

Union Budget 2010-11:

- Focus on Agriculture



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Editorial

'Focus off-farm' to achieve growth in agriculture:

The Government appears to be placing its thrust on 'off-farm reforms' to safeguard produce, improve supply chain, reduce transaction costs and ultimately reduce the consumer price without compromising the farm gate prices. A slew of concessions in customs duty on imported machinery involved in post-harvest, storage, processing, logistics of agro products, dairy, meat and poultry products; service tax exemption on agro-produce movement by road; extension of lease period for hired godowns; staus-quo on rail freight rates and investment-linked incentives - all point to government's intention to stimulate investments in off-farm infrastructure. Reducing wastage and improving supply chain efficiencies seem to be the core theme. It is also likely that with these incentives, a base is being set to invite foreign retailers to operate in the Indian market in some form very soon.

Programme-based funding for farm level initiatives:

Funding for extending the green revolution in eastern India (where yields have been low have a great potential for improvement), adoption of 60000 villages for augmenting pulses and oilseed production (India imports close to 50% of its edible oil and 20% of its pulses requirement) in rain-fed areas, conservative agriculture in progressive belt (sustainability in agri-belts) - all points out to maturity in resource allocation process and result oriented approach to on-farm allocation to agriculture. Such targeted time-bound initiatives are more likely to yield desirable results.

The same theme is extending while rewarding farmers who are regular in repaying interest and loan with an interest subvention of 2%. By providing an opportunity to access loan at 5%, the government has created the right incentive for the farmers to access capital from the formal source.

In the case of much discussed fertilizer subsidy too, the government is on the right track. By targeting nutrient based subsidy over the conventional product based one, the government not only tries to reduce subsidy but also correct the skewed use of nutrient and consequent depletion of soil health.

Excise duty hike:

Excise duty hike in petrol and diesel and customs duty hike in crude and petro product is an unexpected jolt. Through a single move the government is expected to mop up Rs. 15000 cr. However, given that these are essential inputs, it is likely to have a big impact on end consumer be it rich or the poor, as it would tend to push costs across the board. Given the already high inflation level, it is likely that this move could aggravate the hardship for the common-man.

Same is the case with excise duty increase on manufactured goods. It is too early to get into a sense of comfort that there is a demand revival for goods. May be, one has to wait and watch as to the impact of the hike.

Though the real impact will be very little, reduction in the level of tax and increase in the 80C limit by Rs. 20000 in an innovative manner would make most of the salaried class happy.

Reform in the coal pricing towards making it more transparent is a welcome step. With the levying of a cess on coal, peat and lignite, the government has voluntarily adopted a carbon tax on 'dirty' source. However, it remains to be seen as to what is the end consumer impact of a small cess of Rs. 100/ton, as being a core raw material, it is likely to have a cascading impact on the end-consumer charges. Given that 75% of our electricity generation is from burning coal, we would soon see a small increase in power tariff.

The government has hiked customs duty on gold from Rs. 250/10 gm to Rs. 300/10 gm of gold. It works out to about 1.7% of the value of the yellow metal, as the current price levels. There have been requests by the bullion association to reduce this in the light of increased incidence of smuggling. May be the government is confident that it can plug the smuggling with enhanced collections.

Market seems to like the budget in all. It had clear directional focus when it comes to reducing fiscal deficit, reforms in agriculture, GST agenda and a sweetener in the form of higher disposable income at the hands of salaried class.

Budget 2010-2011, 26 February 2010

The first Budget (July 2009) of Mr. Pranab Mukerji, since UPA returned to power in May 2009, focused on the economic stimulus and subsidies as an attempt to recover the economy from the financial crisis that had constrained trade for well over a year. Set in this backdrop, the budget had offered much needed impetus to the process of stabilizing the business environment. There is now a sense of optimism as Indian economy has relatively rapidly returned to its growth path.

While presenting Budget 2010, Finance Minister Mr. Pranab Mukerji mentioned that India weathered the economic crisis well and has emerged from the global slowdown faster than any other country. He emphasized the

- First challenge before the government is to revert to 9 per cent growth in near future.
- Second challenge is to make growth more inclusive; strengthen food security.
 - Third challenge is to overcome weakness in government's public delivery mechanism;

Highlights Union Budget 2010: on Agriculture Growth

Government will follow a four-pronged strategy, covering

(a) Agricultural production

- Rs. 400 crore provided to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.

Extended Green revolution: Poor monsoon has affected the economy and made 2010-11 a challenging year to achieve the targeted GDP growth of 9%. Reallocation of Rs.400 crore to extend green revolution to eastern side would definitely help to come out these states to fight adversity caused after failed on poor monsoon. It is also a step foreword to strengthen food security policies.

- Rs. 300 crore provided to organise 60,000 "pulses and oil seed villages" in rain-fed areas during 2010-11 and provide an integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas.

Pulses and oil seed villages: 'Pulses and oil seed villages' is a good initiative to increase the production level of the same, so as to reduce the dependency on import of these commodities. Pulses and oilseeds are grown mostly on rainfed areas, which is the limiting factor in the yield of these crops. The different programm

including water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas could boost the yield levels. Out of total edible oil consumption of about 13.5 to 14.0 mln tons, our domestic production is just about 50%. About 7.5 to 8.0 mln tons is met with imports.

- Rs. 200 crore provided for sustaining the gains already made in the green revolution areas through conservation farming, which involves concurrent attention to soil health, water conservation and preservation of biodiversity.

Climate resilience agriculture: Global warming and climate change has brought more attention to mitigate the adverse effect in terms of yield. Also the unfavorable weather - prolonged drought and erratic rains, floods affected the crop production. Provisions of Rs.200 crore will help in some extent to reduce the effect of unfavorable weather.

(b) Reduction in wastage of produce

- Government to address the issue of opening up of retail trade. It will help in bringing down the considerable difference between farm gate, wholesale and retail prices.
- Deficit in the storage capacity met through an ongoing scheme for private sector participation - FCI to hire godowns from private parties for a guaranteed period of 7 years.

(c) Credit support to farmers

- Banks have been consistently meeting the targets set for agriculture credit flow in the past few years. For the year 2010-11, the target has been set at Rs.3,75,000 crore.
- In view of the recent drought in some States and the severe floods in some other parts of the country, the period for repayment of the loan amount by farmers extended by six months from December 31, 2009 to June 30, 2010 under the Debt Waiver and Debt Relief Scheme for Farmers.
- Incentive of additional one per cent interest subvention to farmers who repay short-term crop loans as per schedule, increased to 2% for 2010-11. Thus, effective interest rate would be 5% pa for farm loans repaid on time.

(d) Impetus to the food-processing sector

- In addition to the ten-mega food park projects already being set up, the Government has decided to set up five more parks.
- External Commercial Borrowings to be available for cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

Food parks: Giving attention towards thrust to the food-processing sector, five more Mega Food Parks will be set up in the country. A food park would facilitate agriculture by providing infrastructure like cold storage to enable backward and forward linkages for the food processing industry. This would raise the level of food processing, value addition, and wastage reduction of perishables crops especially horticultural produce, dairy product, fisheries, live stock etc. This would support to grow India's potential to grab greater share in world food trade.

Fertilizer subsidy

The proposal to shift from product-based subsidy to nutrient based subsidy was made in last budget of 2009-10. In the current budget (2010-11) it is announced to be effective from April 1, 2010 in order to increase the agricultural productivity and bring better returns for the farmers, and overtime reduce the volatility in demand for fertilizer subsidy and contain the subsidy bill.

During the old system there was an excessive use of nitrogenous fertilizers (urea) and limited use of phosphorous (P) and potassic (K) fertilizers that created an imbalance in the nutrients in the soil that lowered the fertility and affected the productivity of the crops. While a nutrient based subsidy means the subsidy that is provided on actual nitrogen (N), phosphorous (P) and potassic (K) content in the fertilizer product. This will motivate the farmers to go on for high nutrient products rather at a reasonable price, which helps to enrich the soil with different nutrients that inturn improves the productivity of the products.

This type of system not only motivates the farmer but even the manufacturer, who would now be interested in providing with innovative fertilizer products to the market with nutrients that is lacking in our soil.

Aim to implement GST, direct tax by April 2010

While Direct Taxes Code will replace the archaic Income Tax Act, Goods and Services Tax will replace most indirect taxes at central and states levels like service tax, excise duty, VAT, cesses, surcharges and local levies.

The introduction of GST will result in a major change in the taxable event, tax base, valuation methodology and situs of sale. Currently the central government levy excise duty on manufacture and rendering of taxable services. The State government levy tax on sale of goods, entertainment, lottery, gambling etc. With the introduction of GST both the Central and State government would levy tax on every transaction of supply goods and services for a consideration.

Direct Tax

- Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15 per cent to 18 per cent of book profits.

This would impact the Indian metals and mining companies negatively.

Indirect Taxes

- Rate reduction in Central Excise duties to be partially rolled back and the standard rate on all non-petroleum products enhanced from 8 per cent to 10 per cent ad valorem.
- The specific rates of duty applicable to portland cement and cement clinker also adjusted upwards proportionately. Similarly, the ad valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 percentage points to 22 per cent.
- Restore the basic duty of 5 per cent on crude petroleum; 7.5 per cent on diesel and petrol and 10 per cent on other refined products. Central Excise duty on petrol and diesel enhanced by Re.1 per litre each.

The government has levied a one rupee per liter excise duty on gasoline and diesel this may increase transportation cost.

Agriculture & Related Sectors

- Provide project import status with a concessional import duty of 5 per cent for the setting up of mechanised handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar as well as full exemption from service tax for the installation and commissioning of such equipment.
- Provide project import status at a concessional customs duty of 5 per cent with full exemption from service tax to the initial setting up and expansion of
 - Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce
 - Processing units for such produce.
- Provide full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.
- Provide concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India;
- Provide central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce; and
- Provide full exemption from excise duty to trailers and semi-trailers used in agriculture.

- Concessional import duty to specified machinery for use in the plantation sector to be, extended up to March 31, 2011 along with a CVD exemption.
- To exempt the testing and certification of agricultural seeds from service tax.

This will help to reduce the cost of certified seeds manufacturers and at the same time farmers can afford it at lower price.

- The transportation by road of cereals, and pulses to be exempted from service tax. Transportation by rail to remain exempt.
- To ease the cash flow position for small-scale manufacturers, they would be permitted to take full credit of Central Excise duty paid on capital goods in a single installment in the year of their receipt. Secondly, they would be permitted to pay Central Excise duty on a quarterly, rather than monthly, basis.
- Reduction in basic customs duty on long pepper from 70 per cent to 30 per cent;
- Reduction in basic customs duty on asafoetida from 30 per cent to 20 per cent;
- Reduction in central excise duty on corrugated boxes and cartons from 8 per cent to 4 per cent;
- Reduction in central excise duty on latex rubber thread from 8 per cent to 4 per cent;

Precious Metals

- Rates on precious metals indexed as follows:
 - On gold and platinum from Rs.200 per 10 grams to Rs.300 per 10 grams
 - On silver from Rs.1,000 per kg to Rs.1,500 per kg.
- Basic customs on Rhodium - a precious metal used for polishing jewellery reduced to 2 per cent.
- Basic customs duty on gold ore and concentrates reduced from 2 per cent ad valorem to a specific duty of Rs.140 per 10 grams of gold content with full exemption from special additional duty. Further, the excise duty on refined gold made from such ore or concentrate reduced from 8 per cent to a specific duty of Rs.280 per 10 grams.

The proposals relating to customs and central excise are estimated to result in a net revenue gain of Rs.43,500 crore for the year. The proposals for service tax, in which government plans to bring in some more services, will result in a net revenue gain of Rs.3,000 crore for the year.

While direct tax proposals are expected to result in a loss of Rs 26,000 crore for the year, those relating to indirect tax are estimated to result in a net revenue gain of Rs.46,500 crore.

Taking into account the concessions and measures to mobilise additional resources, the overall revenue gain is estimated to be Rs.20,500 crore for the year.

The FM has also proposed to take steps to set up a "Coal Regulatory Authority" to create a level playing field in the coal sector. This would facilitate resolution of issues like economic pricing of coal and benchmarking of standards of performance.

Excise duty has been rolled back to 10 % from 8 %. Owing to this Steel Authority of India (SAIL) is expected to raise long product prices by Rs.1,000 a ton in March in order to pass on the higher duty burden.

Highlights of Central Plan 2010-2011 (Rs. in Crore)

Agriculture and Cooperation

- 1062 crore for National Horticulture Mission.
- 1350 crore for National Food Security Mission.
- 1000 crore for Macro Management in Agriculture.
- 1000 crore for Micro Irrigation.
- 950 crore for National Agricultural Insurance Scheme.
- 500 crore for Integrated Oilseeds, Oil Palm, Pulses & Maize Development.

Animal Husbandry, Dairying and Fisheries

- 444 crore for Veterinary Services and Animal Health.
- 163 crore for Cattle Development.
- 96 crore for a Special package for farming population in 31 suicide prone districts.

Agricultural Research and Education

- 2006 crore for Agricultural Research and Education, including Rs.200 crore for Climate Resilient Agriculture Initiative.
- 294 crore for World Bank Aided National Agricultural Innovation Project.

Fertilisers

- 125.14 lakh tonnes of Nitrogenous fertiliser production targeted.
- 48.68 lakh tonnes of Phosphatic fertiliser production targeted.

Central Plan Outlay by Ministries/Departments (Rs. Crores)

	Actuals	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates
Ministry of Agriculture	9040	10060	9708	11880
Department of Agriculture and Cooperation	6545	7200	7018	8280
Department of Agricultural Research and Education	1630	1760	1760	2300
Department of Animal Husbandry, Dairying and Fisheries	865	1100	930	1300
Ministry of Chemicals and Fertilisers	948	2664	1535	3480
Department of Chemicals and Petrochemicals	249	240	406	400
Department of Fertilisers	699	2269	1024	2915
Department of Pharmaceuticals [^]	...	155	105	165
Ministry of Coal	5513	5674	5225	13518
Ministry of Consumer Affairs, Food and Public Distribution	233	440	283	428
Department of Consumer Affairs	142	209	164	220
Department of Food and Public Distribution	91	231	119	
Ministry of Food Processing Industries	221	340	280	400
Ministry of Labour and Employment	761	900	780	1000
Ministry of Mines	1940	1648	1222	1763
Ministry of New and Renewable Energy	1078	1347	1499	1950
Ministry of Petroleum and Natural Gas	57535	57501	58120	69495
Ministry of Shipping ^{^^}	2936	5099	4350	6494
Ministry of Steel	8066	13757	13252	17200
Ministry of Textiles	3802	4500	4500	4725
GRAND TOTAL	382109	447921	425590	524484

^ It is a new Department under the Ministry of Chemicals and Fertilisers. For 2008-2009, the provision was clubbed with Department of Chemicals and Petrochemicals.

^^ In Budget 2008-09 Department of Shipping was under the Ministry of Shipping, Road Transport and Highways.

Foreign Direct Investment (FDI)

The agriculture services sector attracted foreign direct investment of Rs.6,327 crore during the first eight months of the current fiscal against Rs.16 crore in the year ago period, according to the Economic Survey. FDI in the sea transport sector was up by 918 per cent to Rs.12,983 crore, while in the electrical equipment segment inflows increased by 202 per cent to Rs.2,724 crore during April-November 2009-10. FDI in sectors like agricultural services, sea transport and electrical equipment have shown a quantum jump during 2009-10. The Survey said that divergent patterns in growth rates were due to change in exchange rate during the period.

In March 2005, the government had liberalised the foreign investment norms with a view to catalysing investment in the realty sector. It allows 100 per cent FDI through automatic route in construction development projects, including housing, commercial premises, recreational facilities and townships. Other sectors which receives significant FDI includes telecommunication, power, hotel and tourism.

Union Finance Minister, Mr. Pranab Mukherjee during the Budget Speech has asserted that the private investment is necessary for the growth, as 2009-2010 was challenging year for the government. In order to attract further more FDI, the government has taken series of steps to simplify FDI regime. Government intends to make FDI policy user friendly by complying all guidelines into one document. The government has targeted to collect Rs.25,000 crore from FDI.

- Methodology for calculation of indirect foreign investment in Indian companies has been clearly defined.
- Complete liberalisation of pricing and payment of technology transfer fee and trademark, brand name and royalty payments

Railway Budget 2010: Freight Business

- Cuts freight on foodgrains, kerosene by Rs 100 / wagon
- Special freight trains for vegetables, vehicles

Several measures are being taken to improve the proportion of freight traffic moving on Railways.

- Besides improving the loading of coal, iron ore, cement, fertilizers and food grains, Railways are seeking to increase their share in new traffic streams like automobiles, fly ash etc.
- Permission to access private sidings will be given to containers, which will help in attracting piecemeal traffic presently not being carried by Railways.
- A premium service for container movement with assured transit time is being considered for time sensitive cargo.
- Private ownership of special purpose rolling stock for commodities and private operation of freight terminals will be encouraged.
- A new policy would be unveiled to allow construction and operation of private freight terminals and multi-modal logistic parks.
- Railways are also in the process of bringing together state governments and major logistics players to set up logistics parks co-habited by multiple players through participative funding.
- Mega logistics hubs are being planned alongside the proposed Eastern and Western Dedicated Freight Corridors.

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