India-Ethiopia : Trade and Investment Exploring Opportunities

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Though Ethiopia, a least developed country, will not be a major market for India, the potential for augmenting India's trade with and investment in Ethiopia merits consideration - as a niche market, the duty free and quota-free access it provides to US and EU as also the preferential access to other markets in Africa. This paper is an exploratory attempt at identifying the products / areas that hold potential for India, along with a marketing strategy.

1. Introduction

The mention of Ethiopia usually evokes images of drought, starvation and poverty[1]. If you visit the country, though you find signs of poverty all around, the wide roads, high-rise buildings, beelines of cars and brisk business done by the ubiquitous cafes, pizzerias and pastries provide a stark contrast and a pleasant surprise. With a population of about 69.1 million and GDP Per Capita of US$92.1 (in the year 2003)[2] Ethiopia does not appear to hold good potential for trade. But certain trends would make us reconsider this first impression. The International Monetary Fund has commended the country for low budget deficit, single digit inflation, and exchange rate stability; also awarded "A" plus in poverty alleviation; and projected a real GDP growth of 6.7 percent in 2003 –2004[3]. The Heritage Foundation ranked Ethiopia second in its Economic Freedom Index 2004, for offering the most improved business environment in the world based on trade policy, foreign investment, fiscal burden and government intervention[4]. Ethiopia also receives considerable financial and technical assistance from multilateral and bilateral donors which constitute one-third of the budgetary resources. In terms of security too (which is a major concern in Africa), Ethiopia is one of the safest places in the continent. The regional headquarters of a number of international organisations - especially the regional offices of various organs of the United Nations like the United Nations' Economic Commission for Africa, United Nations' Commission for Human Rights for Africa - The African Union and so on are seated at Addis Ababa, the capital of Ethiopia.

2. The Market

2.1 A Glimpse

The level of industrialisation being very low, local manufacturing meets just around 15% of the requirement for manufactured items. Ethiopia is highly import-driven and exports are not very high. Most of the manufactured goods are imported - be it detergents and soaps or cosmetics or processed foods like pasta, sauces, jams, confectionery and vinegar; utensils, carpets, stationery items including staplers, gum, pens, erasers, paper, note books and so on. The Made-in-China products dominate the low-end of the market. China - which enjoys very good relations with Ethiopia - dominates the construction sector, telecommunications and other infrastructure projects besides its ubiquitous presence in the unbranded consumer goods market. It is no wonder that China tops the table in the list of exporters to Ethiopia (Table 1). The imports from Italy, (which occupied parts of Ethiopia for five years), too are high especially foods, clothing, shoes, etc

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Table 1: Ethiopia's Top Ten Trading Partners (In 2002)

	Exporters	Importers
1	CHINA	DJIBOUTI
2	ITALY	GERMANY
3	USA	SWITZERLAND
4	JAPAN	ITALY
5	SAUDI ARABIA	JAPAN
6	INDIA	SAUDI ARABIA
7	GERMANY	UK
8	UK	USA
9	DJIBOUTI	ISRAEL
10	BELGIUM	PAKISTAN

Source: Embassy of India, Ethiopia

2.2 Market segments, Distribution and Pricing pattern

The market is characterised by a small group of the very wealthy locals and expatriates at the very top followed by a large segment of highly price-sensitive customer segment. Expatriates - employees of UN and its various organs, NGOs and Embassies - form a small but significant premium market segment for international brands. Supermarkets, small general stores, kiosks, etc, comprise the distribution outlets.

A vast majority buys from small stores in the by-lanes and avoids the super markets, which are considered to be only for the higher income groups and foreigners. With no packaging and price regulations in place, even branded products carry different prices in different stores. The variation exists not only between the supermarkets and small stores, but between supermarkets too. It is not unusual for a bar of chocolate to be sold at Birr[5] 9.75 in one super market and Birr 7.25 in another supermarket while three units of the same are sold for Birr.15.75 in the wholesale market.

This wholesale market – Merkato - is claimed to be the largest open market in Africa and the main hub from which the products are routed to various cities in Ethiopia. The super markets directly import from various countries. Select consumer products and the most frequent supply sources can be seen in Table 2.

Table2: Select Products and their Country-of-Origin

Product (s)	Country / Countries
Pasta	Italy
Hair dyes	Canada USA Thailand
Shampoos	USA, Brazil, Germany, Spain
Bathing Soaps	UK, UAE, Germany, Saudi Arabia, France
Stationery items	Germany, China
Insecticides & Fresheners	Italy, Spain, UK, UAE, Turkey
Cookies	Netherlands, Oman, Australia
Gin, Whisky, White Wine	UK, France, South Africa, Italy, Mexico

Source: Personal Observation in Super Markets

Spending on hair care products is quite high. A brand, 'African Pride' with the caption, "Proud to be the original" is actually a US brand manufactured in New York. Dabur, Fair & Lovely, GITS instant foods are some of the Indian brands seen in some super markets.

2.3 Media and Promotional Reach:

There are a number of local language newspapers and a few English language dailies and weeklies. Telecast and Broadcast corporations are State-Owned, and there are plans to privatise the radio. DSTV a private broadcaster gives around 100 channels and reaches the elite. Others who can buy a Dish Antenna also tune into the Arab TV channels. The maximum reach however is that of the Ethiopian Television (which offers a single channel) and Ethiopian FM Radio. Hence, media reach is easy and relatively inexpensive.

2.4 Public Sector: An important importer

Government and the public sector organisations constitute an important sector for industrial machinery, transportation and telecommunications equipment and services and infrastructure. Overseas purchasing is done through global tenders, which are normally awarded to the lowest bidder subject to other conditions like technical specifications and delivery schedules.

3. India-Ethiopia: Trade & Investment Opportunities

3.1 Bilateral Agreement and Trade

A trade agreement between the Governments of India and Ethiopia was signed on 6th March 1997 at New Delhi during the visit of the Ethiopian Prime Minister followed by three meetings of the India-Ethiopia Joint Trade Committee. The bilateral trade figures (Table 3) do not seem to reflect any consequent changes in the trade between the two countries. India's share in imports as well as exports is very low and fluctuating and no consistent trend is evident. Though 2001-2002 shows a peak in India's imports from Ethiopia during the six-year period, it was followed by a sharp decline the next year.

India's imports from Ethiopia are confined to a few products and the value of imports of these products too is fluctuating. Ethiopia's major exportable products are coffee, chaat (a leaf having intoxicating properties) leather, spices, horticultural products, minerals like tantalum, granite, etc. Though coffee accounts for 60 percent of exports from Ethiopia, the declining prices in the world market necessitated a shift in the focus to other products. Joint ventures and Greenfield operations are on the increase in the areas of horticulture, textiles and mining, as the specific measures adopted by the Government of Ethiopia seem to be paying off[6]. APEDA and Indian Floriculture firms consider Ethiopia a good investment destination for expanding their operations because the climate is suitable for horticulture and the freight costs to the key European markets are 40 percent lesser from Ethiopia[7].

Table 3 Ethiopia's Imports and Exports – India's Share (Million US $)

Year	Total Imports	Imports from India	India's Share in Imports (%)	Total Exports	Exports to India	India's Share in Exports (%)
1997-98	1100	65.1	5.92	531.3	0.75	0.14
1998-99	1400	64.8	4.63	528.8	0.38	0.07
1999-00	1400	56.9	4.06	455.5	0.87	0.19
2000-01	1300	66.5	5.12	494.8	3.9	0.79
2001-02	1800	90.5	5.03	446.1	18.4	4.12
2002-03	1600	61.7	3.86	411.2	10.5	2.53

Source: Embassy of India, Ethiopia

Table 4. India's Imports from Ethiopia (In Rupees Lakhs)

ITEM	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003
Raw Hides & Skins	235.28	98.9	114.01	3096.64	1834.08
Cotton Raw				1099.59	1258.23
Leather	10.2		6.53	748.35	650.03
Scrap Metals	-	-	-	-	101.35
Pulses	-	-	-	3617.11	1033.69
Other commodities	39.14	60.46	255.69	210.21	228.94

Source: Embassy of India, Ethiopia

Table 5. India's Exports to Ethiopia (In Rupees Lakhs)

ITEMS	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Iron & Steel Products	11960.01	13228.28	11004.41	21529.01	11848.01
Drugs/Pharmaceuticals	1398.5	2194.7	2336.45	3610.32	3303.89
Plastic & Linoleum Products	1011.73	643.72	1264.12	1496.74	1081.48
Machinery & Instruments	1541.99	2299.16	977.72	2768.84	2462.93
Yarns & Textile Fabrics	2158.17	1264.92	1688.35	1867.23	1282.33
Manufactures of metals	2952.92	2019.93	2684.11	4342.55	1947.79
Paper products	730.05	1384.25	714.31	1842.18	1715.63
Electronic Goods	28.45	366.22	414.15	880.83	592.60
Glass/Glassware/Ceramics	225.95	175.81	297.54	762.77	386.26
Cosmetics/Toiletries	328.34	457.88	215.98	849.96	300.46

Source: Embassy of India, Ethiopia

It must be reiterated that India's share in Ethiopia's imports is relatively low (Table 3) though a variety of products are exported from India (Table 5). There is a good potential for expanding India's exports of both consumer as well as industrial products and services, with a little more attention. For instance, ONIDA Television is available at a very competitive price compared to the competing brands, and can be one of the options seriously considered by the middle-income group customer. However, it may not be able to capitalise on its favourable price-quality dimensions because of non-availability of spare parts and after sales service. Moreover, the Indian experience of drawing a large lower income group into the realm of branded products market can be replicated in Ethiopia. India can export all the products that are sold in sachets, which are especially appropriate to a least developed country with a vast price sensitive population. The very popular Bollywood films have also popularised the Salwar Kameez, which is referred to as "Bombay Libs" meaning "Bombay dress".

3.2 Investment opportunities: Services sector

3.2.1 Education Services

The service sector too offers opportunities for India, especially in the fields of education, health care and entertainment. India enjoys a good reputation in the field of education. Indian faculty is recruited in large numbers in the higher education institutions in Ethiopia. The potential for attracting students in the fields of engineering, business management, economics, sciences, etc., is high. The Government of Ethiopia offers annual scholarships for students wishing to pursue higher education in India. In the India Education Fair conducted in the month of June 2004, the number of registrations was 15000 in two and a half days. According to the Indian Embassy sources, presently around 2000 students are pursuing education in India, mostly in Pune, Chandigarh and some in Hyderabad and Visakhapatnam too. India is a much more affordable destination especially because of the exchange rate[8]. If the Educational Institutions can work out a special package for a group of students or institute scholarships that would even partly reduce the burden, the prospects for further expansion are bright. Distance education too provides a more affordable alternative.

3.2.2 Health care services

Health care services have good potential if marketed well, since India has a significant cost advantage compared to the present frequent destinations - South Africa and the United States.

For instance, treatment of a heart disorder, "Paroxysmal Atrial Arrhythmian including atrial fibrillation and flutter" in South Africa costs $10489 for four days of hospitalisation ($11,102 including a round trip Air ticket) while it costs $ 3049 for seven days of hospitalisation ($4045 including a round trip Air ticket).

3.2.3 Entertainment Services

Indian films are very popular among the masses. Those who possess video cassette players rent the videos. For the working class, Indian films are screened in video parlours. Translation services too are rendered by those who have already seen the film on the payment of 25 cents[9] per person in the audience. The popularity of Indian films and music can be taken advantage of by collaborating with the state-owned Ethiopian Television and Ethiopian Radio.

3.3 Other trade and investment opportunities

Other areas - in which India can assist Ethiopia- include agriculture, irrigation, mining, science and technology, financial services, railways, information and communication technology, tourism, etc. Joint ventures are an area worth exploring since they also help in providing duty free and quota-free access to USA[10], EU[11] and access to COMESA[12] countries at a preferential rate of duty. The areas for potential joint ventures for India include[13] leather and leather products, pharmaceuticals, ready made garments, mineral & mining, tourism, machinery for light industry, foundry shops, disposable syringes, processing of oil seeds, commercial farming, especially horticulture, processing and packing of coffee, kerosene lamps and stoves, chemical dyes for leather and textiles, assembly of tractors, button manufacturing, etc.

4. Suggested Marketing Strategy

4.1 Capitalise on cultural proximity

India has a favourable image among the Ethiopians. Indian films and film stars are highly popular. The Ethiopians are especially fond of Indian features and hair. It is easier for them to identify with Indians, since Ethiopians are unlike the typical Africans. Known as "Habesha" or mixed race (of Africans and Arabs) the Ethiopians look more similar to the average South Indian, but for the kinky hair. An Indian, wherever he or she goes, is instantly greeted with a "Namasthe".

Hence, the marketing strategy for most of the products can be "Product and Promotion Extension", i.e., extending the product and promotional strategy used in the home market without any modifications. With regard to distribution, it is advisable for a supplier to have a local agent working on a commission basis in Addis Ababa, the most important commercial centre.

Exploring business opportunities: Companies can explore the business opportunities by participating in the International Trade Fair conducted annually in the month of January – February. The 9th Addis Chamber International Trade Fair[14] is being organised by the Addis Ababa Chamber of Commerce from 19th to 25th February 2005. The first sector specific Addis Chamber Specialised International Trade Fair in Agriculture and Food known as AGRIFEX Ethiopia 2005 Trade Fair will be held from June 2-6, 2005.

6. Conclusion

Ethiopia is not and may never be one of the major markets for India. However, it can be a niche market for companies that are already trading with Dubai. Establishing operations in Ethiopia will also help provide duty free and quota-free access to USA and EU and preferential access to 19 countries of COMESA. India has the highest share of mind (awareness or recall and recognition) and share of heart (preference) in Ethiopia while China has the highest share of pocket (market share in value terms, China being the largest exporter). No market seems to be too small or insignificant for China. In this regard, perhaps India has much to learn from China. The goodwill enjoyed by India and Indians in Ethiopia can be capitalised upon for mutual benefit and to strengthen India's presence in the African region.

End Notes:

1 "Investing in Floriculture." Capital, Vol.6, No.298, 22-28 August 2004.

2 Annual Report, 2002-2003, National Bank of Ethiopia

3 http://www.imf.org/external/np/sec/pr/2004/pr0482.htm

4 "Investment in Ethiopia", Capital, Vol.6, No.288, 13-19 June, 2004.

5 Birr is the currency of Ethiopia. 1 Birr = around 0.11627US$

6 "Government Policy, Market Proximity, Favourable Climate lures investors", Fortune, Volume 5 No.217, 27 June, 2004,

7 —. Fortune, Volume 5 No.217, 27 June, 2004.

8 Ethiopian Birr 1 = Rupees 5.25 (Usually hovers around this figure)

9 100 cents make 1 Birr

10 The African Growth and Opportunity Act (AGOA) was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets. Eligibility for AGOA was designed to reward and provide incentives, including duty-free and quota-free access, for sub-Saharan African countries that are making progress in political and economic reforms).

11 Everything But Arms Initiative 2001 (EBA) adopted by EU grants duty-free and quota-free access for all goods (with the exception of arms) originating in least developed countries.

12 Ethiopia is yet to join COMESA FTA and presently trades with the 19 other African members of the Common Market for Eastern and Southern Africa on preferential duty basis.

13 Ethiopia. Embassy of India "Ethiopia Country Profile." (unpublished) 2003

14 Further details may be obtained from Mr. Tamerat Admassu, E-mail: tradefair@addischamber.com, website: http://www.addischamber.com, Ph: 251-1-50 46 47, Addis Ababa Chamber of Commerce, Addis Ababa, Ethiopia

"The knowledge base on Africa-Asia trade and investment relations needs to be strengthened to facilitate the discovery of market opportunities between Africa and Asia and to better understand how the market works between the two regions."

- Source: ***Potential for Ownership and Partnership October 2004***
http://www1.worldbank.org/rped/documents/ticad1.pdf

"Competitiveness is a comparative concept by definition: The ability of African countries to develop competitive manufacturing sectors depends on the quality of African business environments and labor forces relative to those of the export powerhouses of the developing world."

- ***Competitiveness and Private Sector Development in Africa*** *Cross Country Evidence from the World Bank's Investment Climate Data October 2004*

Sea Food Exports: India and the European Union[1]

T. Raghunath Reddy[2]

India: Export of Sea Food to the EU

Since the last 8 years, responding to the needs and requirements of the European Commission which has been amended from time to time, the entrepreneurs and most of the exporting community have fulfilled those needs and kept the exports growing, in particular to the European Union. It has become more pertinent in today's world, that the day is not far away when EU will be the world's largest market for sea food products. The Sea Food Industry also subscribes to the fact that with 25 countries being members of European Union with a population of 450 million, it will surpass even United States with a population of 300 million. Fortunately, our export basket to the European Union has been growing very steadily, more so from Andhra Pradesh. India has surpassed Thailand, China and Vietnam. Out of the 175 million Euros, 172 million Euros has just come from shrimp alone. And only 3 million Euros contributed for crabs and lobsters. Coupled with this, the other major species which is the most commonly consumed sea food in the world, the cephalpods. India is the top most exporter in the world of Mollusks to EU in terms of volume, exporting to a tune of more than 60,000 tonnes. This is a fact, which once again demonstrates how important and vital this market is becoming for India, and more so for this particular region.

Andhra Pradesh: A major contributor to Sea food exports

Out of 1,50,000 tonnes of culture live at produce that is produced in this country, 80% of it, both the Black Tiger and the Fresh Water Shrimps are coming from Andhra Pradesh, South India. It will be interesting to know that in the last two years, Andhra Pradesh which today cultivates almost 80 per cent of India's Aqua Culture produce has approximately about 20 to 21 EU approved factories. 90 per cent of these factories have got EU approval in the last one and a half years. As a consequence, our exports to EU in the year 2003 and 2004 is encouraging. India exports shrimps, cephalpods, lobsters and crabs etc to EU. India is No.2 in the world, after Argentina. And it is a fact that Argentina is basically in proximity to most of the European nations.

It was commonly said by many of the buyers that they used to stop their journey either at Chennai or Mumbai because they used to look around for factories in those cities. They never knew, till an year back, Visakhapatnam and Bhimavaram and other areas existed on the international map, more so for export of these particular products.

Some problem issues

Rapid Alert System

One important thing which is hurting this industry, and which has kept the Indian sea food industry in a fear psychosis, a fact which was mentioned in the personal discussion with the Director of Health during the Brussels sea food show, and also brought to the knowledge of the European Union Commission, the Rapid Alert System.

We have a system in place of the rapid alert, and it is understood that once a company which spends considerable amount of money on the development of infrastructure, with one mistake, it needs to remain on red alert through out its life time because it is impossible for a company to go through 250 shipments as the current law states that you need to complete 10 shipments in each of the member countries of EU which is an impossible task to achieve.

The Sea Food Exporters Association of India, more particularly from this region, requests attention to

[1] Excerpts from the Presentation at the Sea Food Exporters Meet organized by SEA, India and GIFT in connection with the visit of Mariela Cantagalli. Ms. S. Srilalitha, Asst. Professor, GIFT initiated and coordinated this programme.

[2] President, Sea Food Exporters Association of India, Visakhapatnam.

this aspect, how we can over come this problem. If a consignment has been withheld, say, for example in Spain, this process we can go through for that particular country instead of putting a company on red alert through out the EU. If it has been detected in Spain we would like to complete the 10 consignments detention systems in that particular country, rather than going through all other countries.

Antibiotics

Another issue is that of antibiotics. Fortunately, for India only two consignments were destroyed in EU. Black Tiger consignment to EU cost any way from about 120 to 140 thousand US dollars. Now EU, on the request of the Indian Government has taken a decision that if any container stands rejected they are allowed to take it back subject to the export inspection council, the designated body of the EU takes the responsibility of monitoring that consignment, to once it is back in India. This positive response from the EU is appreciated. If EU could find a solution to this particular request of rapid alert, it will be very good for the industry. This particular region, as we started only last year our exports to EU basically on some size, it will not be a distant future when India could be No. 1 exporter of crustrations to EU.

Appreciation for EU Regulations

At first, the thinking here was that why EU has brought in all these conditions. But, frankly it was such an excellent system. It makes things so easy in a country and you know in that uni-directional flow of raw-material, the fundamental principle of EU factory. This is one of the best things that has happened to the Indian Sea Foods Industry, having a particular regulation. This regulation fortunately has been extended not only just to the processing factory but also to the landing centres and also to farms and other places. Probably by January 1, 2005 it has become mandatory also to ensure that the farms at which the material is procured, more so the cultured material, is also put to EU norms.

India's government and industry gearing up

The country as such, Government of India in particular has been working towards that particular goal. We are also working towards our objective of achieving zero per cent of anti-biotics. Our export to EU, if one looks at record during 2003 and 2004, had seen about 56 rejections out of which about 31 came from antibiotics; where as in this particular year in the last 9 months the rejections have come down by more than about 60 per cent. Government has stepped in and gave extensive education to the farmers on the implications and complications that arise out of using the banned antibiotics more so in EU and to a greater extent this menace has been controlled. The industry, the association by itself, the individual exporters and the government are playing their respective parts to give this knowledge to the farmers, with the objective to very shortly achieving zero per cent as the practices that are followed in Thailand and other parts of the world.

Infrastructure wise, whatever the requirements, that have been coming in time and again it is being followed up. However, there are one or two other technical points which has come up with regard to export of cephalpods, where the country got affected with regard to cadmium and things like that. We made a request to EU in the month of April and was readily agreed to draw the samples from the flush of the edible portion of the cephalpods rather taking it from the Visara and other part of it. For that we are extremely thankful to the European Union.

If the EU can look into the problem of the rapid alert system, it will pave the way for doubling our exports to EU in months, or a year to come. ▪

EU, WTO and Agriculture: Some Issues[1]

Ms Mariella Cantagalli[2]

1. On Sanitary and Phytosanitary Issues, Food Safety

For the European Union, the veterinary and phytosanitary criteria, is no longer traditional. They are a health concern. And, in fact, it can be very beneficial for Indians and for the Indian domestic market itself. Regarding the technical problem the sea food industry[3] is facing sometimes, in the rapid alert system (EU), on the distraction of consignment, this message will be conveyed to the veterinary and scientific section in Brussels. However, the problem has been raised recently in the sub-commission on trade meeting. They promised to look into that and to further improve the system. Nevertheless, there is one point, we should be clear to. Have a big perspective, and see beyond sea food products. The point is that, veterinary and phyto sanitary issues today in the EU, are not any longer a trade issue, for us they are a health concern.

Following BSE (Bovine Spongiform Encephalopathy) crisis in 1996, if you look at recent surveys, for instance 91 per cent European citizens believe that the main task for common agriculture is to protect the consumer from this kind of health scare like the BSE. European Commission in Delhi at the delegation of the working group in economic section in the EC, a branch of the EU discussed this issue.

The EU has a common trade policy. And where trade, including WTO matters, are concerned, the EU acts as one single actor, where the European Commission negotiates trade agreements and represents the European interests on behalf of the Union's 25 Member States. It means that we are those in charge of proposing legislation; also we are in charge of negotiating on behalf of our 25 Members. The biggest part of sovereignty was transferred from our member states to the institutions. And beyond sea food, I thought it would be interesting also for you to be updated very briefly on what is today in the EU, our common agriculture policy, what is the shape.

2. On EU –WTO negotiations on Agriculture and Decoupling

Briefly on our policy today, and why we have arrived at our current position in the WTO negotiation and agriculture:

The Common Agricultural Policy has evolved continuously to reflect the concerns of the EU's rural areas, its society an the wider world. The CAP has its roots in 1950s western Europe, whose societies had been damaged by years of war, and where agriculture had been crippled and food supplies could not be guaranteed. The early CAP reflected the need to maintain and increase food production. Its emphasis was on encouraging better productivity in the food chain, largely food security reasons, but also to ensure that the EU had a viable agriculture sector and that consumers had a stable supply of affordable food. The CAP offered subsidies and guaranteed prices to farmers, providing incentives for them to produce. These developed into a comprehensive framework of 'common market organisations' for several crops and livestock Products.

We have till the 90s a rigid subsidy policy to increase production. What does it mean? That till the 90s, it is more important for the farmers to get more subsidies.

The CAP was very successful and, by the 1980s, the EU had to contend with almost permanent surpluses of the major farm commodities, some of which were exported (with the help of subsidies), others of which

[1] Excerpts from the presentation of Ms.Mariella Cantagalli, at the Seafood Exporters Association of India, meeting on August 26, at Hotel Grand Bay, Visakhapatnam.

[2] First Secretary, Trade & Economic Affairs, European Union Delegation of the European Commission to India, Bhutan, Maldives, Nepal and Srilanka. Ms.Mariela visited the EU approved factories and appreciated the success stories of India's sea food exporters.

[3] In response to the presentation of Mr.Raghunath Reddy, President, Seafood Exporters Association of India, Visakhapatnam.

had to be stored or disposed of within the EU. These measures had a high budgetary cost, distorted some world markets, did not always serve the best interests of farmers and became unpopular with consumers and taxpayers.

On 'Decoupling'

The real change to the common agriculture policy occurred last year in June 2003. It was decided to decouple payments. What does it means? If you are farmer of the longer link to production, today in the European Community, you would receive money, public money if only and only you comply with the environmental criteria, food safety criteria; and sea food for instance food quality, food safety criteria you would get public money which is the link. Decoupling of subsidies have paved the way to move from amber box (domestic support measures considered to distort production and trade).

In the past, the more farmers produced, the more subsidy payment they received. Under the new system direct income payments will be linked to respect of environmental, food safety and animal welfare standards. Severing the link between subsidies and production ('decoupling') will make EU farmers more competitive and market-oriented.

Trade Liberalization and Good Domestic Policies

I read often about market access. But there are issues much more beyond trade. Trade liberalization is good if your trade related technical assistance is matched with good domestic policies. Because if the infrastructure is not there, we cannot try for the benefits of trade liberalization and I think the latest WTO report which has just been published reiterates the message - trade liberalization is good if you could apply good domestic policies.

EU is the biggest importer of food stuff in the world and the largest market for exports from developing countries in agro food stuffs it means that on an average an imported on an yearly basis between 2000-2002 37,4 billion Euros per year and 62% of imports in agriculture stuff comes from developing countries.

For technical assistance to developing countries, for instance, to comply with our phyto sanitary and veterinary issues we have different budget lines for that and we have also created a help desk website which in fact is very well utilized. Since we created, we received on an average affect out of 1400 requests per day and it seems 700 comes from India so it means there is increase in exports, the interest in the EU in that this kind of tourism can help in fact again wipe in the benefit in which trade liberalization can bring in. ■

"The rapid alert system for food and feed (RASFF) is primarily a tool for exchange of information between competent authorities in cases where a risk to human health arising from a food or feed has been identified and measures have been taken, such as withholding, recalling, seizure or rejection of the products concerned. This quick exchange of information allows all Member States to verify immediately whether they are also affected by the problem. Whenever the product is already on the market and should not be consumed, the Member States authorities are then in a position to take all urgent measures, including direct information to the public if necessary."

"The system involves a network consisting of the Member States, the European Food Safety Authority and the Commission, which is responsible for the management of the system."

Source: http://www.fao.org/docrep/meeting/008/ae141e.htm

Solvency Regime in Insurance: Need for Greater Say for Actuaries

Sundararajan Parthasarathy*

Solvency Regime is the name suggested by academics for the set of rules regulating the conduct of the financial services industry with a view to safeguarding the interests of people who trusted these companies and put their money in them. The solvency margin for the insurance industry is fixed by the insurance regulators to protect the interests of policyholders in the event of insolvency of the insurers.

The solvency regime must cover marketing practices, the kind of assets to hold, basis of valuation of liabilities, as well as valuation of assets, and finally stipulating a formula for fixing the solvency margin. The object is to provide a mechanism for compensating the insureds in the event of the insurer's insolvency. Solvency ratios or credit rating made known to the public may also enable them to make their own judgments about a given insurer.

The most important rules for life insurers relate to valuation of liabilities since serious inadequacies in loss reserves will easily push the insurer to the brink of insolvency. On the other hand, the main solvency protection for general insurers will come from a solvency margin, fixed at specified levels of premiums, for, they have some constraints over assets and liabilities. The regulator must use his discretion and seek higher levels. However, to apply a uniform solvency percentage to risks within a class that may have different exposures is unwise. Reinsured risks are safer than those without reinsurance. Again wrongly priced risks are a disaster. An important IRDA rule is that the appointed actuary may set additional reserves, if deemed necessary.

Has he done it in the case of LIC and other life insurers in this country?

Certain specified assets are to be valued at zero, namely, - agents' balances and outstanding premiums in India unrealized within 30 days and those outside India, unrealizable at all, unrealizable sundry debts and advances, furniture, fixtures, dead stock and stationery, deferred expenses, profit and loss appropriation account balance and any fictitious assets other than prepaid expenses, reinsurers' balances outstanding for more than three months, and preliminary expenses in the formation of the company.

Who, other than the appointed actuary, has been monitoring these valuations? And besides, which accountant has ever written off a debt outstanding only for over a month?

The Gross Premium Method, which is a prospective method of separately determining the mathematical reserves for each contract, will consider all parameters, that is, all prospective contingencies under which premiums and benefits payable to policyholders such as bonuses, including terminal bonuses, as well as reasonable expectations of policyholders in this regard and the established practices of insurers in payment of benefits. This will include an appropriate margin for adverse deviations (referred to as MAD) that may result in an increase in the amount of mathematical reserves.

A separate schedule under the IRDA Act deals with Valuation of Liabilities (General Insurance), especially in respect of (a) Provision for bad and doubtful debts, (b) reserve for dividends declared or recommended, and outstanding dividends in full, (c) amount due to insurance companies carrying on insurance business, in full, (d) amount due to sundry creditors, in full, (e) provision for taxation, in full, and (f) foreign exchange reserve, and (g) reserve for unexpired risks at 50% of the premium, net of reinsurances, received or receivable during the preceding twelve months, for Fire, Miscellaneous and Marine business other than marine hull business and 100% only for Marine hull business.

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* The author is currently professor of Insurance and Risk Management at GIFT, Visakhapatnam.

My comment is that there are numerous sub categories of risks within each class, which warrant different reserve percentages. Cases in point are Business Interruption within Fire, Contractor's All Risks within Miscellaneous, Erection All Risks within Engineering and so on. So, there must be flexibility and scope for review in these rules.

(b) Reserve for outstanding claims shall be determined in the following manner: -

(I) Where the amounts of outstanding claims of the insurers are known, the amount is to be provided in full;(II) where the amounts of outstanding claims can be reasonably estimated according to the insurer, he may follow the 'case by case method' after taking into account the explicit allowance for changes in the settlement pattern or average claim amounts, expenses and inflation;

(c) Reserve for claims incurred but not reported (IBNR) should be determined using actuarial principles.

My comment is whether in view of 'loss development delay' especially in liability claims, how many 'claims-made basis' policies have been issued as against 'occurrence-basis' policies?

My further question is: do the insurers have an independent solvency-monitoring officer in addition to the appointed actuary? If not, why not?

The EU study on solvency requirements has thrown the focus on the following aspects as well:

Identifying various risks and assessing the general importance of the different risks; assessing risk for insurance undertakings from a cross-sectoral perspective; describing methods for determining non-life technical provisions; describing methods for valuing insurance assets; identifying best practice and new trends in both areas, integrating reinsurance in a future harmonized solvency system; adopting supervisory techniques to assess a cedant's reinsurance arrangements, using asset liability management techniques, financial reinsurance, derivatives, etc to control or transfer risk, the impact of these instruments in the present system, and their potential in a future system, analysing changes in accounting principles that could impact on technical provisions, their coverage, relevant assets and on the solvency margin system.

It is said that assets are only worth what they can be sold for and liabilities are what they will cost. Any attempt at accounting profit recognition, or period matching or smoothing of values is invalid for solvency. Assets and liabilities should be considered together to avoid any mismatching. The method of determining valuation must be based on the real risks that a company faces. Simple adding on of solvency margin percentages without risk assessment is not right. The technique of Risk Based Capital is only a series of percentages and is not based on the specific risks of the company.

A rigid set of prescriptive rules cannot keep pace with changes in economic conditions.

All assets and liabilities are to be valued at cautious fair value, that is, what assets and liabilities can be sold/bought for now or a net present value of their cash flows. Accounting prudence should apply to cautious fair value. Reasonable Extreme Deviation must be determined from the fair value. IRDA refers to this concept as MAD, that is, margin for adverse deviations.

To have credibility, each insurer should appoint a Solvency Monitoring Officer, who will be responsible for maintaining solvency in the same way that an Appointed Actuary is today for life companies. He should perform quarterly solvency assessments; advise the board of the company of the solvency implications of courses followed and ensure that the company meets solvency requirements at all times. This should be backed up by regular annual external review.

Non-life business is more volatile than life. The market is cyclical. It will take quite some time before experience is known and eventual turn out can be quite different from expected. A risk-based approach is absolutely necessary. Failures of insurers point to the need for good business controls and no solvency regulation will succeed without internal controls. The risk-based approach must ensure that there is adequate knowledge within the company of what each part of the company is doing.

Non-financial parameters may be incorrectly assessed in view of wrong assumptions on mortality rates for life business and loss ratios in non-life (especially liability) insurance. They may be different for the insurer and the industry in general. They may change over time and also be permanent or transitory. Asset values may fail to meet expected levels due to market or individual performance. Assets may not be realizable at the required time and thus not liquid when needed. Other miscellaneous risks include general and specific inflation, legal risk and customer risk. Actuaries determine solvency requirements by setting a ruin probability and determining how much capital is necessary to put the chance of failure below the ruin probability. Typically this could be 1 in a 100 or perhaps 1 in a 1000.

Globalization and the pace of innovation seem to have been troubling the financial services industry more than other external forces in the matter of their solvency. The active presence of the regulator in the insurance industry has become doubly important also because of imperfect competition, which could cause wrong pricing on the one hand and provision of inadequate loss reserves on the other.

As a researcher lamented, the job of insurance regulators is tough, because, "if a single company fails, they have been too lenient, if none fail, they have been too severe."

I cannot conclude better than by quoting the Speech by Henrik Bjerre-Nielsen at the KPMG-European Commission Conference held on June 24-25 2002.

"The solvency regime, which was originally conceived in the Basel discussions on capital requirements for international banks, but is now used in the EU discussions on solvency reform both regarding banking, securities and insurance firms, consists of 3 pillars: financial strength, the supervisory review process and market discipline. …they are mutually reinforcing. It is important that the required capital margin takes into account all types of risks and that risk mitigation techniques can be used to reduce the capital required properly….Stress testing and other elements of the supervisory review process. serve as means to measure the sensitivity of assumptions and to take into account the elements which are not easily quantified such as the quality of the internal risk management. The supervisory review process may also remind us that models based on past events are not perfect in predicting future events and that hence some judgement - or even imagination - is needed. Finally relying on market discipline will contribute to more efficient corporate governance as better informed customers and investors are more likely to move their funds to the financial firms with prudent risk profiles. This in turn is likely to put more competitive pressure on other firms inducing them to increase their financial strength or reduce their risks assumed."

The Appointed Actuaries have a solid role to play, having to recognise these forces and must actively involve themselves in the task of maintaining the stipulated solvency margin. ■

"The insurance industry, as an integral part of the financial services industry does not stand apart from the profound changes in the financial sector in India. Recently we are witnessing an enhanced competition in the insurance industry, thanks to the opening up of this sector to private participants. With the passage of the bill on bancassurance, banks are also entering this area, which will no doubt intensify the competition. With a view to enhancing profitability and market share, sophisticated and innovative financial products are entering the market place. All these developments go to enlarge significantly the role of actuaries and at the same time they pose considerable challenges to the Actuaries in carrying out their responsibilities."

- 5th Global Conference of Actuaries *; February 19-20, 2003, New Delhi:* ***Inaugural Address by Dr. C. Rangarajan, Chairman, Twelfth Finance Commission and former Governor, Government of Andhra Pradesh and Reserve Bank of India****: Insurance and the role of Actuaries*

Source: http://www.ficci.com/ficci/media-room/speeches-presentations/2003/Feb/feb19-gca-rangarajan.htm

Agri Export Zones and India's Agri Exports[1] Challenges and Prospects - A Report[2]

RRThakur[3] and D.Ravinath[4]

Introduction

Agriculture being a primary sector for India, the new Foreign trade policy 2004 – 2009 has highlighted the role of agri–exports in achieving the world trade share of around two percent. The new WTO regime, however, has thrown open new challenges arising out of global standards, policies and regulations, SPS measures, besides consumer preferences and unique business practices of different countries.

Yet there is a silver lining the initiative in the form Agri Export Zones (AEZs). In order to realize the full potential in agri-exports, the government established forty eight AEZs, identified across the country and has projected exports of around Rs 10,300 crores during the next five years. AEZs have the primary thrust to establish and strengthen the backward and forward linkages with a market-oriented approach and add value to basic agricultural produce. Increasing product acceptability and competitiveness abroad is in the core of such initiatives. It is felt important to bring in the latest technology, better inputs, scientific pre and post harvesting facilities and also establish the right linkages with international markets.

Objectives of the Seminar :

The objective of the seminar was to bring forward the issues critically and help the AEZs assess the critical need and desirability of the standards, policies and regulations, consumer preferences and unique business practices in each product category and region for attaining the cutting edge of competition in international markets.

The seminar was well attended by all the major stakeholders in AEZs,[5] Three primary benefits were envisaged out of this seminar.

- Awareness generation
- Discussions on the problems and prospects
- Providing an opportunity for sharing and learning and also establishing a strong network across India, to build synergies.

The seminar brought forward the following issues:

Prospects and Challenges of Agriculture Sector in India and its exports

In immediate post independence time focus was always on food self sufficiency and the happening of the Green revolution around 1960s helped achieving this goal. About two thirds of population is dependent on agriculture and related activities even today. However, its contribution to India's GDP has not crossed more than a quarter and this is a cause for worry particularly when skilled manpower and research institutions are strong areas of this sector and they remain unutilized.

India's economic growth in future would heavily rely on agriculture and this sector has to take the lead as

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1 Two day national Seminar was organized by GITAM Institute of Foreign Trade(GIFT), Visakhapatnam and Vizagapatam Chamber of Commerce and Industries, Visakhapatnam with the support of APEDA and National Horticulture Board at GITAM Campus, Visakhapatnam during October 28-29, 2004. The seminar was inaugurated on 28th October, 2004 by the chief guest, Mr. K. S. Money, Chairman, APEDA; chaired by Dr. M.V.V. S. Murthi, President, GITAM Institutions. Prof. C. S. Venkata Ratnam, Director, GIFT, presided and Dr. Rajiv R Thakur, Assoc. Prof, GIFT & Programme Director spoke about the details of the national seminar. Mr Vijay Kumar, honorary secretary, VCCI, extended the vote of thanks.

2 This report was prepared with assistance from Abhishek Kumar, Kadari Pawan, Manas Panda, Meera Ganesh & Shilpi Moda students of MPIB, GIFT.

3 Associate Professor, GIFT

4 Asst. Professor, GIFT

5 The state and central government officials, representatives from the corporates and the small and medium entrepreneurs partnering in the growth of AEZs. Members from APEDA, National Horticulture Board, NABARD and state government bodies associated with the AEZs and other similar organizations who are actively involved in seeing through the success of this project also attended the seminar.

the engine of growth. All these years though this sector worked towards self sufficiency it completely lacked market orientation and therefore what is needed is to follow the new rules of the game. The sector must realize the weaknesses and deficiencies and what the market needs. This will require looking backwards and integration of the supply chain.

Discussing the problems of this sector, it was highlighted that the sector was frequently struck by famine, drought and other such natural calamities. India remains at the top or at the second position in many products like milk, fruits, vegetables etc., yet there has been a lag in the yield and productivity of the produce, due to lack of infrastructural facilities. The costs that were being incurred for infrastructure are too high and therefore investments from private entrepreneurs with an encouragement and involvement from the government was badly needed.

In the era of global markets, stress should be on quality which somehow is not being felt till now because the demand for the product was more in comparison to the supply. A careful study and implementation of supply chain from the seed level to the delivery of the product to the customer including production and other related functions has to be taken up. The country's ability and strength lied in the cost of the produce and therefore emphasis should be on value addition.

The farmers and entrepreneurs should tap the most potential areas with the help and initiative of the state government and should be made more aware of exports and what does it mean to them in terms of money as well as the economy. AEZ has attempted to find sectors where potential is more, identifying the gaps to fill them. Improving the quality of agriculture produce was the foremost element highlighted in order to facilitate exports growth. Issue of quality ranges from pesticide levels in produce to packaging and positioning of products which can make products more attractive and saleable in the market. The weaknesses and deficiencies have to be overcome by bringing in better packaging & better grading. The need and concern for improving upon packaging and packaging technology was also discussed. What is needed is that everyone should maintain standards so as to be at par with the international standards keeping in view of the safety.

Case of the success of Sri Lankan tea exports was discussed, which showed how awareness amongst farmers and exporters helped them score ahead of Indian tea exports. The Indian growers are highly unaware of the export procedures and the terms of sale. In a similar instance, reference was made to Holland's success in trade of roses through out the world. However, Indian roses are better known for their quality as compared to the produce grown in Holland. Yet India has been lagging far behind. Therefore, a definite need for perfect market knowledge was highlighted at several points. The need for the farmers and the entrepreneurs to be taught about what was required and what should be grown with the avenues being explained in this sector was repeatedly emphasized.

The issue of support from the government for agri-products by reducing the interest rates was also discussed. Comparing the interest rates for any of the EOUs where interest rates are not more than 6-7%, the relatively much higher rate of 10-11% for agri-unit was highlighted and suggestions were made to bring the latter rates down. It was felt that the government is neither able to give support nor encouragement to the farmers who grow mangoes as a result there has been a drastic fall in exports. A similar trend exists in the case of chilies where there is a lack of technology in the pre and post harvest stage and the same is also true for vegetables, tomatoes, fruits etc.

The immediate need for a better qualitative life for the farmers in states like Andhra Pradesh and also to the entrepreneurs was mentioned and assistance from institutions like APEDA was invited to resolve the problems.

The Active Agents and their initiatives in Agri Export Zones

Integration and partnership are the core concepts on which AEZs rest. MOUs between APEDA, EXIM bank and NABARD focus partnerships for bringing out the best results.

The various schemes which APEDA introduced for market development of Modernization of Food Processing Industries(MFPI) were discussed along with the schemes and assistance that were introduced by APEDA in supporting technology up gradation, HRD, quality assurance, Codex standards, strengthening nodal agencies, backward and forward integration in the value chain, infrastructure development and all promotional activities for the overall prospects of this sector.

The highlights of AEZs in Andhra Pradesh were discussed particularly about the AEZ in Chittoor with exports amounting to Rs.130 crores. Mention was also made of the Virtual Trade Fair where producers can display their products at a small cost of Rs.20,000. It was observed that in a situation where FMCGs have reached a saturation point and there was no market for them, efforts were on to concentrate on processed food industry and various alternatives like heat and serve, ready to eat products and there lies a great potential in this segment.

Initiatives of NABARD under Agri Export Zones were also presented and discussed. The various activities and interventions carried out by NABARD for which there has been continuous monitoring by Nodal officers were discussed.

The various challenges which had to be encountered to sustain an overall development with adequate need for privatization and their participation were referred to and products like cashew, fruits and their juice were made available after they were explored with state intervention. The expected growth rate stood at 10-15%. The issue of low productivity was also raised and concentration on developing organic farming was recommended. NABARD has been working with EXIM Bank for supporting AEZs in these areas. Various programmes were being taken up by NABARD for bringing in awareness and orientation programmes for the officials of banks and NABARD through Bankers Institute for Rural Development (BIRD). NABARD prepares a Pre-potential Lead Plan (PLP) for assessing the availability of exports and then financial interventions are undertaken in developing various AEZ projects in different states.

Few important sanctioned schemes are of the cultivation of gherkins in Karnataka, TAN flora park in Tamil Nadu at the project cost of Rs 18 crores and grapes development project in Nasik at the cost of Rs 402 crores. Crop specific credit plans are being prepared for Uttar Pradesh, West Bengal, Maharastra, Karnataka. Investment credit for processing units, food parks, floriculture parks etc are being planned.

The initiatives and programmes of EXIM Bank for promoting AEZ were also discussed. Deliberating upon the latest international market trends and the way it had to be assessed with the potential for the various agri products in different countries, the prospects for the organic foods was much emphasized. Broadly, the various schemes and initiatives of EXIM bank was also discussed and it was also pointed out how the bank has been offering favourable terms for AEZs in terms of finance as well as information and advisory services for export marketing. EXIM bank has a ‘agri business group’ to look at this sector and focuses on export finance, both for pre shipment and post shipment finance and also provides advisory services.

It provides export credit, finance for exporting companies and export marketing services and has strategic alliances with Rabo Bank and other international organizations. Post shipment credit in form of suppliers and buyers’ credits, lines of credit etc is very popular amongst exporters. EXIM bank has LOCs aggregating US $ 30 million in place to developing world. It offers term loans for expansion, up gradation and setting up units. Finance of overseas investment by Indian corporates in field of marketing, processing ventures and brand acquisition are also made.

The Tenth Plan schemes of Ministry of Food Processing, Government of India have been quite important for AEZs. Moreover, there are various schemes which this ministry offers for assisting in technological up gradation, establishment and modernization of food processing industries to the tune of Rs. 50 lakhs or 25% of the total cost of civil construction. There are various schemes for HRD in which it concentrates on training personnel so as to develop entrepreneurial abilities in them as well as make them acquainted to this upcoming industry. There are schemes which concentrate on developing and improving upon quality standards, establishing laboratory facilities and R&D in processed food centers as well as establishing Codex standards for all the units in order to meet the challenges of a quality driven market.

The ministry has schemes also for strengthening the nodal agencies with the help of the state government for setting up latest infrastructure for which necessary funds are required. It was suggested that by developing infrastructure, establishing food parks with value added products, having an integrated cold chain facility and irradiation facilities the industry could be made competitive worldwide.

Prospects and Challenges in Horticulture Exports – Experiences from Andhra Pradesh

Horticulture crops cover 6.1% of area under cultivation and they contribute 19 % of country's GDP. However, spices and cashew nuts only contribute largely to the export basket of Indian agricultural produce. Others include fresh fruits, vegetables, mushrooms, processed fruits and vegetables, medicinal and aromatic plants. The major concern of horticulture exports is slow growth rate though still there exist untapped production reservoir. There are problems related to low productivity and higher cost of production. Inadequate extension reach, credit and insurance services make the ventures risky.

The problems in export of produces identified are common relating to quality, phyto sanitary requirements and pre and post harvesting handling and packing. What is required is the growing of right varieties desired by importing countries, adoption of GAP and creating facilities for bulk handling like pre-cooling, grading, disinfection, packing etc. The role of public and private partnership has been highlighted besides taking up forward looking measure of promoting organic farming and contract farming which may yield rich dividends in future.

Andhra Pradesh (on an avg. 8% of arable land is in horticulture) has an important role to play in horticulture products as it is eminently suitable for production of a wide variety of horticulture and plantation crops. Yields of fruits and vegetables are better compared to some of the states in the country but low compared to other countries, due to poor orchard efficiency, low yielding varieties and of unknown heterogeneous pedigree. However the problems discussed above by and large affect this state also and therefore the same suggestive measures should be tried and implemented here. Few thrust areas for future development are as mentioned:

- Standardization of nursery practices.
- Intensification of research on vegetables seed production.
- High-density orcharding and use of proper rootstocks for fruit crops.
- Water management including micro irrigation/ fertilization.
- Protected cultivation using green house technology.
- Standardization of harvesting, grading, packaging, storage and transportation.
- Integration of crop production, marketing for example processing.
- Attracting private investment.

Innovations on Field – Case in Rice cultivation

System of Rice Intensification in rice production is one of the innovations which may be used to increase yield by using fewer inputs. Success in agriculture depends on three factors – genetic, inputs and pest management. In 20th century productivity gains were possible with increased use of inputs – fertilizer, pesticides, water etc. Now a stage is reached where returns are less, efficiency levels are low and the cost of production is rising and simultaneously there has been a rise in environmental hazards, for example health risks etc.

Biological process and eco agriculture should be basic foundations for social health and 21st century agriculture. Contribution of social microbial activity to soil fertility needs to be taken more seriously. Rice plants grow large when young plants, say between 8-12 days seedlings are spaced at wider distance, which is aerated and has abundant and diverse soil organism. This practice was first developed in Madagascar with the objective of reducing cost of cultivation and is being tested in countries like China, Indonesia, Sri Lanka, Thailand etc besides India. In Andhra Pradesh, SRI is being experimented in all 22 districts with encouraging results. While this practice requires fewer inputs it encourages rice plant to grow healthy with large roots. Fewer plants per unit area uses less pesticides and fertilizer. Instead it relies more on organic manures and thereby utilizes biological power. The benefits are manifold for instance high yields, reduced duration, less chaffy grain percentage, cold tolerance etc. Here the growers are advised to use less water and it is recommended that no water should be stored or retained near the plant as this reduces the yield. In spite of initial investment being high in this method of cultivation, the experience shows that the expenses would be curtailed later on.

Learnings from the Dairy Sector Post Cancun

The discussion highlighted the need for intelligence which is to be made perfect, accurate and updated from time to time. Market intelligence has to be perfect for selected sectors for regular monitoring of emerging trends in markets and technological changes and monitoring policy changes in other countries for domestic industries of export promotion.

In dairy sector, milk production is more in EU than in India. India is second in milk production with 84 million tonnes where 70 million people are involved and rely on this sector for employment and earnings. Of the total production 95 per cent is locally consumed and only 5 per cent is exported of which 2 per cent is quota. The products include whole, skimmed milk powder, cheese, butter, ice cream, and condensed milk. Overall world average dairy tariff is 85 per cent. Developed countries have higher tariff on average, 116 per cent for OECD countries and 74 per cent for non-OECD countries.

Dairy is highly sensitive subject, which is obvious from US and Australian agreement with exception of sugar, dairy and others to liberalize by 2020. Why EU distorts global market? The fact is that 1 per cent increase in milk supply will decrease the price by 4 per cent in EU and this will have impact on export subsidies. Farmers' share is shrinking but consumer is paying higher and higher. Import bans are totally partial and technical specifications include process and product standards. The answer to this situation is to promote public and political awareness; develop regulatory framework, improvement of infrastructure and equipment and improvement of technical specifications.

AEZs – How are they creating the difference?

I. Food Park and fruit processing clusters – an experience in AEZ Chittoor, Andhra Pradesh

The salient features of food park clusters are unique in terms of their geographical coverage, products covered and the nodal agency working on them. Cluster development is based on the concentration of firms in a contiguous geographical area belonging to the same sub sector. The ethos of cluster dynamics revolves around competition, conflict, rivalry and cooperation. The objectives of Food Park are of maximizing the value creation in the value chain, fostering strong forward linkages and maximizing post harvest returns.

The experience in AEZ Chittoor has been quite positive. Ministry of food processing of which the first was set up in AP, sanctioned 24 food parks. The objectives were clearly identified to help existing units, demonstrate better technologies as benign catalysts and promote inter firm networking and also help create critical common infrastructure facilities. The expected outcome was a healthy competition and expansion of domestic and export markets. This has locational advantages which provides easy raw material availability, market access and is endowed with skilled labour.

The project in AP has been ranked as one of the most dynamic AEZ project and has created the right backward and forward linkages. Normally 30-40 per cent of the products are damaged because of the bad handling practices. Hence in future they should go for high density packages. Developments of market yards, setting up of agri-clinics, pre cooling, processing and value addition, integrated pack house, common ware house and custom boundary, product promotion, accessing export market are the major initiatives taken.

II. Agri-business Incubator

There is always a difficulty in scaling up an idea from kitchen level to pilot scale and then industrial scale. Lack of knowledge about market acceptance and lack of knowledge about statutory regulation and incubator usually become hindrances in such initiatives. A practical methodology suggested is to look up for a tough market or tough customer and then develop ability to achieve the value propositions of tough customers. It helps to build up capacity by selecting tough markets and adopt standards. Science, technology and engineering plays a vital role in finding the target cost, quality and price. Producer must have a network of agencies to carry out these functions. ICRISAT has the tools to integrate players and it is playing a vital role in bringing about such valuable integration.

Packaging as a critical Value Adding tool

Food processing and food packaging are complimentary and supplementary to each other i.e. each depends on one other. For example, hot food when packed in a polythene sheet has the risk of catching smell when consumed later. Other interesting example could be of mangoes or oranges when transported from Nagpur to Mumbai where people sit on it and this in turn damages the fruits and becomes a cause for fungus to be formed.

Packaging should be treated as a resource. Packaging system includes product to be packaged, the process, packaging machinery and the final 'pack'. Major issues of concern are product packaging compatibility, shelf life, shelf stable, market facilitation, consumer convenience, post consumer waste disposal.

For food supply, the following are the requisites:

- Reach in safe and undamaged conditions– maintain quality and it should add value.
- Industry and consumer acceptance
- Increase shelf life with or without refrigeration
- Ease in production and disposal
- Machinery and technology development
- Packaging can be a better aid in distribution system

Challenges in food safety – Case of Meat products

Different forms of meat are available from different livestock and their demand vary from country to country. In exporting meat products there are various challenges which have to be tackled with necessary remedial action. Problems crop up while selecting the buffalo meat especially when it stops giving milk because there is a danger that it is affected with some disease hence ante and post mortem needs to be done. The need for inspection and monitoring the cattle or live stock is required at every level if quality is to be maintained, which is also true for snack food i.e. vegetables and other ingredients. At the processing stage, the location and design of the plant are very important as it has got to be in a non industrial area, with dust and pollution free zones. Maintaining of the cold chain is very vital for this industry and temperatures have to be maintained at -18^{O}C at all stages. Testing and recording of all the implements that are used in the unit is very important for quality reasons. Contamination has to be eliminated and everything has to be monitored and tested before it is being used. Training programme for employees is a must.

In a separate presentation, issues were discussed regarding the containerization and safety aspects and how containerization can ensure safety and quality standards even for the agri products.

Few interesting facts came up regarding the exports of Gherkins. Gherkin exports virtually started from nothing in 1993 to 75,000 tonnes in the year 2002-03 though the existence of AEZ was in the year 2001. India, has an agro climatic advantage for growing gherkins and the market development was done by the exporters themselves. AEZ and the institutions involved took care of pest and disease issues, cost competitiveness, finance to farmers (low interest rates), duty differences (14 per cent to EU countries) quality of power supply, etc. The investments and units into gherkins have increased and now there are six units in Karnataka, three in Tamil Nadu and another three in Andhra Pradesh. The key to success is mainly attributed to the participation of private entrepreneurs which led to increase in exports. It was suggested, that in future, marketing has to be a driving force and the nodal agencies will have to play a more active role in streamlining of the AEZ operations. All the agencies including the government should operate with a single window clearance concept.

The state government's initiative in Tamil Nadu to set up TANFLORA for promoting floriculture produce, medicinal plants, turmeric, grapes, mangoes, onion and many such horticulture products also raise good hopes for future.

Looking into the future prospects of agri exports few challenges which remain before the agency include:

- Inadequate infrastructure facilities
- Need for greater coordination among state level agencies especially, the nodal agency.
- Lack of convergence of various schemes in AEZ at district level.
- Appropriate technological intervention for specific crops.
- Promotional initiatives in marketing of Indian crops example patenting products based on Geographic Indicators.
- Capturing ground level credit flow in AEZ.
- Quality certification by internationally accredited institutions.
- Focus on organic farming in AEZ to grow globally – natural cultivation.

International Trade Centre
UNCTAD/WTO

29 JUL. 2004

Ref: [illegible] (TDC/3)

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GIFT NEWS

GIFT –Workshops/Seminars/ MDPs in the Quarter

Workshops

Interactive session on ***Indo-European Trade and Economic Relations*** jointly organized by FAPCCI and GIFT at J.S.Krishna Murty Hall, Federation House, Hyderabad on 6th November 2004.

Seminars

National Seminar on ***AEZs and India's Agri Exports*** 28th-29th October 2004.

MDPs

Export Risk Management on 8th October at GIFT Conference Hall.

International Marketing during *17th-19th November, in Hyderabad.*

Public Lectures

The 5th GIFT Public Lecture Series was held on 27th October. Mr.Vijay Sardana, Executive Director, Centre for International Trade in Agriculture & agro-Based Industries, New Delhi spoke on ***"Changing Global Scenario on Food Safety, Trade and Public Health: Challenges for Indian Farmers, Industry and Consumers"***

Inauguration

GIFT - ***Centre for Innovation & Entrepreneurship*** was inaugurated by Dr. SID Gautam, Director, Centre for Entrepreneurship, Methodist College, Fayetteville, North Carolina, USA. On 29th November.

GIFT is an offshoot of Gandhi Institute of Technology and Management (GITAM) located in the port city of Visakhapatnam on the east coast of the country, a city that hosts several large industrial organizations – Visakhapatnam Port Trust, RINL, LG Polymers, HPCL, Marine Products Export Development Authority (MPEDA), Visakhapatnam Special Economic Zone (VSEZ), Office of the Joint Director General of Foreign Trade (JDGFT) and Customs Authorities. Established in 1997 in academic collaboration with the Indian Institute of Foreign Trade, Ministry of Commerce & Industry, Government of India, GIFT offers a two year Masters in International Business (MIB), the flagship programme of the Institute. An integrated business school with teaching, training, consulting and research as the four pillars of its activity base, GIFT has serviced a host of organizations related to foreign trade like APEDA, SIDBI, FAPCCI, Tobacco Board, Horticulture Board, CONCOR, various chambers of commerce, SMEs and prospective entrepreneurs in the fields of export marketing, export finance, foreign exchange risk management, commodity futures; logistics and supply chain management, entrepreneurship development; and WTO agreements and implications for business. The Centre for Entrepreneurship is a new initiative of the Institute. As part of its social responsibility, GIFT has taken up sponsored research and brought out the Visakhapatnam Development Report 2003.

GIFT brings out this quarterly publication GLOBAL VISTAS to provide analytical articles and commentaries on issues relating to international trade developments, and WTO and related trade issues. We at Global Vistas invite contributions with a word limit of 2000 words from academics, trade and industry that are of contemporary relevance.

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Textiles and Clothing 2005

After more than forty years, the textiles and clothing sector - that has a long history of protection in the United States and Europe - will be free from import quotas. The complete phase-out of the Multi-fibre Agreement (MFA) by January 2005 under the WTO Agreement on Textiles and Clothing (ATC) would put an end to quantitative restrictions.

The textiles and apparel industry is one of the leading segments of the Indian economy and the largest source of foreign exchange earnings. Accounting for 8% of GDP it is the largest manufacturing sector in India and provides employment to about 40 million urban and rural poor, many of them women. For exporters in India, it provides a tremendous opportunity to boost exports.

The clothing sector is both a labour-intensive, low wage industry and a dynamic, innovative sector, depending on which market segments one focuses upon. In the high-quality fashion market, the industry is characterized by modern technology, relatively well-paid workers and designers and a high degree of flexibility. To reap the benefits of a post quota regime the Indian industry needs to gear up to take with its competitors.

Since 1995 the share of the ATC countries (Canada, EU and the United States) in world imports of textiles has increased from about 35 percent to 43.5 per cent in 2002. And in clothing, the ATC countries' combined share of world imports has increased from 62 per cent to 67 per cent during the same period. The expectation is that India and China will increase their world market share substantially in the textiles and clothing sector with the elimination of quotas as agreed under the ATC.

But, regional and preferential trade agreements are not curtailing trading opportunities but also leading to diversion of trade from countries like India that are not part of any major trade bloc. And other issues too, concerning environment, chemicals, labour standards, and corporate social responsibility, could impact developing countries. However, a World Bank study says that the welfare gains to India from the elimination of the ATC quotas would be three times as high if combined with domestic reforms. The Indian Textile and Clothing Industry is gearing up to meet the challenges of such a complex competing environment. The task is daunting. But the gains are worth it.

- The Editor

IN THIS ISSUE

Inviting Applications for Admission into Master's Programme in International Business 2005-07

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Appear for admission test to be conducted by IIFT, New Delhi (www.iift.edu) on 2nd Jan 2005 or appear for CAT. Short listed candidates will be called for Group Discussion and Personal Interview to be conducted by GIFT. Also apply to GIFT separately before 15 Jan 2005. For brochure and application form send Rs.250/- by DD in favour of GIFT, payable at Visakhapatnam or download from our website. Application form and Prospectus will also be available at all IMS, TIME CENTRES and Professional Tutorials in INDIA. Please check IIFT and GIFT websites for important dates for getting and submitting forms.

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