assessed the control systems that are in place in India to prevent aflatoxin-contamination in peanuts intended for export to European Union countries.

Source: The Business Line, December 7, 2005

EU adopts new 'tariff-only' import regime for bananas from 1 January 2006

A decision taken by the European Union governments on a proposal of the European Commission agreed a new import tariff of 176 EUR per tonne to apply from 1 January 2006 to bananas imported from countries mainly in Latin America, enjoying the Most Favoured Nation status. The new import regime will also include a duty-free annual import quota of 775,000 tonnes for ACP bananas, also to apply from 1 January 2006.

Source: Agriculture News Digest: EC, November 29, 2005

China increased Soybean imports

China, the world's biggest importer of soybeans, increased its imports by 21% in October from a year earlier – the slowest pace in eight months – as overcapacity cut processed product prices. Soybean imports rose to 1.9 million tonnes in October, taking the total for the first 10 months to 21.4 million tonnes, an increase of 38% over the previous year. Stocks of soybeans,

crushed to make poultry meal and cooking oil, have been increasing at Chinese ports as some plants stopped operations because of lower product prices and restructured in order to try and compete. China has the capacity to crush more than 70 million tonnes of soybeans a year and processes less than 30 million tonnes. China is the world's second-biggest poultry-meat producer. The industry has been hit badly by the rising fears about bird flu. Sales by Chinese poultry breeders dropped by at least 30%. Soybean meal prices have dropped by 9.6% on the Dalian Commodity Exchange and stockpiles have more than doubled to 3.5 million tonnes.

Source: American Soybean Association Weekly, 5 December 2005

China abolishes agricultural tax

China's National People's Congress (NPC) has taken a decision to abolish China's 2,600-year-old agricultural tax from January 1, 2006. Agricultural tax emerged in China as early as in the Period of Warring States (475-221BC) and then, were collected in almost every feudal dynasties. In 1958, the NPC adopted the Regulation on Agricultural tax. In 1949, a Chinese farmer could bear grain tax as much as 28 kilograms a year, while the figure reduced to 13 kilograms in 2000, although the annual grain output increased remarkably during the time.

Abolition of agricultural tax would help to reduce farmer's economic burden, increase income and sharpen China's agricultural competitive power. Since announcement by the Chinese Government in March 2004, 28 provinces have decided to exempt agricultural taxes, reducing tax burden worth of 50 billion yuan for 800 million farmers and the annual per capita income for Chinese farmers increased by 63 yuan, or 2.1% from 2003. In 2005, the Chinese Government collected about 1.5 billion yuan of agricultural taxes. China has 86.7 million hectares of farmland and the abolition of agricultural tax would reduce per hectare grain production by 570 yuan, or 10% - 20% from previous year.

Source: <http://english.people.com.cn>, <http://news.xinhuanet.com/english/>

The news items and information published herein have been collected from various sources, which are considered to be reliable. While every care has been taken for authenticity of the material published, Exim Bank accepts no responsibility for authenticity or accuracy of such items.

Export-Import Bank of India, Centre One Building, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005. Tel.: 2218 5272 Fax: 2218 2572 E-Mail: eximcord@vsnl.com
Agri Business Group: agrigrp@eximbankindia.com / sumana@eximbankindia.com

Contact Numbers: Ahmedabad: 26576852, Bangalore: 25585755, Chennai: 25224714, Guwahati: 2599135, Hyderabad: 23307816, Kolkata: 22833419/20, Mumbai: 22830761, New Delhi: 23326375, Pune: 26458599, Budapest: (00361) 3382833, Johannesburg: (002711) 4428010, Milan: (003902) 58430546, Singapore: (0065) 653 26464, Washington D.C.: (001) 202-223-3238

