Contract Farming

To overcome problems with supply, quality and restrictive land ownership laws, food processing companies have begun engaging farmers to grow specific crops exclusively for their use. This "contract farming" practice is proving successful. Realizing the mutual gains that may be achieved, the Indian Government encourages contract farming through assistance administered by the Ministry of Food Processing Industries. Formal contracts (with penalties for default on either side) are signed, with the farmer agreeing to supply a crop at a fixed quantity and price to the company, who commits to buying it. Apart from the legal aspects of the contract, food processing companies are extending expertise and support to the farmers to ensure that quality crops and high quantity yields are achieved. Farmers are educated on growing and harvesting practices and sometimes seeds, fertilizers and pesticides are provided at subsidized prices. Contract farming has historically been standard practice for the sugar industry and has recently been adopted by Pepsi Foods, Nijjer Agro Foods, Ponds (India) and Kissan.

KEY CONSIDERATIONS

The principal regulatory agencies are the Secretariat of Industrial Approvals (SIA) within the Ministry of Industry, the Reserve Bank of India, the Chief Controller of Imports and Exports (now redesignated as the Director General of Foreign Trade), the Company Law Board, the Securities and Exchange Board of India (SEBI) and the Stock Exchange authorities. The Ministry of Food Processing is the principal policy making body for the food processing and packaging sectors. The Ministry considers all project proposals connected with these areas.

Setting up in India

Canadian companies looking to invest in India can consider setting up their enterprise either by incorporating a company in collaboration with an Indian partner and/or with the general Indian public, or by incorporating a fully owned company, i.e., with 100% foreign equity. Other options include setting up a *liaison office* to perform liaison work connected with the overseas parent company's normal business activities. Such an office is not entitled to earn any income in India and expenses have to be met exclusively from funds received from abroad. A *branch office* can also be set up to carry on activities similar to those of the head office of the foreign company. A foreign company engaged in manufacturing and trading activities can open branch offices in India to undertake export or import activities as well as to represent the parent company in India, conduct research work or promote possible technical and financial collaborations. Permission for setting up a branch office can be obtained from the Reserve Bank of India.

Licensing

Most food processing industries have been de-licensed in recent years, and investors need only process an Industrial Entrepreneurs' Memorandum with the SIA. Three sub-sectors still require licensing (distillation and brewing of alcoholic beverages; sugar; animal fats/oils), and licenses are required for those food processing areas reserved for the small scale sector. These include: ice cream; pickles and chutneys; bread; biscuits; pastry; confectionery excluding chocolates;