A Regulatory Framework: An Overview of Food Processing Industry in India

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Abstract:

The basic objective of this paper is to discuss the present emerging scenario of Government policy, regulatory Frame Work and business trends in Food Processing Industry in India. The findings and conclusion of this paper is that the India is the world’s second largest producer of food next to China, and has the potential of being the biggest in the world. Food processing is a key industrial sector for India; it accounts for a gross output of more than US $ 69.4 billion, Population explosion has proved to be a boon to multinational producers. Indian now provides a big market for their products. They seek opportunities for collaboration with Indian industrial houses to supply processed food products. This sector has large potential for exportable commodities in India. Hence these sectors of industry provide multifarious opportunities to potential investors in this Sector, both domestic and foreign.

Introduction of Business Regulation

Business regulations are based on a broad range of legal instruments and decisions, including licenses, permits, codes, laws, decrees, and even informal measures such as guidelines and instructions. Some regulations are in the form of initial one-time obligations, while others are in the form of ongoing obligations. There are five basic areas of regulation that directly affect every business: commercial registration, taxation, labor standards and social security contributions, health and safety requirements, and specific operational permits and licenses. If the business is to undertake some sort of industrial or polluting activity, it will also have to comply with specific environmental regulations. All these regulations require initial registration and, apart from commercial registration, also ongoing compliance.

In general, compliance means conforming to a rule, such as a specification, policy, standard or law. Regulatory compliance describes the goal that corporations or public agencies aspire to in their efforts to ensure that personnel are aware of and take steps to comply with relevant laws and regulations. Thus a regulatory framework is a model people can use for reforming and enacting regulations in an effective and logical way. Policy makers may develop a framework with a specific area of interest, such as improving certification for health care providers, in mind, or could use an existing model to work on a regulatory project. Many
governments rely on such frameworks for handling regulatory matters and developing flexible and useful networks of regulations, laws, and rules.

**Importance of Food Industry**

India is the world's second largest producer of food next to China, and has the potential of being the biggest with the food and agricultural sector. The total food production in India is likely to double in the next ten years and there is an opportunity for large investments in food and food processing technologies, skills and equipment, especially in areas of Canning, Dairy and Food Processing, Specialty Processing, Packaging, Frozen Food /Refrigeration and Thermo Processing. Fruits & Vegetables, Fisheries, Milk & Milk Products, Meat & Poultry, Packaged /Convenience Foods, Alcoholic Beverages & Soft Drinks and Grains are important sub-sectors of the food processing industry. A health food and health food supplement is another rapidly rising segment of this industry which is gaining vast popularity amongst the health-conscious.

India is one of the world’s major food producers but accounts for less than 1.5 per cent of international food trade. This indicates vast scope for both investors and exporters. Food exports in 1998 stood at US $5.8 billion whereas the world total was US $438 billion. The Indian food industries sales turnover is Rs 140,000 crore (1 crore = 10 million) annually as at the start of year 2000. The industry has the highest number of plants approved by the US Food and Drug Administration (FDA) outside the USA.

India's food processing sector covers fruit and vegetables; meat and poultry; milk and milk products, alcoholic beverages, fisheries, plantation, grain processing and other consumer product groups like confectionery, chocolates and cocoa products, Soya-based products, mineral water, high protein foods etc. We cover an exhaustive database of an array of suppliers, manufacturers, exporters and importers widely dealing in sectors like the Food Industry, Dairy processing, Indian beverage industry etc. We also cover sectors like dairy plants, canning, bottling plants, packaging industries, process machinery etc. The most promising sub-sectors includes Soft-drink bottling, Confectionery manufacture, Fishing, aquaculture, Grain-milling and grain-based products, Meat and poultry processing, Alcoholic beverages, Milk processing, Tomato paste, Fast-food, Ready-to-eat breakfast cereals, Food additives, flavors etc.

Food Processing Industry is the most important segment in the world because it has major contribution in the survival of the people in the societies and Gross Domestic Product in India. Therefore, I have taken this sector to study and analyze.

**Objectives of the study**

The basic objective of this paper is to discuss the present emerging scenario of Government policy, regulatory and business trends in Food Processing Industry in India. These sectors of industry provide multifarious opportunities to potential investors in this Sector, both domestic
As several policy initiatives are undertaken by the Government of India since liberalization in August 1991, the industry sectors have witnessed unprecedented growth in most of this segment. These sectors played the most important role to increase the Sensex of Stock Exchange Market in the year 2011.

**Introduction of Food Industry in India**

The food industry is the complex, global collective of diverse businesses that together supply much of the food energy consumed by the world population. The food processing industry is one of the largest industries in India. It is ranked fifth in terms of production, consumption, export and expected growth. Food Processing Industry is widely recognized as a ‘sunrise industry’ in India having huge potential for uplifting agricultural economy, creation of large scale processed food manufacturing and food chain facilities, and the resultant generation of employment and export earnings. India has enormous growth potential from its current status of being the world’s second largest food producer to be the world’s number one producer. Food Processing Industry is of enormous significance for India’s development because of the vital linkages and synergies that it promotes between the two pillars of the economy, namely Industry and Agriculture. Food processing covers a spectrum of products from sub-sector comprising agriculture, horticulture, Plantation, animal husbandry and fisheries. Essentially, the food industry involves the commercial movement of food from field to fork. While India has an abundant supply of food, the food processing industry is still nascent: only two per cent of fruit and vegetables; and 15 per cent of milk produced are processed. Despite, of this the processed food industry ranks fifth in size in the country, representing 6.3 per cent of GDP. It accounts for 13 per cent of the country’s exports and 6 per cent of total industrial investment. The industry size is estimated at US$ 70 billion, including US$ 22 billion of value added products.

**Present Position of Food Industry in India**

India is the second largest producer of food and holds the potential to be the biggest on global food and agriculture canvas, according to a Corporate Catalyst India (CCI) survey. The food industry in India comprises food production and the food processing industry. The food processing industry is one of the largest in India – it is ranked fifth in terms of production, consumption, export and expected growth.

Agriculture sector is vital for any nation and in India is the principal source of livelihood for more than 58 per cent of the population. Agriculture sector has touched a growth rate of 4.4 per cent in the second quarter of 2010-11 thereby achieving an overall growth rate of 3.8 per cent during the first half of 2010-11.

Area under food crops has increased from 122.78 million hectare (ha) in 2001-02 to 125.73 million in
2010-11 (4th advance estimate). Production of food grains has increased from 212.85 million tons (MT) in 2001-02 to 241.56 MT during 2010-11 (4th advance estimates). The food grain production target for the year 2011-12 has been fixed at 245 MT, which has been achieved.

**Food Processing Industry**

Food processing industry is of enormous significance for India's development as it has linked economy, industry and agriculture in India, efficiently and effectively. The three pillars being together have synergized the development process and promoted the growth of the nation to a great extent.

There are 25,367 registered food processing units in the country whose total invested capital is Rs 84,094 crore (US$ 17.81 billion), as per a competitiveness report of the National Manufacturing Competitiveness Council. This information was given by Dr Charan Das Mahant, the Minister of State for Food Processing Industries, in a written reply to the Lok Sabha. The food processing sector is presently growing at an average rate of 13.5 per cent per annum. The Vision Document 2015 envisages increasing the value addition from 20 per cent to 35 per cent by 2015. Food processing industry is one of the largest industries operating in India and is divided into several segments.

**Segments**

The Food Processing Industry operates across various segments that include:

- Fruits & vegetables
- Meat & poultry
- Dairy

Marine products, grains and consumer foods (that includes packaged food, beverages and packaged drinking water).

Value addition of food products is expected to increase from 8 per cent to 35 per cent by 2025. Fruit & vegetable processing is also expected to increase from the current level of 2 per cent to 25 per cent of total production by 2025, as per the CCI report. Dairy sector – that holds highest share in processed food market holds large potential to be exploited. The report reveals that 37 per cent of the total dairy produce is processed of which only 15 per cent is done by the organized sector. Hence, there lies a plethora of opportunity for investment and development. The food processing industries in India has attracted foreign direct investment (FDI) worth US$ 1,273.96 million from April 2000 to June 2011, according to the data provided by Department of Industrial Policy and Promotion (DIPP).

**Regulatory Framework-In Food Processing Industries in India**
Different laws govern the food processing sector in India. The prevailing laws and standards adopted by the Government to verify the quality of food and drugs is one of the best in the world. Multiple laws/regulations prescribe varied standards regarding food additives, contaminants, food colours, preservatives and labeling. In order to rationalize the multiplicity of food laws, a Group of Ministers (hereinafter referred as “GoM”) was recently set up to suggest legislative and other changes to formulate a modern, integrated food law, which will be a single reference point in relation to the regulation of food products. The food laws in India are enforced by the Director General of Health Services, Ministry of Health and Family Welfare, Government of India (GOI).

There are various food laws applicable to food and related products in India:-

- The Standards of Weights and Measures Act, 1976, and Standards of Weights and Measures (Packaged Commodities) Rules, 1977
- Agriculture Produce (Grading & Marking) Act (Ministry of Rural Development).
- Essential Commodities Act, 1955(Ministry of Food & Consumer Affairs).
- Fruit Products Order (FPO), 1995.
- Meat Food Products Order, 1973 (MFPO).
- The Insecticide Act, 1968.
- Export (Quality Control and Inspection) Act, 1963.
- Pollution Control (Ministry of Environment and Forests).
- Industrial Licenses.
- SEO (Control) Order -1967.

The Prevention of Food Adulteration Act (PFA), 1954 focuses primarily on the establishment of regulatory standards for primary food products, which constitute the bulk of the Indian diet. The Central Committee for Food Standards, chaired by the Director General of Health Services, is the decision making entity. The appeals process, however, is cumbersome and time consuming. All imported products must adhere to the rules as specified in the regulation, including the labeling and marking requirements.
The Standards of Weights and Measures Act, 1976 and Standards of Weights and Measures (Packaged Commodities) Rules, 1977 are legislative measures designed to establish fair trade practices with respect to packaged commodities. The rules prescribe that the basic rights of consumers regarding vital information about the nature of the commodity, the name and address of the manufacturer, the net quantity, date of manufacture, and sale price are provided on the label. There are additional mandatory labeling requirements for food items covered under the PFA. The Department of Consumer Affairs in the Ministry of Consumer Affairs, Food, and Public Distribution is the regulatory authority and enforcement agency.

The fruit and vegetable processing sector is regulated by the Fruit Products Order, 1955 (FPO), which is administered by the Department of Food Processing Industries. The FPO contains specifications and quality control requirements on the production and marketing of processed fruits and vegetables, sweetened aerated water, vinegar, and synthetic syrups. All such processing units are required to obtain a license under the FPO and periodic inspections are carried out. Processed fruit and vegetable products imported into the country must meet the FPO standards.

Meat Food Products Order, 1992 administers the permissible quantity of heavy metals, preservatives, and insecticide residues for meat products. This order is equally applicable to the domestic processors and importers of meat products. However, its implementation is weak due to unorganized production in the domestic market and fewer imports.

Milk and Milk Products Order, 1992 order regulates the production, distribution, and supply of milk products; establishes sanitary requirements for dairies, machinery, premises; and sets quality control standards for milk and milk products. Standards specified in the order are also equally applicable to imported milk products.

The Destructive Insects and Pests Act, 1914, and Plants, Fruits, and Seeds (Regulation of Import in India) Order, 1989 regulate imports of planting seeds into India, and prohibit imports of seeds for sowing and planting materials without a valid permit. The implementing agency is the Directorate of Plant Protection, Quarantine, and Storage under the Department of Agriculture and Cooperation, Ministry of Agriculture.

After the enactment of the proposed Food Safety and Standards Bill, 2005 in India, the food processing sector would be governed by only one law and one regulator, instead of presently applicable 15 different laws. With the simplified mechanism growth in the food-processing sector would kick-start, which is needed to ensure higher growth for the agriculture sector.

**Policies and Regulations**

Since liberalization several policy measures have been taken with regard to regulation & control, fiscal policy, export & import laws, taxation, exchange & interest rate control, export promotion
and incentives to high priority industries. Food processing and agro industries have been accorded high priority with a number of important reliefs and incentives.

At present, no industrial license is required for almost all of the food & agro processing industries except for some items like: beer, potable alcohol & wines, cane sugar, hydrogenated animal fats & oils etc. and items reserved for exclusive manufacture in the small scale sector. Items reserved for Small Scale Industry (hereinafter referred as “SSI”) include pickles & chutneys, bread, confectionery (excluding chocolate, toffees and chewing-gum etc.), rapeseed, mustard, sesame & groundnut oils (except solvent extracted), ground and processed spices other than spice oil and olio resins, sweetened cashew nut products, tapioca sago and tapioca flour.

In order to boost the food processing sector, the Centre has permitted under the Income Tax Act a deduction of 100 per cent of profit for five years and 25 per cent of profit in the next five years in case of new agro processing industries set up to package and preserve fruits and vegetables. Excise Duty of 16 per cent on dairy machinery has been fully waived off and excise duty on meat, poultry and fish products has been reduced from 16 per cent to 8 per cent.

**Establishment of Food Parks**

In a bid to boost the food sector, the Government is working on agrizones and the concept of mega food parks. Twenty such mega parks will come up across the country in various cities to attract Foreign Direct Investment (FDI) in the food processing sector. The Government approved 105 proposals between January 2002 and May 2005 from foreign industrialists to set up food processing industries in India involving Rs.643.47 crore (US$ 144 million). The ministry has released a total assistance of Rs.105.22 crore (US$ 23 million) to implement the Food Parks Scheme. It has so far approved 50 food parks for assistance across the country. The Centre also plans Rs.100 crore (US$ 22 billion) subsidy for mega food processing parks.

**Inflow of Foreign Direct Investment in Food Sector**

Actual FDI inflow in food processing sector in 2004-05 and 2005-06 (till November, 2005) was Rs.332.00 crore. Automatic approval is granted for foreign investment upto 51% in high priority industries which include all food processing industries (except milk food, malted foods and flour) and all items of packaging for food processing industries. Investors need to file an application with the Reserve Bank of India (RBI) in the prescribed format and approval is ordinarily granted within 15 days. For foreign investment higher than 51% and for investments in industries outside the high priority industries, clearance has to be obtained from SIA. Applications are processed on a case by case basis on merit and usually SIA takes about 2 months for the process. Applications for setting up a 100% Export Oriented Unit is also required to be filed with the SIA. For setting up a unit in an Export Processing Zone (EPZ), application
has to be filed with the Development Commissioner of the concerned EPZ. Foreign equity of up to 24% of the total shareholding is also being permitted in the small scale sector.

Under automatic procedures, foreign technology agreements are being permitted in respect of industries that are designated as high priority industries. The use of foreign brand names and/or trade mark of goods is also now being permitted freely. To provide access to international markets, majority foreign equity holding up to 51% equity is being permitted for international trading companies that are primarily engaged in export activities.

FDI in a company engaged in “cash and carry wholesale trading” is now permitted up to 100% under automatic route. The present policy only permit FDI up to 100% in Cash and carry wholesale trading, which is distinct from retail trading, involving sale to individual customers through normal retail outlets. Recently Government of India has allowed retail trading in single brand items. FDI is not allowed in any other agricultural sector/activity.

**Fiscal Policy & Taxation**

Wide ranging fiscal policy changes have been introduced progressively. Excise & Import duty rates have been reduced substantially. Many processed food items are totally exempt from excise duty. Custom duty rates have been substantially reduced on plant & equipments, as well as on raw materials and intermediates, especially for export Production. Corporate taxes have been reduced and there is a shift towards market related interest rates. There is tax incentives for new manufacturing units for certain years, except for industries like: beer, wine, aerated water using flavouring concentrates, confectionery & chocolates etc. Indian currency (rupee) is now fully convertible on current account and convertibility on capital account with unified exchange rate mechanism is foreseen in coming years. Repatriation of profits is freely permitted in many industries except for some, where there is an additional requirement of balancing the dividend payments through export earnings.

**Export Promotion**

- Food processing industry is one of the thrust areas identified for exports. Free trade zones (FTZ) and export processing zones (EPZ) have been set up with all necessary infrastructure. Also, setting up of 100% Export oriented units (EOU) is encouraged in other areas. They may import free of duty all types of goods, including capital foods.
- Capital goods, including spares up to 20% of the CIF value of the Capital goods may be imported at a concessional rate of Customs duty subject to certain export obligations under the EPCG scheme. Export linked duty free imports are also allowed.
- Units in EPZ/FTZ and 100% Export oriented units can retain 50% of foreign exchange receipts in foreign currency accounts.
• 50% of the production of EPZ/FTZ and 100% EOU units are saleable in domestic tariff area.
• All profits from export sales are completely free from corporate taxes. Profits from such exports are also exempt from Minimum Alternate Tax (MAT)

Finding and Conclusion

India is the world’s second largest producer of food next to China, and has the potential of being the biggest in the world. Food processing is a key industrial sector for India; it accounts for a gross output of more than US $ 69.4 billion, out of which value-added food products comprise US $ 22.2 billion. Size of the semi-processed and ready to eat packaged food industry is over US $ 1 billion, and it is growing at over 20 per cent a year. The total processed food production in India is likely to double in the next ten years. There is an opportunity for large investments in food and food processing technologies, skills and equipment, especially in areas of canning, dairy and food processing, specialty processing, packaging, frozen food/refrigeration and thermo processing. Fruits & vegetables, fisheries, milk & milk products, meat & poultry, packaged/convenience foods, alcoholic beverages & soft drinks and grains are important sub-sectors of the food processing industry. Health food and health food supplements are another rapidly rising segments in this industry.

New Opportunities: In India

In India the Food Processing Industry is relatively nascent and offers opportunities for FDI. It accounts for Rs 1,280 billion (US$29.4 billion), in a total estimated market of Rs 3,990 billion (US$91.66 billion). There is a rapidly increasing demand for processed food caused by rising urbanization and income levels. To meet this demand, the investment required is about US$28 billion. Food processing has been declared a priority sector.

The outlay in the Food Processing Sector has been increased from US$19.5 million in 2004-05 to US$41.35 million in 2005 which is more than twice the earlier amount. The production of food grains has increased from 212.85 million tonne (MT) in 2001-2002 to 241.56 million tonne during 2010-2011 and the food grain production target for the year 2011-12 has been fixed at 245 million tonne, which has been achieved.

The government is also considering investing US$22.97 million in at least 10 mega food parks in the country besides working towards offering 100 per cent foreign direct investment and income tax benefits in the sector.

The Government has recently established Special Economic Zones with the purpose of promoting exports and attracting FDI. These SEZs do not impose duty on imports of inputs and they enjoy simplified fiscal and foreign exchange procedures and allow 100% FDI.
Government is also moving towards introducing an integrated food law, which is expected to help meet the requirements of international trade and make the Indian food industry competitive in the global market. To harness the value-creating potential of agro processing, superior market mechanism and infrastructure are required to be created. State governments have already begun to actively encourage the creation of aggregators by encouraging companies to engage in agriculture marketing. It is believed that this may provide the basis to jumpstart private investment into cold chain and other supply chain infrastructure.

References

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Vision 2015 action plan: The Ministry of Food Processing Industries (MoFPI) has formulated a Vision 2015 action plan that includes trebling the size of the food processing industry, raising the level of processing of perishables from 6% to 20%, increasing value addition from 20% to 35%, and enhancing India’s share in global food trade from 1.5% to 3%.

Mega food parks: The Government of India is actively promoting the concept of mega food parks and is expected to set up 30 such parks across the country to attract FDI. The Government of India has released a total assistance of USD 23 million to implement the Food Parks Scheme. It has, until now, approved 50 food parks for assistance across the country. The Centre has also planned for a subsidy of USD 22 billion for mega food processing parks.