UAE-INDIA
CEPA COUNCIL

Investment Opportunities in India's Agriculture Sector

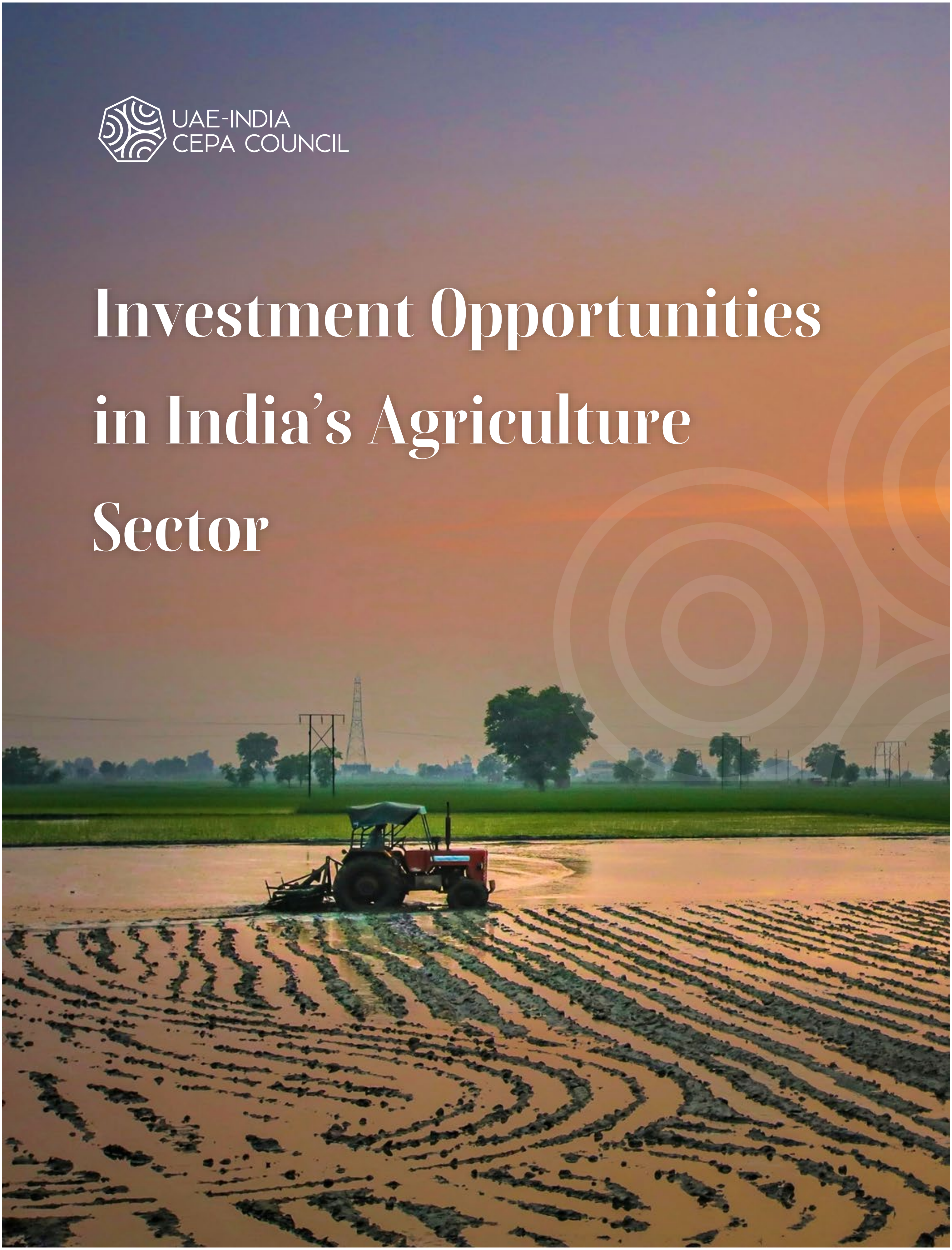

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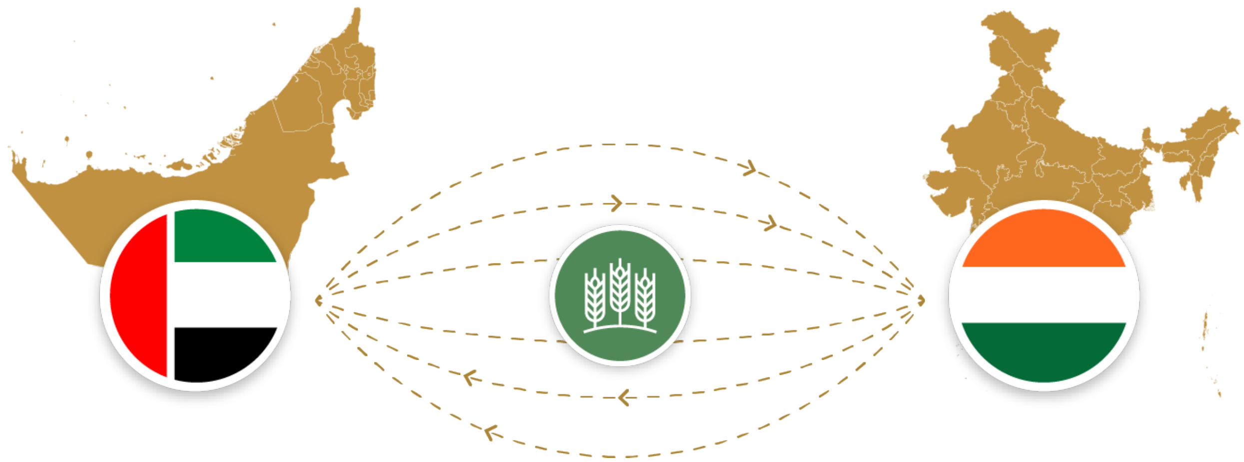
Table of Contents

Executive Summary

This report explores the multifaceted benefits for UAE investors in India's agriculture sector, whilst also highlighting challenges and the scope for potential investments. In doing so, the report provides a general overview of India’s agricultural sector, alongside an in-depth overview of India’s emerging agricultural sub-sectors of food processing and animal husbandry. By leveraging India's rich agricultural resources and growing consumer base, UAE investors can significantly contribute to this sector’s continued development, whilst securing a range of financial and other advantages.

The UAE and India: Recent Developments and Opportunities for Cooperation



Over recent years, the UAE and India have developed a constructive partnership in the fields of agriculture and food security. Given the UAE's climatic and geographic conditions, it imports 85 percent of the food it consumes making it a key market for Indian agri-exports. In 2021-22, India's total exports of agricultural and allied commodities to the UAE was USD 2.62 billion, approximately 35 percent higher than the previous year. Major exports included sugar, basmati rice, spices, marine products, and fresh fruits.

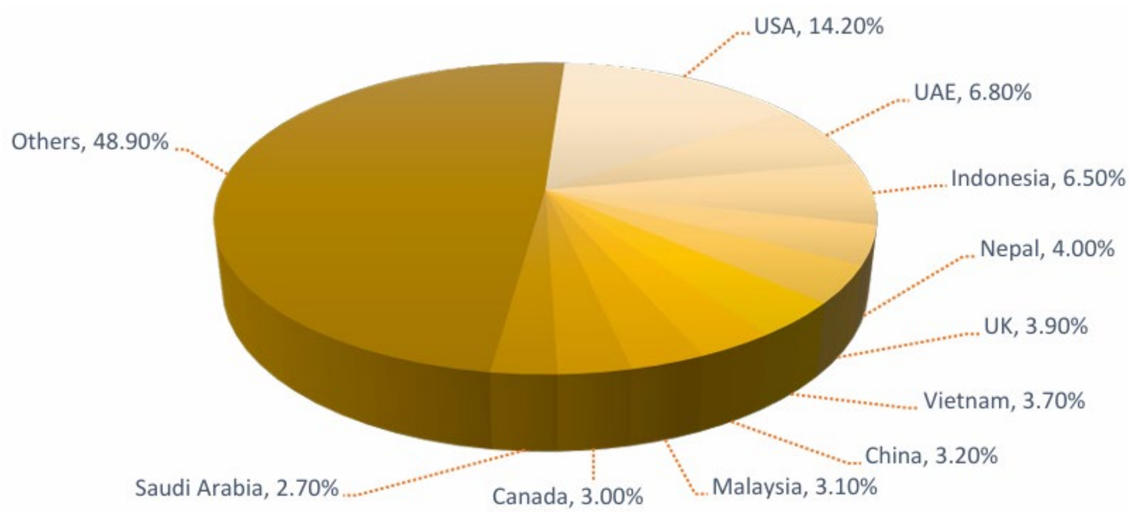


Figure 1: Export Destination of India's Processed Food for 2020-21
Source: EXIM Bank (2021) quoting data from Agricultural and Processed Food Products Export Development Authority

As noted in Figure 1, the UAE is the second largest destination for India's processed food market.

In order to further deepen existing ties, the two countries have established a number of initiatives to encourage investment, innovation, and sustainability in this critical sector.

Some of these initiatives include:

- **The Comprehensive Strategic Partnership Agreement:** Signed in 2017, the UAE-India Comprehensive Strategic Partnership Agreement recognises and aims to enhance the resilience and reliability of food supply chains. As part of the Agreement, the two countries committed to expanding cooperation through increased bilateral food and agriculture trade and responsible foreign investments in agriculture and food systems.

- **India-UAE Comprehensive Economic Partnership Agreement (CEPA):** Implemented on 1 May 2022, the CEPA has served as a game changer for UAE-India ties in the agriculture sector, with tariffs being removed across a range of key commodities. The Indian agriculture sector has benefited considerably since the implementation of the CEPA, with the export of fruit and vegetable products from India to the UAE increasing by almost 35 percent since this Agreement's implementation.

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- **Food Security Corridor:** In 2019, the UAE announced its commitment to establish a food corridor with India, with close to USD 7 billion in investment earmarked to develop food parks and associated logistical infrastructure to support the trade in agricultural commodities between the two countries.

- **Investment in Food Parks:** Separately, under the aegis of the I2U2 Initiative (India, Israel, the UAE, and India), the UAE committed an investment of USD 2 billion to develop food parks in India. The food parks are being planned in various locations across India, strategically chosen based on the availability of agricultural products and proximity to markets.

- **Bharat Mart in the Jebel Ali Free Zone:** Expected to open in 2026, Bharat Mart will offer a new major marketplace for businesses in Dubai. It will act as a trading platform for Indian manufacturers and exporters to access global markets, with Indian agriculture exporters being directly catered towards.

BHARAT MART

Jafza
المنطقة الحرة لجبل علي
Jebel Ali Free Zone

- **UAE's National Strategy for Food Security 2051:** As part of its efforts to ensure access to safe, nutritious, and sufficient food at reasonable prices in all circumstances, including during unprecedented crises, the UAE has developed the National Strategy for Food Security 2051. The Strategy specifically aims to implement resilient agricultural practices that increase productivity and production, while maintaining stable ecosystems. Given the key role of India as a major exporter of agricultural products to the UAE, the country will be pivotal to ensuring the success of the Strategy.

- **Agriota:** The Dubai Multi Commodities Centre launched Agriota, an agri-trading and commodity platform to link millions of Indian farmers directly to food companies in the UAE. It provides Indian producers the opportunity to directly connect with the UAE's food ecosystem, enabling them to stock their agricultural products in Emirati stores.

DMCC
DUBAI MULTI
COMMODITIES CENTRE

Opportunities for Collaboration

The UAE is already a significant investor in India's agricultural sector, with major companies such as DP World, the Sharaf Group, the Lulu Group, and Emaar implementing a range of initiatives to support and develop India's agricultural sector. However, there is considerable potential for UAE investors to expand their footprint in the Indian agricultural sector.

UAE investors stand to gain significantly from FDI in India's agricultural sector due to the country's large market, growing levels of consumer spending, low labour costs, supportive Indian Government policies, rapidly expanding distribution and retail networks, and opportunities for technological advancement and infrastructure development.

India’s Agriculture Sector

India is primarily an agricultural economy, with 54.6 percent of the workforce engaged in agriculture and allied sector activities (Census 2011). The agriculture sector accounted for 18.6 percent of India's total gross value of goods and services (GVA) at current prices during 2021-22. India is the largest producer of milk, jute, organic fibres and pulses, and the second largest producer of sugarcane, wheat, rice, vegetables, fruits, groundnuts, and cotton. India also accounts for 10 percent of the world’s fruit production. India is the number one producer of millet worldwide, with an area of 15.48 million hectares under cultivation.

The country has transitioned from a low- to high-value added agricultural economy. The agricultural sector in India is witnessing a transition from traditional farming to modern practices, including organic farming, horticulture, poultry, and dairy production. India ranks first globally in terms of the number of organic farmers, with over 5.91 million hectares of land producing organic crops.

Agricultural Exports

India’s agri-exports can be divided into three broad categories: raw products, semi-raw products, and processed and ready-to-eat products. In the 2022-23 fiscal year (FY), India's agricultural exports reached USD 53.1 billion. Fresh fruits registered a growth rate of 29 percent from the previous fiscal year. Moreover, the export of processed vegetables surged by 24 percent during this same period, followed by processed items, such as basmati rice and fresh vegetables, which also saw substantial growth. India has significantly expanded its fresh fruit export footprint, now serving 111 countries as compared to 102 destinations in FY 2022-23. The country ranks among the world's top ten exporters of agricultural products.

The share of India’s agricultural exports and imports in the world agriculture trade in 2021 were 2.4 percent and 1.7 percent, respectively. The share of agricultural exports in India’s total merchandise exports was 11.90 percent in 2021-22. Major destinations of exports for India’s agri and allied commodities are Bangladesh, the United States, China, Vietnam, the UAE, Indonesia, Saudi Arabia, Malaysia, Nepal, Egypt, Sri Lanka, Netherlands, Iran, Iraq, United Kingdom, Japan, and Thailand.

Foreign Direct Investment (FDI) in Indian Agriculture

With a growing population, a burgeoning economy backed by a need for modern farming techniques, and a surge in demand for food, India stands to gain significantly from increased foreign direct investment (FDI) in the agriculture sector.

A foreign entity can enter into the Indian agriculture and allied sectors by establishing:

- **Joint Ventures** with domestic Indian companies.
- **Wholly Owned Subsidiaries** in sectors where 100 percent FDI is allowed.
- **Limited Liability Partnership (LLP)** in sectors where 100 percent FDI is allowed under the Indian Government "automatic route" for investment.

Foreign direct investments are accepted under two routes – the automatic route and the government route. The route an investor needs to take in order to invest in India is determined by the sector in which the investment is being made and the regulatory framework governing that sector/industry. In India, most activities are covered under the automatic route with eased conditions for foreign investment.

Almost 98 percent of FDI equity inflow came into India under automatic route during the FY 2022-23. The Government of India makes policy pronouncements on FDI through its Consolidated FDI Policy Circular, which is a comprehensive reference for stakeholders, including foreign investors, Indian businesses, and regulatory authorities.[1]

The key highlights of the latest Consolidated FDI Policy Circular includes detailed sectoral caps and conditions, defined entry routes for foreign investors, and a clear distinction between permitted and prohibited sectors for FDI.

[1] Policy Circular can be read here: https://dpiit.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020_0.pdf

It also features the Foreign Investment Facilitation Portal (FIFP) for streamlined processing, compliance, and reporting requirements.

Under the automatic route, a foreign investor does not require any approval from the Reserve Bank of India (RBI) or the Government of India for investments. For investments made under the automatic route, investors are only required to notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents along with Form FC-GPR within 30 days of the issue of shares to non-resident investors.

Presently, 100 percent FDI is allowed through the automatic route into India for the following agricultural and allied activities:

1. Floriculture, horticulture, apiculture, and cultivation of vegetables and mushrooms under controlled conditions.
2. Development and production of seeds and planting material.
3. Animal husbandry (including the breeding of dogs), fish farming, and aquaculture under controlled conditions.
4. Services related to agriculture and its allied sectors.

Besides these activities, FDI of up to 100 percent under the automatic route is permitted in respect to tea, coffee, rubber, cardamom, palm oil, tree, and olive plantations.

From April 2000 to March 2024, India received USD 3.07 billion in FDI inflows into the agriculture services sector. Additionally, the agricultural machinery sector attracted USD 1.73 billion in FDI inflows during the same period.

Under the government route, prior approval from the Government of India is required. In India, there are several sectors where FDI requires government approval. The list of such sectors is periodically updated by the Government of India. For activities in the agricultural sector that require an investor to follow the government route, 51 percent FDI is permitted, subject to certain conditions for investments in the multi-brand retail sector.[2]

Proposals for foreign investment in sectors/activities requiring Government approval as per the Consolidated FDI Policy should be filed online through the National Single

[2] Multi-brand retail stores are traditional-style shops established across India, historically known as 'Bazaars' or "Mom and Pop" stores.

Window System (NSWS) Portal at https://www.nsws.gov.in/. The applicant would be required to submit the proposal for foreign investment available at https://fifp.gov.in/Forms/SOP.pdf

1. **Proposal submission and document uploading** on foreign investment facilitation portal
2. **Case assigned to relevant Ministry** by the Department for Promotion of Industry and Internal Trade (DPIIT) within two working days
3. **Proposal shared online with the Reserve Bank of India (RBI) for review** from Foreign Exchange Management Act (FEMA) perspective within two days
4. **All proposals shared with Ministry** of External Affairs (MEA) and Department of Revenue (DoR)
5. **Proposal scrutinised** and communication for additional information/ clarification, if required, is done within one week
6. **Competent authority gives its decision** in next two weeks

Source: *KPMG: Doing Business in India Report*

Goods and Services Tax

Currently there is no GST levied on most raw agricultural items. Apart from this, most agricultural activities and services are also exempted from the imposition of GST. However, for primary processed agriculture items, the GST rate is five percent, and for secondary/tertiary processed products, the GST rate is 12 percent. On some farm machinery/components and fertilisers, the GST rate averages between 12-18 percent.

Benefits for Investors

1. With a population of over 1.4 billion people, India offers investors a vast and growing market for agricultural products. The demand for food will likely only increase as the purchasing power of India's middle class continues to expand.
2. Many regions in India are still underdeveloped in terms of embracing modern agricultural practices. The export potential of many products still needs to be fully realised. For example, makhana or foxnuts in Bihar.
3. Labour costs in India are low, which reduces overall production costs.
4. India is a diverse country with its climate varying from humid and dry tropical conditions in the south to temperate alpine conditions in the northern reaches. Abundant natural resources and various climatic conditions support diverse agricultural activities.

5. The Indian agriculture market provides a diverse export portfolio to investors. There is an increasing global demand for organic food, with the Indian Government investing significantly in order to encourage sustainable farming practices.
6. There is huge potential for collaboration with Indian research institutions for innovation and development in the areas of advanced agricultural technologies and practices, and crop diversification.
7. Investors can also explore opportunities in India's vibrant agri-tech startup ecosystem that offers farmers innovative and sustainable solutions. Valuable opportunities exist to invest in startups focusing on precision agriculture, supply chain management, and e-commerce platforms for agricultural products.
8. Many opportunities exist for foreign investors to establish joint ventures with local firms to leverage their market knowledge and expertise in the Indian agriculture sector for investment purposes.
9. Scope exists for investments in farm mechanisation, essential for increasing productivity and reaching targeted output levels. In India, the increasing population, food scarcity, and shortages of water will create massive demand for energy-efficient, affordable irrigation products.

Challenges for FDI in Agriculture

Land Acquisition

One of the major issues impacting FDI into the Indian agriculture sector is the difficulty that foreign investors face in acquiring agricultural land. Often farmers are reluctant to sell their land. Additionally, foreign nationals of non-Indian origin are not allowed to buy any immovable property in the country.

Given the difficulties associated with acquiring land by foreign investors, the Government of India promotes foreign private sector participation in the agriculture sector through contract farming and land leasing. This facilitates accelerated technology transfer and capital inflows, and provides an assured market for crop production.

Contract farming in India is increasingly shifting towards a corporate contract model, evidenced by the involvement of numerous multinational companies such as Cadbury, Pepsi, Unilever, Appachi, Nestle, Cargill, McCain, and Frito Lay. Similarly, domestic corporations like Ballarpur Industries Limited (BILT), ITC Ltd., JK Paper, Wimco, Green

Agri Pack (GAP) Ltd., VST Natural Products, Global Green, Interrgarden India, Kemps City Agri Exports, Sterling Agri, United Breweries (UB), NijjerAgri, and Tarai Foods are also active in the field of contract farming.

Although there exists an ability for foreign investors to lease land or engage in contract farming, it should be noted that a number of regulatory obstacles exist at the state-level.

Some states impose restrictions on land acquisition based on state domicile. In some states, only agriculturists are allowed to purchase agricultural land. States like Maharashtra only allow individuals to acquire agricultural land. In contrast, other states such as Delhi, Goa, Bihar, Karnataka, Kerala, and Tamil Nadu allow both individuals and companies to acquire land for agricultural activities. In many states, land allotted by the Indian Government to a Scheduled Caste/Scheduled Tribe cannot be sold without prior permission of the respective State Government.

India's Food Processing Sector

India's food processing sector has emerged as an important segment of the country's economy in terms of its contribution to GDP, employment, and exports. In the seven years ending 2021-22, the sector was growing at an average annual growth rate (AAGR) of around 7.26 percent. An abundant supply of raw materials, an increase in demand for food products, and the incentives offered by the Indian Government have positively impacted the food processing sector. The sector constituted as much as 10.54 percent and 11.57 percent of GVA in the manufacturing and agriculture sectors, respectively, in 2020-21 (at 2011-12 prices). By 2030, India is projected to become the world's fifth-largest consumer of food and food technology, with household consumption expected to quadruple.

Export of Food Processing-related Commodities

The value of agri-food exports, including processed food exports, during 2021-22 was USD 46.11 billion, accounting for about 10.93 percent of India's total exports. The share of India's agri-food exports in the world was 2.48 percent in 2021. Major export destinations include countries like the United States, Bangladesh, the UAE, and Vietnam, amongst others.

FDI in the Food Processing Sector

100 percent FDI is permitted under the automatic route in India's food processing industries. Additionally, 100 percent FDI is allowed through the government approval route for trading, including e-commerce, specifically for food products manufactured and/or produced in India. The sector has witnessed an FDI equity inflow of USD 5.72 billion from April 2014 to September 2022. The total FDI received in the food processing sector from April 2000 to December 2023 was USD 12.46 billion, which is 1.87 percent of India's total FDI equity inflow.

Goods and Services Tax

Almost 71.7 percent of food items are taxed at rates of zero or five percent. Higher rates are levied depending on the levels of value addition (manufacturing, packaging, branding, distribution, and retail, each of which adds layers of cost and complexity).

Benefits for Investors

1. India's rapid urbanisation has significantly increased the demand for ready-to-eat and packaged food. With over 1.4 billion people and a growing middle class, India offers a large and rapidly expanding consumer market for processed food products.
2. Tier-2 and Tier-3 Indian cities are emerging as key consumer markets for fast moving consumer goods (FMCG) businesses.
3. The food processing sector is a priority for the Indian Government. The Indian Government provides various incentives, tax breaks, and subsidies to attract investment in the food processing sector. Key schemes of the Ministry of Food Processing Industries, include the Mega Food Park Scheme, which entails the establishment of 42 mega food parks (35 approved). The parks have around 1,200 developed plots (of approximately 4,000 square metres each), which entrepreneurs can lease to set up food processing and ancillary units. Other initiatives include the development of cold chain infrastructure, the modernisation of government abattoirs, and the establishment of agri-processing clusters.
4. The export of processed food has seen a significant increase in recent times. The Indian Government 's emphasis on promoting exports in this sector further enhances the sector's investment appeal.
5. There is a further need for technological advancements in India's food processing sector. Currently, foreign investors can invest in automation, quality control, research and innovation, and sustainable practices to support further efficiency in this sector.
6. The industry is open to collaborations and partnerships with foreign companies for investment, expansion of operations, technology upgrades, technology transfer, knowledge exchange, and enhanced market access.
7. Increasing consumer preferences for organic food offers investment opportunities, with Indian and global consumers actively seeking healthier food

options. There is vast potential to tap into niche markets, such as health foods, organic products, and local foods.

8. Various states are developing their own food processing policies tailored to their own needs and requirements. For example, the Odisha Food Processing Policy 2022 aims to increase the flow of private sector investments across the value chain from farm gate to market.

Challenges for FDI in the Food Processing Sector

1. Despite its potential, the food processing sector in India faces several challenges, including high wastage of crops, fruits, and vegetables, gaps in supply chain infrastructure, and an inadequate link between production and processing due to a lack of processable varieties. Additionally, the sector suffers from the seasonality of operations, low-capacity utilisation, insufficient storage and distribution facilities, a lack of focus on quality and safety standards, and inadequate product development and innovation.
2. The food processing industry is subject to a complex web of regulations, licences, and permits, which is often challenging for foreign investors to navigate, with different states implementing their own policies and incentives for the food processing sector.

India’s Animal Husbandry Sector

The livestock and animal husbandry sector is an essential subsector of agriculture in the Indian economy. It grew at a CAGR of 7.93 percent between 2014-15 to 2020-21 (at constant prices). The contribution of livestock in total agriculture and allied sector GVA (at constant prices) has increased from 24.32 percent over this same period. The livestock sector contributed 4.90 percent of total GVA in 2020-21.

Currently, India is the world’s largest producer of milk and buffalo meat, the second-largest producer of goat meat, the third-largest producer of eggs, and the eighth-largest meat producer. The livestock and dairying industry is considered as the backbone of the country's rural economy. The livestock sector has never recorded a negative growth rate from 1980 to 2018, despite the presence of droughts and other natural disasters. According to a recent Indian Government Livestock Census, there are around 303.76 million bovines (cattle, buffalo, ox, and yak), 74.26 million sheep, 148.88 million goats, 9.06 million pigs, and approximately 851.81 million poultry present in the country.

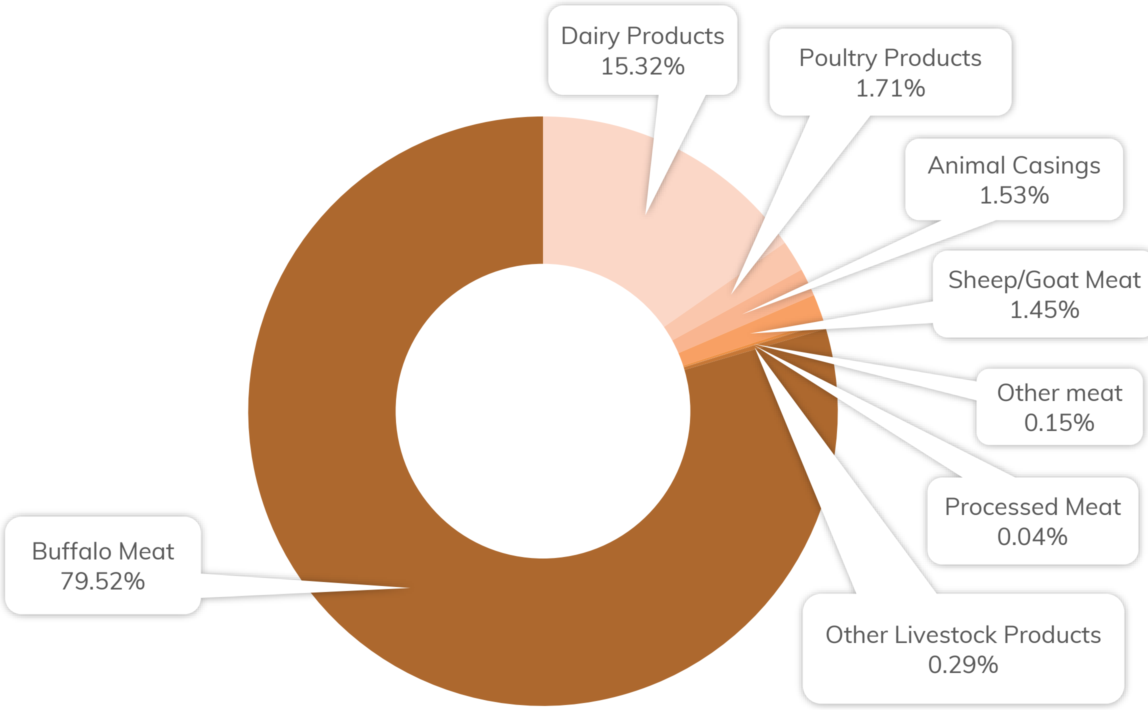

Figure 5: Share of Export of Livestock Products in 2021-22

Source: *Agricultural and Processed Food Products Export Development Authority (APEDA)*

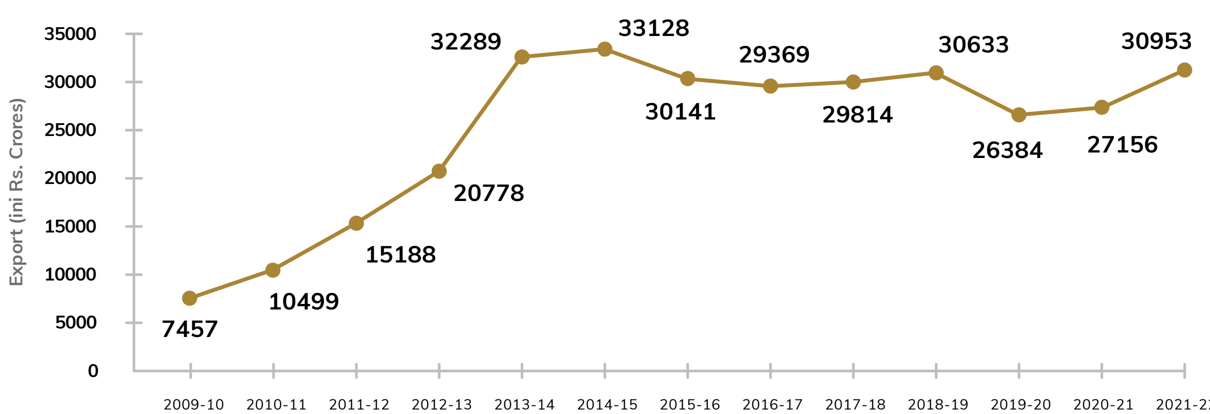

Figure 6: Export of Livestock Products

Source: *APEDA*

Multiple public and private stakeholders drive growth in the animal husbandry and dairy sector. The apex Indian Government institution in the livestock sector is the Ministry of Fisheries, Animal Husbandry, and Dairying.

Apart from Indian Government institutions, there are several stakeholders in the livestock sector. In the dairy sector, the cooperative structure is well established. However, private stakeholders in the dairy sector have grown at a fast pace over the last 20 years and have exceeded the combined capacity of dairy cooperatives and Indian Government dairies. Some leading private dairy companies include Nestle India, Anik Industries, Britannia Dairy, Parag Milk Foods, Bhole Baba Milk Food Industries, and Lactalis India.

Incentives provided by the Indian Government

In the meat and poultry sector, the Indian Government provides many fiscal incentives, which include:

1. A concessional rate of customs duty applicable on imported equipment.
2. Income tax deductions on capital expenditure allowed at the rate of 150 percent for setting up and operating cold chains or warehouses for storage of agricultural produce.
3. 100 percent income tax exemptions are available for new food processing, preservation, and packaging units for the first five years of operation at a rate of 25 percent to 30 percent thereafter.
4. A National Bank for Agriculture and Rural Development fund of INR 20 billion (USD 327.6 million) was established in FY 2014-15 to extend affordable credit to designated food parks and units therein.

FDI in the Animal Husbandry Sector

In India, 100 percent FDI is permitted through the automatic route for animal husbandry (including breeding of dogs, fish farming, and aqua culture). Each state has its own animal husbandry department that implements state-specific regulations and schemes for the sector. The sector falls in the state subjects list. Investors must comply with state-specific regulations, including those related to land acquisition, local environmental laws, and state subsidies or incentives.

Benefits for Investors

1. The animal husbandry sector in India presents significant opportunities for investors, with a vast consumer base, an abundant supply of livestock, an increasing demand for high-quality animal products, and supportive government policies.
2. Although the sector is still evolving, investors can play a crucial role in driving innovation, enhancing productivity, and contributing to the transformation of India's animal husbandry industry.
3. The export of processed meat is one area that is still not fully utilised by the Indian industry, mainly due to a lack of sufficient cold chain infrastructure. India's total meat processing capacity is over one million tonnes per annum, of which only 40-50 percent is utilised. Investment in establishing state-of-the-art abattoirs and meat processing plants with the latest technology will provide significant benefits to both foreign investors and India.
4. Many countries across the world are banning live animal exports, but that is not the case with India. In fact, India’s international trade in livestock and livestock products is mainly in live animals (17 percent), meat and meat

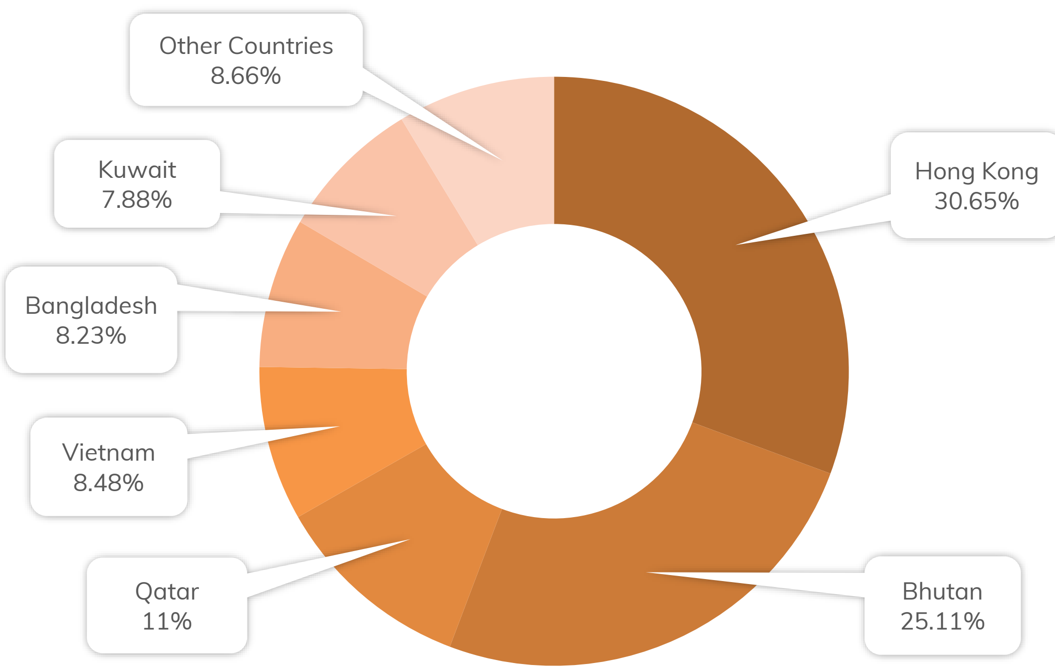

Figure 10: Share of Top 6 India’s Export of Processed Meat Destinations in 2021-22

Source: APEDA

products (82 percent), dairy products, and eggs. Recently, the United Kingdom banned the export of live animals, following in the footsteps of New Zealand, Australia, and Brazil, which have all made commitments to ending or phasing out the trade. In light of this context, India will likely become a much more attractive destination for foreign investors in this field.

5. UAE investors can become valuable growth partners in the Indian animal husbandry sector by investing in the current trends in the sector, which include livestock health management, farm automation, artificial intelligence, animal breeding technologies, and precision livestock farming.

Challenges for FDI in the Animal Husbandry Sector

Major challenges for the animal husbandry and dairying sectors include low productivity, genetic improvement of livestock breeds, lack of registered livestock markets, and a shortage of feed and fodder. Additionally, there are issues with inadequate infrastructure for storage, processing, and marketing of livestock products, poor living conditions for animals, insufficient healthcare, and slow dissemination of technology and skills to farmers for improving productivity.

Another factor at play in the Indian animal husbandry sector is the ban on cow slaughter, which has caused reluctance among many global companies when deciding to establish operations in India.

Conclusion

Investing in India's vibrant agriculture sector presents an exciting opportunity for UAE investors. The sector has immense growth potential. The UAE-India CEPA Council (UICC) can play a crucial role in assisting UAE investors in navigating the complexities of India's agriculture sector by providing valuable resources, including market research and networking opportunities with key stakeholders in this field. By leveraging the support and expertise of the UICC, UAE investors can explore and capitalise on the abundant opportunities in India's agriculture sector, fostering mutual growth and strengthening bilateral economic relations between the two nations.