



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

SEPTEMBER 2005
VOL IV ISSUE V

contents

- ★ Global Agriculture Export: Competition to Intensify in Future 1-2
- ★ Papaya Market in EU 3-4
- ★ Individually Quick Frozen (IQF) Technology for Fruits & Vegetables 5
- ★ Indian Cashew Exports: Present Scenario 6-7
- ★ Philippines: An Agriculture Economy 8
- ★ Global Tea Production at Peak Level 9
- ★ Prospects of Agriculture Market in EU 10-11
- ★ News Focus 12

GLOBAL AGRICULTURE EXPORT: COMPETITION TO INTENSIFY IN FUTURE

According to a study "Agricultural Outlook 2005-2014" published by Food and Agriculture Organisation (FAO) and Organisation for Economic Co-Operation and Development (OECD), global competition amongst exporters of agricultural commodities such as rice, wheat, oilseeds, sugar and livestock is expected to intensify in next decade (2005-14). The agricultural imports are set to grow in developing countries, which are partly met by rising exports from low-cost developing countries. This will lead to further drop in prices of agricultural commodities. Lower prices, however, will potentially benefit those countries that depend on imports to secure their food needs. Under conditions of downward pressure on prices, farmers will have to make continued efforts to improve efficiency and productivity.

Changes in demand are a key driver behind the growing importance of developing countries in shaping world agricultural markets. Population and income growth, coupled with urbanisation, and dietary diversification, are expected to generate additional demand, which will lead to changes in the composition of food consumption with a fast growing share of animal products. In the mature markets of OECD countries, food demand is expected to grow only moderately. In determining demand in OECD countries, the role of product and process attributes regarding safety, quality, environment and animal welfare is taking on prominence relative to price and income changes.

Global wheat production is projected to grow by 11% to reach 688 million tonnes in 2014. After a reduction from the very high levels in 2004, global coarse grain production is projected to increase at a somewhat faster rate to reach 1109 million tonnes in 2014. World rice production is projected to grow to 466 million tonnes, up 14% from 408 million tonnes in 2004. Cereal production growth rates in the OECD countries, mainly due to yield growth, are expected to be about half of those in the developing countries.

Global oilseed production is expected to post growth rates averaging 1.9% annually over the projection period. Much higher growth in oilseed production is expected in the developing world at over 3% per year compared to only 0.7% per year in OECD countries. Like cereals, production growth of oilseeds is mainly attributed to higher yields and increase in area, especially outside the OECD region. Area devoted to oilseeds is expected to expand by 1.2% per year in the non-OECD countries compared to little change in developed countries.

China is expected to become a large importer of coarse grains along with other developing countries of East and South East Asia, and to remain the largest importer of oilseeds. Traditional cereal and oilseed exporters such as the United States, Australia, Canada, the European Union, Argentina and Brazil, are expected to account for the bulk of cereal and oilseed trade over the projection period.



AGRI EXPORT ADVANTAGE

World milk production is projected to increase by around 2% annually between 2004 and 2014, reaching 747 million tonnes in 2014. Global inventories of milk cow and buffalo are expected to increase modestly, but higher average yields will contribute most to increase in output. The European Union, India, United States, Russia, Pakistan, Brazil and China account for over two-thirds of total milk output. Producers in developing countries are expected to increase their world milk production shares, as a group, from 55% to 58% in 2014. The growth is expected to be especially strong in India and China. World production of Whole Milk Powder (WMP), cheese and butter is expected to grow by about 20%, while world Skimmed Milk Powder (SMP) production is projected to fall by 5% during 2005-14. Output is expected to increase for all dairy products outside the OECD area, where investment in processing capacities will accommodate the large increases in milk production.

Per Capita Consumption for Selected Commodities

	Average		Annual Growth (%) ⁽¹⁾	
	2002-04	2014	1995-04	2005-14
World				
Wheat	81.6	82.4	-0.36	0.27
Coarse Grains	56.4	59.9	1.07	0.33
Rice	69.9	69.4	0.08	0.02
Meat	31.2	34.5	3.38	0.88
Vegetable Oils	13.1	16.4	3.62	1.73
OECD				
Wheat	107.3	112.4	0.52	0.58
Coarse Grains	114.5	131.6	3.30	0.70
Rice	19.6	19.0	0.42	-0.17
Meat	64.5	69.9	7.03	0.73
Vegetable Oils	21.6	26.1	1.62	1.56
Non-OECD				
Wheat	75.5	75.7	-0.37	0.22
Coarse Grains	42.4	43.8	-0.40	0.32
Rice	82.0	80.7	0.10	-0.06
Meat	23.2	26.5	1.64	1.18
Vegetable Oils	11.0	14.3	4.64	1.91

Source: OECD and FAO

Growth in global meat production will continue to be driven by rising pig meat and poultry output in developing countries. With these countries accounting for 77% of global output gains over the projection period, their share of global production is set to expand to 62% in 2014, up from 59% in 2004. The gradual reduction in the OECD share of meat production, from 41% in 1995 to a projected 38% in 2014, is in sharp contrast to projected growth in Brazil and China, which are expected to account for 33% and 10%, respectively, of the increase in global meat production to 2014.

The world market is expected to be well supplied with sugar with no price increases above 2004 levels. Nominal world market prices for raw sugar are expected to remain within a band of USD 165-195 per tonne over the period to 2014, with the long run pattern of falling prices in real terms set to continue. Fundamentals in the sugar market remain bearish, despite a small tightening of the supply-demand balance over the projection period as continuing consumption growth, limits the pace of stock accumulation, and leads to a small decline in the global stocks-to-use ratio.

Brazil remains the largest world sugar exporter, with combined sales of both raw and white sugar projected to increase by nearly 44% over the ten years of the projection period. Despite expectations of continuing low world prices, a moderately higher sugar exports are projected for Thailand, Cuba, South Africa and Australia as these countries seek to improve their efficiency and productivity. Lower exports are projected over the projection period for African, Caribbean and Pacific developing countries, despite the fact that they benefit from market access to the high priced EU and US markets.

According to the report, the outlook is not stable and certain in future. With the policy changes in future based WTO negotiations, there is likely to shift in demand-supply across the world. With the growing importance of China and India in global markets of agricultural commodities, small shocks to either demand or supply in these large countries could lead to substantial external adjustments.

Source: OECD-FAO Agricultural Outlook: 2005-14

PAPAYA MARKET IN EU

Papaya imports to the European Union have increased 135% by volume and 130% by value since 2002. The papaya market is one of the fastest growing and has great potential. The reasons attributed to the growing consumer demand for papayas in the EU is observed as, increasing consumption of exotic fruit, convenience, resulting in more demand for processed and semi-processed foods such as fruit juices, preserves, peeled/sliced papaya etc. and increasing shift towards health food. Though the EU consumption market for papaya is steadily growing, still it is found to be low compared to other tropical fruit.

Production, Consumption and Trade

Global production of papayas reached almost 6.5 million tonnes in 2004, registering a growth of 25% between 1999 and 2004. Production has been continuously increasing over the past decade. The leading producers are the developing countries. Brazil, Mexico, Nigeria, India and Indonesia have consistently been the top producers, contributing more than 71% of the total world production (FAOSTAT, 2004).

Table 1. Global Papaya Production, 2002-04 in 1000 tonnes

	2002	2003	2004
World	6,312	6,467	6,504
Brazil	1,598	1,600	1,600
Mexico	876	956	956
Nigeria	755	755	755
India	700	700	700
Indonesia	605	627	650
Ethiopia	226	231	230
Congo, Democratic Rep.	210	211	211
Peru	173	170	170
Venezuela	153	175	170
China	163	165	165
Cuba	107	120	125
Thailand	120	125	125
Colombia	86	88	102
Other	540	545	546

Source: FAO (2004)

There are many varieties of papaya. The main varieties that are traded globally are as follows:

Solo: The most commonly traded variety because of its uniform shape and size. It is characterized by its green-yellow skin, orange-yellow flesh, very sweet and fragrant, juicy, weight 500g to 1 kg. The large-fruit varieties are mainly used for the processing industry.

Sunrise: Quality similar to Solo. It is characterized by smooth skin, flesh firm, red orange colour, sweet with high sugar content and weighing 600g to 750g, depending on cultivation location.

Waimanalo: Characterised by large fruit 500g to 1 kg, flesh thick and firm, orange-yellow colour, flavour and high quality, sweet and with small cavity.

Amazon Red: Characterized by medium sized fruit 300 to 400g, bright red flesh, sweet and juicy.

The predominant varieties imported into the EU are Solo, Sunrise, Amazon Red and small quantities of Taiwanese varieties from Trinidad for the UK ethnic market. The EU importers mostly prefer small and medium sized hermaphrodite (pear-shaped) papayas with 50-70% colouration on arrival. The demand of papayas also varies with market and time of the year. Some specific market segments, such as catering sector and the ethnic market, requires medium-sized and large papayas. Similarly, high consumption levels have been observed during the Christmas and Easter periods, while during the summer months July and August, consumption as well as supply tends to decline. Total apparent consumption of papaya in EU is estimated at about 35, 000 tonnes in 2003.

Table 2: Apparent consumption of papayas in the EU and in the top 7 EU consuming countries, 2001-03

	2001	2002	2003
Total EU	15,083	26,845	34,701
United Kingdom	4,117	8,006	11,365
Germany	4,749	5,864	8,696
Portugal	3,173	3,917	5,208
The Netherlands	915	4,483	2,880
France	675	758	1,463
Spain	-600	645	1,408
Italy	740	883	1,214

Source : adapted from Eurostat data (2004)

Together, these seven countries accounts for 80-95% of the total EU consumption.

EU imports of papaya has exhibited significant increase between 1999 to 2003, registering an increase of almost 50% in terms of value from Euro 32 million in 1999 to Euro 65 million in 2003 and almost doubled in volume from 18,000 tonnes to 50,000 tonnes, during the same period. Despite the increase, papaya imports remain relatively small compared to other tropical fruit imports like mango and guava and also in terms of total global papaya production.

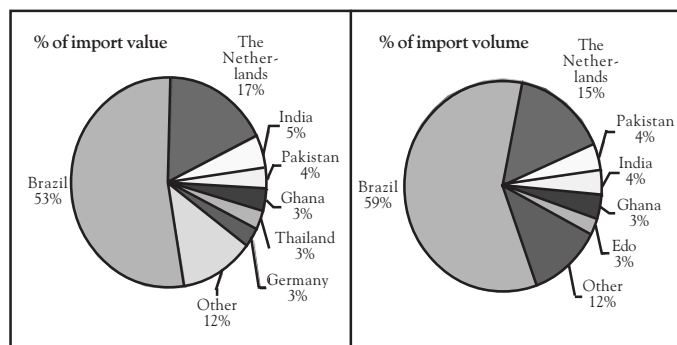
The Netherlands and the UK are the leading EU importers of papayas, together accounting for half of the total EU papaya imports.

The leading suppliers of papayas to the EU are the developing countries mainly Brazil, followed by India, Pakistan, Ghana, Thailand and Ecuador and Cote de Ivoire. Although India is one of the worlds's largest papaya producers, current export volumes remain small. Total exports of papaya amounted to 3 550 tonnes in 2004, accounting for less than 1 percent of world exports. Majority of papaya exports by India to EU is to UK accounting for around 20% of the total EU papaya exports.

Table 3: EU imports from developing countries, 2001-03

	Import values (in •)			Import volumes (in tonnes)		
	2001	2002	2003	2001	2002	2003
Developing countries	32,572	42,766	48,027	18,473	26,439	38,661
<i>Of which :</i>						
Brazil	27,169	32,004	34,471	15,302	20,329	29,109
India	33	2,283	3,084	23	1,288	2,004
Pakistan	3	1,741	2,272	1	1,301	2,007
Ghana	2,273	1,837	2,191	1,937	1,414	1,711
Thailand	1,134	2,014	1,919	362	646	789
Ecuador	47	10	1,290	25	14	1,272
Côte d'Ivoire	483	727	494	236	340	232
Jamaica	410	415	278	226	235	181
China	0	0	260	0	0	195
Sri Lanka	15	84	250	5	43	117
Malaysia	375	365	207	127	122	97
Egypt	0	199	174	0	172	191
Colombia	98	101	140	21	24	75

Source: Eurostat (2004)

Figure 1. Leading suppliers of papayas to the EU, 2003


Source: Eurostat 2004

The Netherlands functions as an important gateway of papayas for the EU, mainly re-exporting imports from Brazil. Germany, France, Spain, Italy and Belgium also re-export considerable amounts of papayas to the other EU countries. However, in 2003, developing countries directly supplied about 75% of the total value of fresh papayas to the EU.

Papaya trade is still a niche market. Consumption in the EU is still very small. Due to the fruit's fragile nature, the trade of fresh papaya continues to be dominated by importers, who are specialized in the trade of tropical and exotic fruit. The main constraints of papaya trade are its fragility, under developed sea transport technology, critical maturity, short storage life, lack of knowledge of the product among consumers and retailers. Only air transport is used for a product of excellent eating quality, which increases the price of the product considerably.

To boost export volume there is a need for technology improvement in sea transport and other promotional campaign.

Prices and Market Access

Besides variety, the prices of papayas depend on several other factors like, origin; quality and size; supply-demand mechanism; country of destination and mode of transport. Prices for papayas fluctuate considerably. Therefore, it is recommended to monitor price movements in world markets to be able to set a realistic price.

Trade and export of fresh papayas is a complex business. Many aspects needs to be closely monitored and considered, such as the marketing of the products that are in demand, access to right distribution channels, consumption pattern and trends in EU and compliance with different standards in the EU country to which products will be exported. Mainly compliance to legislative requirements such as General Food Law, Certificate of conformity, Maximum Residue Limits and Phytosanitary regulations and plant protection are important. Maintaining quality standards, such as firmness of fruit, colouration, good presentation and uniformity in size and colour are also equally important. Other requirements important for exports to EU include certifications like EUREPGAP, HACCP, ISO 9001, ISO 9002, and ISO 14001 etc. Organic food products are becoming increasingly popular in EU markets. Therefore, with proper organic certification, organically produced papayas can create a boost in exports.

Packaging, Marking and Labeling

To prevent bruises and damage, the fruits are individually wrapped and laid diagonally in single layer, cushioned with paper wool or similar materials in boxes. Boxes may be telescopic, single-piece folding (with or without top flaps) with typical dimension 310 x 410 x 110 mm.

Size grades are expressed in number of fruits per box and can vary from 6 to 16. Classification according to ripeness is as follows:

- M1 : fruit green with yellow spots
- M2 : fruit yellow over one third of the surface and
- M3 : fruit yellow over at least half of the surface

Well fumigated wooden boxes are used for packaging and information on the label should contain: name of packer, the variety, country of origin, the class, the size code, number of units and net weight.

Reference:

- CBI, The Netherlands

INDIVIDUALLY QUICK FROZEN (IQF) TECHNOLOGY FOR FRUITS & VEGETABLES

India is the second largest producer of fresh vegetables and third largest producer of fruits. Less than 2 % of India's total horticulture produce is processed, implying high wastage. Roughly around 30-40% of fruits and vegetables perish due to inadequate processing and improper packaging and transportation.

India's share of world trade in the food processing sector is only around 1 % despite the fact that India is a leading producer of fruits and vegetables. Processing of food through various techniques for storage over a long period of time, without losing its characteristics is what consumers look for. Particularly for consumers in importing countries, who are very stringent about quality of the products, meeting their requirements becomes all the more important.

Most of the processing techniques being followed such as Refrigeration, Heat processing, processing using chemical treatments, Curing, Fermentation, Irradiation, etc. results in some change in the form and structure of the food items being stored. For fruits and vegetables with a very high moisture content, preservation while retaining their freshness and nutritive value becomes very critical. Refrigeration and freezing, though is being commonly followed for the purpose, shelf life and the resultant product of such processing however, is always under question.

India until 1986 was exporting frozen products using conventional type of freezing wherein the fruits and vegetables were generally packed in blocks and were kept in freezer, called as block freezing. Apart from need for reprocessing where quality of the end product is largely affected, other disadvantage of block freezing is that the product loses its identity and consumers are forced to buy the product in bulk. Hence, this necessitated the introduction of a technology that could overcome such limitations.

Individually Quick Frozen (IQF) commonly known as Flash Freezing is a commercial freezing technology that allows fruits and vegetables to retain its quality and original nutritive value while preventing large ice crystals from forming in the fruit cells. Since each whole fruit is individually frozen, particles do not cohere, and the final product is not frozen into a solid block. IQF products eliminate reprocessing and considerably reduce the drop loss during thawing and refreezing. It also gives a longer shelf life to the fruits and vegetables. Individual consumers in importing countries prefer IQF products as they can avoid purchasing in bulk packages and hence,

IQF products fetch a better price in the international markets.

Individual quick freezing generally takes place in two stages. In the first stage the product is partly frozen to a pre-determined point and thereafter, fluidized to the semi-weightless stage by partially suspending it in the air in the second stage. The velocity and pressure of air, in the process is adjusted to ensure ultra rapid freezing in IQF form. Based on the mechanical structures used for the conveyance of the raw materials, IQF machinery is of two types:

- Conveyor type, where the air flow is from top to bottom or vice versa and
- Spiral type

The refrigerant used can be Ammonia, Liquid Nitrogen, Freon (Refrigerant-22) or brine, based on which, modifications are made in the machinery.

The raw materials are cleaned and made to ultimate product such as cuts, slices, cubes, florettes etc., washed, weighed, blanched and then cooled. Thereafter, loaded on to a conveyor and process continued till the core temperature is below - 18°C. The product is finally stored at -20°C till shipment. The freezing depends on the thickness of the raw material.

Over the years volume of exports of frozen fruits and vegetables from India have increased manifold. Main importing countries are UK, USA, Canada, Australia, New Zealand and other Western European countries. Product basket has also increased to cover more value added products. Currently, ranges of products exported in this category are:

- Frozen fruit pulps
- Frozen fruits (chunks, cubes, slices, etc.)
- Frozen mainstream vegetables (green peas, cauliflower, mixed vegetables etc.)
- Frozen Indian ethnic vegetables

Though there is vast international market for the IQF products, the biggest bottleneck in expanding the sector in India, in terms of both investment and exports, is lack of adequate infrastructure. There is currently, no or limited domestic market for IQF. With rise in the per capita income particularly of the middle class, a drastic change in the food habits has been noticed. This may lead to an increased domestic consumption of processed food products, where IQF holds better prospects.

Reference:

- Various industry sources

INDIAN CASHEW EXPORTS: PRESENT SCENARIO

India is the largest producer of raw cashew, largest manufacturer and largest exporter of cashew kernel, largest importer of raw cashew and the second largest consumer of cashew kernel in the world. India enjoyed a monopoly in the international trade accounting for 95% of the total global trade until three decades ago, which declined to less than 50% at present due to entry of competitors like Vietnam and Brazil. Cashew exports has always been very important for Indian economy due to the fact that it earns sizeable amount of foreign exchange and provides wide employment.

According to DGCIS statistics, India exported about USD 521 million of cashew nut in 2004-05, accounting for almost 40% of global exports. India exports cashew kernel to over 60 countries. USA is the largest importer of Indian cashew kernels, contributing about 47% of India's exports. Other major destinations for exports of cashew kernels are the Netherlands (13%), UK (5.75%), UAE (5.6%) and Japan (4%). India also exported cashewnut shell liquid of value USD 2.5 million in 2004-05.

Top 10 Destinations of India's Cashews Export (2004-05)

Country	Exports in USD million	% of Total Exports
USA	244.35	46.90%
The Netherlands	67.27	12.91%
UK	29.95	5.75%
UAE	29.18	5.60%
Japan	20.94	4.02%
France	12.36	2.37%
Saudi Arabia	11.99	2.30%
Spain	11.96	2.30%
Belgium	11.39	2.19%
Germany	8.34	1.60%
Others	73.27	14.06%
World	521.00	

Source: DGCIS

Though Brazil is said to be home of cashew, India has realized its commercial potential long back. The processing industry of cashew is mainly dependent on imported raw cashew, due to low level of production and higher domestic consumption. It is estimated that India has processing capacity of 1 million tonnes of raw cashew,

but the annual production of raw cashew is about 0.5 million tonne. Hence, Indian cashew industry resorts to imported raw cashew. Ivory Coast is major import source for cashew, accounting for almost 20% of India's total import. Other major import sources of raw cashews are Guinea Bissau, Tanzania, Indonesia, Mozambique, Benin, Ghana, Nigeria, Gambia and Senegal. India alone accounts for more than 90% of global imports of raw cashew.

Top 10 Import Sources of Raw Cashew for India (2004-05)

Country	Import of Raw Cashew into India (000 Tonnes)	% of Total Import in India
Ivory Coast	133.33	23.0
Guinea Bissau	87.48	15.1
Tanzania	72.97	12.6
Indonesia	67.60	11.6
Mozambique	60.20	10.4
Benin	55.95	9.6
Ghana	39.37	6.8
Nigeria	22.54	3.9
Gambia	10.61	1.8
Senegal	9.36	1.6
Total Import	578.88	

Source: Cashew Bulletin, May 2005, The Cashew Export Promotion Council

Production

Once the largest producer of cashew, India, has trailed to second position, after Vietnam in global cashew production, with 0.46 million tonnes of production in 2004. India accounted for about 20% of global production in 2004, a decline from 27% of total global share in 2001.

Cashew is grown in the East and West coast of the country. Goa, Maharashtra, Kerala, Karnataka in the West coast and Tamil Nadu, Andhra Pradesh, Orissa and West Bengal in the East coast are the leading producers. Cashew plantation in India has been taken up mostly by the private sector contributing 74% to the total cultivated area and 80% to the national production, few by forest departments (9% area and 6% production) and more recently by certain state level corporations (17% area and 14% production).

In 2003-04, India produced almost 0.47 million tonnes of cashew nut, a small decline from 0.5 million tonnes in 2002-03. Till 2002, India was leading producer of raw cashew, thereafter Vietnam took over the leading position in terms of production in global cashew map.

There has been considerable expansion in area under cashew plantation in India. However, the expansion in production is almost similar as the expansion in area. During 1995-2004, area under cashew cultivation has grown by CAGR 1.42%, whereas the production during the same period has exhibited growth of CAGR 1.51%. This reflects that, in the last one decade, there is no significant increase in productivity of cashew cultivation. According to FAO statistics, during 2001-2004, the productivity of Indian cashew hovered between 625-630 kg/Hectare, whereas the same for Vietnam, its major competitor in global export market, has more than doubled, from 1470 kg/Hectare in 2001 to 2925 kg/Hectare in 2004.

Prices

The prices of cashew largely depend on the demand and on the quality of raw cashew nut. The quality of the nuts is measured in terms of Out Turn i.e., 80 kg raw cashew packed in 1 kg gunny bag. A high quality raw nut measures 54 lbs and above (24.50 kg and above for 80 kg bag or 31.25% out turn), a good quality raw nut is between 50 and 54 lb and an average quality raw nut is 48 to 50 lb per 80 kg bag.

Kernels in India fetch more prices in International market because of their better quality, less percentage of broken kernels, rich taste and good appearance. Local variety of raw cashew prices such as that from Kollam, Orissa, Rajamundhry, Palasa, etc., ranges from Rs.28 to Rs. 32 per kg. In addition to that, the final price also includes the purchase taxes, transportation costs, handling costs and middlemen commission. Prices also depend on type of value addition such as roasting, sweetening, salting, honey coating etc., which mark up the price of raw cashew by 150-200%.

SWOT Analysis

The major strengths of Indian cashew industry are its expertise in manufacturing and availability of cheap skilled labour. The main weakness of the industry is

inadequate indigenous production. The industry imports over 500,000 tonnes of raw cashew nut annually, mainly from African countries to meet its demand for export processing.

In India, cashew is grown in wastelands, under poor soil condition unsuitable for cultivation, leading to low yield per tree. Besides low productivity of raw cashew, other constraints faced by the industry includes inequality in tax rates for raw cashew in different states of India, complex export procedure, deficient government regulations, lack of institutional support in India and lack of marketing efforts of value added products.

New country like Vietnam, an erstwhile supplier of raw cashew nuts to India, have emerged as a strong competitor not only in buying raw cashew nut but also in selling kernels to India's traditional buyers. Vietnam has already emerged as a serious threat to India in the promising markets like Hong Kong, Taiwan, Japan, China, Malaysia, Singapore, Australia and the USA. Lately, India is unable to import raw cashew from Vietnam due to stringent regulations set up by Government of Vietnam on its exports, in terms of high export duty and prescribed ceilings on the volume of exports from the country.

The Indian cashew industry has vast opportunities only with adequate government support, increased production and market development

Export Competitiveness of Indian Cashew Industry

Even though strong competition from other countries has reduced India's share in global cashew exports, India's advantage in terms of less percentage of broken kernels has brought European and US buyers to its proximity. To strengthen cashew exports there is definite need for increasing production by developing cashew as plantation crop on commercial basis; exploring new markets and strengthening non-traditional markets, adding value to the product by introducing innovations in processing and branding them, and exploring viability of organic cashew exports.

Reference:

- The Cashew Export Promotion Council of India
- CMIE

PHILIPPINES: AN AGRICULTURE ECONOMY

Similar to other developing countries, more than two-third of Philippines' population is dependent on farming and related activities. The share of agriculture in total Gross Domestic Product (GDP) at current price has declined from 17.1% in 1999 to 15.3% in 2004. Growth in agriculture is mainly handicapped by low labour and land productivity.

Small landholding with farm size of about 2 hectares, inefficient and inadequate public investment in core services, low irrigation (only 15% irrigated land), poor farm policies & institutional framework could be attributed to poor development of agriculture in Philippines. Rice, corn and coconuts are the major crops, covering about 85% of cultivated land. In value terms, rice contributes the most, about 22%, followed by coconut (7%), bananas (6%) corn (6%), sugarcane (4%), mangoes (3%), pineapple (2%) and coffee (1%). Major exporting crops are coconut (mainly as oil), sugar, bananas, pineapple and mangoes. The contribution of agricultural exports in total exports has increased from 5.1% in 1999 to 6.6% in 2003, whereas the import of the same has gone down from 9.9% in 1999 to 8.0% in 2003.

Agriculture protection increased substantially from 1994 to 1998 following "tariffication" of non-tariff barriers with high tariffs and/or out-of-quota rates. These measures along with quantitative import restrictions for rice and Sanitary & Phytosanitary (SPS) arrangements for issuing import permits, contributed to relatively high agricultural protection. Rice is also subject to a 50% tariff, and tariff quotas on coffee, corn, live animals and meats, potatoes, and sugar are restrictive, often being unfilled and subject to relatively high out-of-quota duties. High tariffs, mainly up to 40%, also apply to certain vegetables, fruit, and meat products.

The National Food Authority (NFA), the Government's grains marketing arm, controls rice imports, and provides price support to growers of rice, corn and sugar. Protection is aimed at self-sufficiency, especially in rice, and ensuring sufficiently high and stable food prices to enhance farm incomes and alleviate rural poverty, while also maintaining affordable consumer prices.

Philippines is almost self-sufficient in rice, with a production of almost 13.5 million tonnes in 2003. It also exports rice in small quantities.

Rice is protected by a tariff of 50% and an import quota, set annually by Department of Agriculture to meet the shortfall in domestic production. In 2004, the quota level of approximately 800,000 tonnes was fully utilized and substantially exceeded the minimum access volume committed under the WTO Agreement on Agriculture (238,940 tonnes in 2004, up from 134,400 tonnes in 2001).

Sugarcane production in Philippines has marginally increased to 24.0 million tonnes, as compared to 23.8 million tonnes in 1999. Exports of sugar have declined over the longer term, but increased substantially to USD 53 million in 2003, as compared to USD 33.1 million in 1999, representing about 10% of the value of production. The Sugar Regulatory Authority (SRA) manages supply, including growing, processing, and exporting. Major export destination for Philippines' sugar is the US market, due to export quota. The U.S. export quota has remained at approximately 137,350 tonnes by cane weight (around 142,000 tonnes of refined sugar), equivalent to about 6% of total sugarcane production. The quota is being under utilized on the request of the US authority. In 2004-05, Philippines are expected to export about 70% of the quota. Sugar is highly protected with tariff quota (62,627 tonnes in 2004), in-quota rates for raw and refined sugar of 50% and out-of-quota rates of 65% (50% for beet sugar).

Philippines is a major exporter of coconut and its products, mainly oil. The export of coconut oil, the leading agricultural export item, has increased sharply in 2003 to USD 505 million from USD 342 million in 1999, representing 1% of total exports and 22% of agricultural exports. Coconut production in 2003 increased by 1% to 14.3 million tonnes.

In 2003, fishing and fish processing contributed about 2% of GDP and 4% of employment. Exports of fish products amounted to USD 524 million in 2003, accounting for 1% of total exports. Imports of fish products are negligible due to government regulation, including import controls to ensure food security.

References:

- Government of Philippines
- Trade Policy Review, WTO

GLOBAL TEA PRODUCTION AT PEAK LEVEL

According to a review paper released by the Intergovernmental Group on Tea of Food and Agriculture Organisation (FAO), global tea production reached a new high in 2004 with an estimated output of 3.2 million tonnes, an increase of 2 percent from previous year. This growth is mainly attributed to the increase in production in Turkey, China, Kenya, Malawi, Sri Lanka and Indonesia. The growth in output from these countries exceeded offset declines in other major producing countries including India and Bangladesh. Production in Turkey showed a dramatic expansion of 32% (205,500 tonnes) in 2004 mainly due to higher yields. Outputs from China for 2004 reached 800 000 tonnes, as an impact of policy initiatives to promote production and trade of tea in the country.

In Sri Lanka, tea production increased slightly by 1.3 percent to 309,000 tonnes in 2004, reflecting recovery from crop losses after devastating floods in low grown tea areas of the island in 2003, which usually contributes 50% of the country's total tea output. Similar increase was recorded by Indonesia, with a growth of 1.2 percent and output reaching 170,000 tonnes in 2004.

In Kenya, tea production increased by more than 11 percent in 2004 to reach 328,000 tonnes. Favourable weather conditions in the whole of Eastern Africa contributed to significant increase in tea output in Malawi, Uganda and Tanzania and in Kenya, in addition to favourable weather, expansion in processing capacity also played key role in increased output.

Tea production in India declined by 4.3 percent in 2004, with output reaching to 820,216 tonnes as a result of decrease in both the Northern and Southern production to 634,485 tonnes and 185,730 tonnes respectively. A major factor contributing to the decline was the closure of up to 70 tea gardens in Assam due to the widespread recession in the industry. This was further exacerbated by unfavourable weather both in the North (floods in the first half of 2004) and South (drought).

Exports and Imports

World tea exports increased by 4.4 percent in 2004, reaching 1.47 million tonnes, as a result of increased shipments from all major exporting countries during

the year. With 8.9% increase in exports, Kenya was the largest exporter, surpassing Sri Lanka, bringing the total shipments for the year to 292,704 tonnes. Similar increase (8.9%) was recorded by Indonesia bringing the total exports for that country to 98, 000 tonnes.

Tea exports from China was recorded more than 7% reaching 282,212 tonnes, dominated mainly by green tea, accounting for more than 75% of its total exports. Sri Lanka recorded a marginal gain of some 0.3% in tea exports. Tea exports from India recovered slightly by 3% in 2004 after a major fall of 13% in 2003, lowest level in a decade, mainly due to weaker demand from the Russian Federation, the United Arab Emirates, and the United Kingdom.

World net tea imports continued to increase in 2004, by 1.5 percent, reaching 1.42 million tones, reflecting the increases in traditional developed country markets of the EC (increase of 2.4%), the United States (5.3%), and Japan (2 %), where imports reached 215,000 tonnes, 99,000 tonnes, and 56,000 tonnes, respectively. Most of the growth in these markets is reportedly in response to promotional efforts on the health benefits of tea consumption.

Net imports into Pakistan, the largest developing country importer also continued to increase with shipments increasing by 10% in 2004, from 109,000 tonnes in 2003 to 120,000 tonnes in 2004, directly influenced by lower tea prices. India could not take advantage of its recent trade agreement with Pakistan for this precise reason.

Prices

World price for tea, increased by 2% in 2004, reflecting significant gains in the Calcutta and Mombassa auctions. Prices in 2004 opened at US \$1.56 per kg in January and closed at US \$1.73 per kg in December. The increases were quite significant in local currencies, as local currencies of few major tea producing countries depreciated against the US dollar during the period.

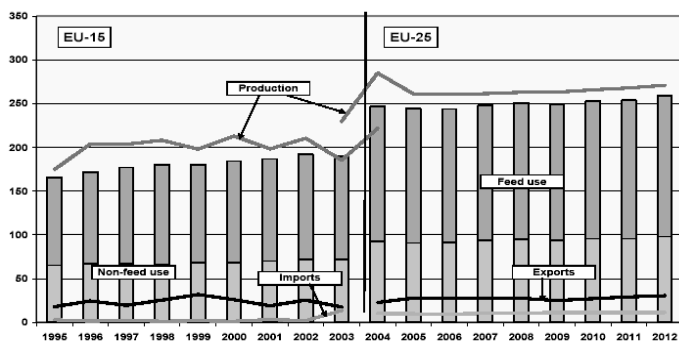
Reference:

➤ FAO

PROSPECTS OF AGRICULTURE MARKET IN EU

According to the study titled "Prospects for Agriculture Markets and Income, 2005-12" released by European Union, the medium term outlook of cereal markets appear moderately positive due to impact of the Common Agricultural Policy (CAP) reform and favourable world market conditions. In 2004, cereal production in EU-25 countries has rebounded, due to favourable climatic conditions, to 285 million tonnes from 230 million tonnes in 2003. Due to weak American Dollar in 2004, the cereal exports in 2004 were just up by 2.6 million tonnes at 22.8 million tonnes, as compared to previous year. The prospects for the durum wheat sector are expected to be characterised by a decline in harvested area due to the introduction of the single farm payment and the specific reduction in the level of support to the sector. The oilseed sector of EU is expected to be supported by productivity increases and favourable conditions on world markets. Despite the projected moderate increase in oilseed production, the EU will continue to remain a large net importer of oilseeds. Prospects for cereals and oilseeds remain conditional on the implementation of the biofuel directive in the Member States.

Trends in Cereal Market in EU during (1995-2012)- Production in Million Tonnes



Domestic consumption of cereals would increase by 11 million tonne over the projection period to reach at 256 million tonne in 2012. Similarly, cereal feed demand would continue to expand from 153 million tonne in 2005 to 161 million tonne in 2012.

Beef and veal consumption of EU-25 recovered rapidly in 2004 after the Mad Cow Disease (BSE) crisis and was higher than production in 2003 for the first time in 20 years. With the increase in feed prices and reduction in incentives towards intensive beef production, beef production in EU is expected to decrease to 7.6 million tonnes by 2012, a reduction of 0.42 million tonnes from the production of 2004. A steady demand and a tight domestic supply are expected to result in firm prices over the projected period, attracting more imports entering at full duty, notably high-quality beef cuts from South America. Total beef imports are expected to reach 0.6 million tonnes by the end of the projection period.

Pig and poultry production and consumption are expected to keep growing over the medium term, though at a slower pace than in the past decade, with increased trade flows between the new and old Member States. Overall per capita meat consumption is projected to increase from 87.4 kg in 2004 to around 89 kg by the year 2012. Pig meat, with a share of about 50%, is the most preferred meat by EU consumers, followed by poultry, recording a share of around 27 %, which has overtaken beef and veal since 1996. With the increasing demand of eggs in the EU-25 countries, the production of eggs is expected to reach to 6.6 million tonnes in 2012, from 6.3 million tonnes in 2004.

Milk production in the EU-25 is projected to increase slightly over the medium term, in line with quota increases, to reach the level of 145 million tonnes by 2012. Milk production in the new Member States, which accounts for around 15% of total EU production, is projected to remain stable at approximately 22 million tonnes. Average milk yield in the enlarged European Union is expected to reach 6.8 tonnes/year in 2012 compared to the 6 tonnes/year in 2004.

Over the last 20 years, the EU cheese sector has been characterised by a strong and steady growth, both for production and consumption. Between 1995 and 2004 cheese production increased by nearly 15%, with per capita consumption growing at a rate of 1.5% per year.

Cheese production absorbs more than 40 % of EU milk deliveries and is concentrated in four Member States (Germany, France, Italy and the Netherlands, which represent more than 75% of EU cheese production). Cheese trade between EU countries has also increased by more than 30 % between 1990 and 2002. EU-25 production of butter decreased by nearly 2.5% in 2004 as more milk was used for the production of cheese and other high value-added dairy products following the strong increase in the consumption of these products.

Impact on Cereal & Oilseeds Sector due to New Biofuel Policy

Under the obligations of Kyoto Protocol on greenhouse gas emissions, EU has issued two directives, first is Biofuels Directive (2003/30/EC) on the use of biofuels or other renewable fuels on transport and the second is Council Directive 2003/96/EC on the taxation of energy products and electricity. The Biofuel Directive defines indicative targets for the biofuel share of all transport fuels at 2 % by 2005 and 5.75 % by 2010 for the EU, while the second directive allows for tax reductions for energy from biomass. With the increasing fuel price and these two directives, investments on biofuel production have increased in EU. Consequently, the markets for biofuels, in particular that of biodiesel, have seen a steady increase in demand. It is estimated that around 2.2 million tonnes of biodiesel are produced in the EU mainly in Germany, France and Italy. The capacity of biofuels production, since 2002, has increased by an estimated 35%.

Biodiesel is mainly produced from rapeseed in the EU. The crushing of rapeseed for biodiesel in the EU-25 can be estimated at 2.7 million tonnes in 2002, increasing to 4.6 million tonnes in 2004 and about 5.2 million tonnes in 2005. The annual production of non-food rapeseed on set-aside area contributes to around 2.0 million tonnes of rapeseed on average, the rest of the additional crushing demand being satisfied from “normal” rapeseed production. The share of biodiesel use in total usable rapeseed production increased from 23% in 2002 to an estimated 40% in 2005 for the EU-25.

Furthermore, bioethanol production from cereals has recently experienced rising investments into production capacities. Bioethanol in the EU is mainly produced from wheat, maize and sugar beet. An estimated 0.8 to 1 million tonnes of cereals was used for ethanol production in 2004, which is estimated to increase to 2.2 to 3 million tonnes in 2005.

All these developments on the biofuel markets should influence the markets of traditional agricultural raw materials, because biofuel adds an alternative use to food, feed, and industrial use.

Source: Prospects for agricultural markets in the EU (2005-2012)

NEWS FOCUS

According to the Worldwatch Institute publication, Vital Signs 2005, the global meat production has been estimated at 258 million tonnes in 2004, an increase of 2% from 2003. The International Food Policy Research Institute (IFPRI) estimates that by 2020 the per capita consumption of meat will continue to rise, with people in industrial countries consuming the most, an estimated 90 kg per annum. Per capita consumption of meat in China is expected at 73 kg, South East Asia at 38 kg and developing countries at 36 kg.

The discovery of Bovine Spongiform Encephalopathy (BSE) in the US and Canada and bird flu crisis in Asian countries have put a threat to growing consumption of across the globe, resulting in lowering of consumption of meat products in developed countries.

The global beef production increased by 1%, whereas world beef trade declined by more than 6%, due to low consumption in the US market. The production of pork has gone over 100 million tons in 2004, as consumers is looking for a healthier option to beef and poultry.

Source: <http://www.wisconsinagconnection.com/story-national.cfm?Id=849&yr=2005>

US FDA Bans Antibiotic from Use in Poultry

U.S. Food and Drug Administration (FDA) announced the final decision to no longer allow distribution or use of the antimicrobial drug enrofloxacin for the purpose of treating bacterial infections in poultry. This ruling does not affect other approved uses of the drug. This animal drug belongs to a class of drugs known as fluoroquinolones and is marketed under the name Baytril by Bayer Corporation.

The FDA's Center for Veterinary Medicine (CVM) began proceedings to withdraw use of this animal drug in poultry because of scientific data that showed that the use of enrofloxacin in poultry caused resistance to emerge in *Campylobacter*, a bacterium that causes foodborne illness. Chickens and turkeys normally harbour *Campylobacter* in their digestive tracts without causing poultry to become ill. Enrofloxacin does not completely eliminate *Campylobacter* from the birds' intestinal tracts,

and those *Campylobacter* bacteria that survive are resistant to fluoroquinolone drugs. These resistant bacteria multiply in the digestive tracts of poultry and persist and spread through transportation and slaughter, and are found on chicken carcasses in slaughter plants and retail poultry meats.

Campylobacter bacteria are a significant cause of foodborne illness in the U.S. Antimicrobial treatment is recommended for people with severe illness.

Bayer Corporation has 60 days from the date of the decision to appeal the withdrawal to a U.S. Court of Appeals. The Final Rule withdrawing approval of the antimicrobial drug enrofloxacin for the purpose of treating bacterial infections in poultry will be effective from September 12, 2005.

Source: *USFDA News, July 28, 2005*

International Feed Safety Alliance launched

The International Feed Safety Alliance (IFSA) was officially launched last week, with the publication of the IFSA Feed Ingredients Standard (IFIS) and the IFSA Rules of Certification.

The aim of IFSA is to contribute to the safety assurance of feed ingredients, which will help to protect the health of animals that consume feed and humans that consume the livestock products in the form of meat, fish, milk and eggs.

IFSA is a joint project initiated by Agricultural Industries Confederation (AIC) of the UK, the European Feed Manufacturers Federation (FEFAC), OVOCOM VZW of Belgium, Productschap Diervoeder (PDV) of the Netherlands and Qualität und Sicherheit GmbH (QS) of Germany.

IFIS will enable feed ingredient companies to be audited against one standard as opposed to multiple audits which will result in more consistent standards, a lack of duplication and cost saving.

Source: <http://www.agriworld.nl>

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: agrigroup@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

