

TABLE FOR TWO

S K Sharma
Managing Director
Global AgriSystem

Straight from the horses' mouth

Pawanexh Kohli
Chief Cold Chain Solutions Officer
Gati

With the key objective of understanding the basic problems which companies dealing in agriculture and cold chain have to grapple on a regular basis, **Logistics Times** conducted an exclusive table for two session wherein **S K Sharma**, Managing Director, Global AgriSystem and **Pawanexh Kohli**, Chief Cold Chain Solutions Officer, Gati came together and discussed various strands of the core issue of creating a vibrant cold chain regime in the country which would mean a win,win equation for every stakeholder in the agrarian business. The participants did not just debate the existing faultlines in the existing cold chain infrastructure but also pointed out the solutions which can be infused through a collaborative effort. Excerpts:

Pawanexh Kohli (PK): Good afternoon, Mr. Sharma. We all know about this huge issue of agricultural wastage which is being generally spoken about. How would you explain the experience of Global AgriSystem in tackling this issue and what could be extent of wastage which actually happens in the agriculture business?

S K Sharma (SKS): Good afternoon, Pawanexh. You rightly touched upon the issue of wastage. We have been hearing about it but now as a company which is providing supply chain solutions in fruits and vegetables, we know that where it hurts. And believe me, it hurts very hard. In the recently held CII summit on cold chain, people including the eminent economist like Montek Singh Ahluwalia were asking where from this figure of high wastage has come. But from our experience, we can say that these numbers are definitive in nature. For instance, we are involved in the carrots trade and our wastage starts at 10 percent around the beginning of the season and it goes to as high as 50 percent by the end of the season. And it all happens because of the poor storage system. As a company, we are working in the direction of reducing the wastage by creating the required infrastructure and our plan is to create a pan-India network. We already have eight facilities where we do the contract farming, post-harvest management, storage etc. And we have four distribution

centers in metropolitan cities. So now we have a network of four odd branches and we are setting up four more. In terms of volume, this year we would be handling about one hundred thousand metric tonnes of fruits and vegetables. Out of this, 25-30 percent of the volume would be handled through cold chains. One of the challenges and you represent the logistics side of the cold chain and I will share with you, India has about 25,000 cold vehicles and number of cold storage units is very high- 5400. But the right kind of cold chains do not exist. Fruits and vegetables suffer from the lack of right kind of logistical infrastructure in terms of cold storages and refrigerated vehicles, etc. And whatever facilities are there, they come at a very expensive price. I can share with you our experience with carrots last year. We spent as much as Rs 7-8 per kg in the transportation of carrots to the south Indian market. The wastage within the transportation system was reduced from 35 percent to less than 15 percent. But it still did not compensate for the expenditure incurred. That propels me to ask you as a logistics services provider, how much of time you reckon it would take to provide the cold chain services on demand in the country?

PK: It would largely depend on how market reacts to the products that move into the cold chain. Government's focus throughout has

been on the wastage and benefits which could be delivered to the farmers. By reducing wastage obviously farmers would have more to sell. However, the logistics services provider, in fact, has been the post facto player in the entire Indian scenario. Nobody shook hands with them and nobody partnered with them to take logistics services standard vis-à-vis cold chain to the higher level. Sadly government's focus in agriculture has been to provide subsidies. Now as a logistics player which is always fighting for profits and margins (you already know how little the margins are in the distribution business), we would, of course, like to be part of the agriculture growth story in India. We are sure that the government has a vision to bring in a better regime for movement of agri-products.

The government should work more on the development of a long-term plan for the evacuation modes – the produce reaching the market from the farm gate. The focus should not just be on just improving the production mode. How would that happen? How do I see logistics services provider becoming a part of promoting cold chain infrastructure? Not necessarily through capital subsidy to the companies like Gati which are willing to participate. But they can link incentives say at the tax level, in streamlining the entire route, maybe by way of subsidy on energy consumption if we commit to provide service to the agriculture sector, etc. I provide cold chain service to chocolate, meat, fish, dairy and also agriculture but agriculture is my last priority because there is the least amount of money involved.

As a company, you need some viability gap funding and we would need the gaps to be filled up. So if the government says you would move agriculture produce and for that component of agricultural component, you would not be taxed, there could be two possibilities. I would either become too greedy and move all my resources to serve clients like you or as a strategist would seek to balance out my portfolio- may be 10 percent or 20 percent of my business would be aligned with agriculture. But I would definitely look for business which would be linked to agriculture and it will in turn benefit the farmers. If you can evacuate your produce safely and quickly to the market, then obviously some of the benefits would be rolled back to farmers. I think this is one thing the government should look into.

SKS: Pawanexh, I think you have touched a very interesting point of the comparative advantage which logistics providers would get from different sectors and if there is no incentive for them in the agriculture and horticulture sectors, then probably focus would be lower. I would like to emphasis on another dimension. And that is inefficiency in the system which is killing both – logistics services provider and the end user.

PK: This ultimately boils down to the larger intent of the cold chain. Yes, I agree with it completely because that is the next incentive. If I move agriculture produce and I am assured quick passage with something like green card which China has recently started. That is, if my vehicle is carrying horticulture produce, it will not be stopped at any toll or check point and it will move in the green corridor which is fast track and has linkage with the entire country. Just imagine what will it do? My fuel is saved, your product is saved, and we have saved a lot of time in the transportation. That's the next step the government should take.

SKS: The issue is if there are inefficiencies in the system, then we have to join hands. That is: all the stakeholders in the industry. First of all, we have to identify those inefficiencies. You talked of the backhaul which can be provided by being a pan-India network company. I will tell you something interesting. We are planning to operate a daily refer vehicle from Delhi to Bangalore and in the reverse side also. See what will happen. We will send apples between December to February from Delhi and will be bringing in coloured capsicum and other vegetables from Bangalore. And then from April onwards till September, we will be sending carrots from Delhi and will be transporting flowers from the southern markets.

PK: So you have every season mapped with varying products all coming from one organization.

SKS: Yes. We are present in northern and southern India and so this module becomes very complimentary. So those inefficiencies of backhaul would be taken care of. We have recently undertaken a study on this subject and we have found that capacity utilization of refrigerated vehicles is just 65 percent. 50 percent of vehicle from the starting point goes full but for the backhaul, it goes to any other destination to pick up the cargo which is dead mileage or it will take the dry cargo from there which would be less in capacity.

So if the capacity utilization is enhanced to say 80 or 90 percent, then cost efficiency would go up on one side. The second inefficiency as you pointed out through the China example, in the recent CII cold chain summit we recommended that fruits and vegetables should be treated very differently and vehicles carrying them should be given the green card. China's story has just come up and there are reports that fast movement has resulted in a cost saving of 10-15 percent.

PK: Yes, absolutely. And it has happened only because of the fast track.

SKS: You know that if a vehicle starts from here and goes to Bangalore, it takes six days. The distance is like 2300 km and it should be covered in four days. So we are wasting two days on an expensive transportation system. So much of additional fuel is burnt. And we are under utilizing the vehicle for two more days. So that way if these inefficiencies are sorted out, then only we can think of a better regime.

PK: I feel that the government's vision is to benefit the larger electorate – the farmers in the real India. And they need the support of private players like us to drive that vision. So they must facilitate in some way. But if I say that I will work with you throughout but the market today is not offsetting your Rs 8 additional cost on carrot despite you bringing down the wastage by 10-15 percent, then you can't keep on paying for losses forever. So the government has to work this equation out afresh. And work it out in such a way that the real benefit should go back to rural India. They must incentivise through process and procedure and not just through capital subsidy. The other thing we are very much worried about in cold chain is: there is no insurance for perishable cargo. I am also dependent on machine and that machine at any time can fail. And when that happens, the entire debit is on us.

SKS: We have suffered on account of this problem. In one instance, two of our trucks were stuck up and they could not get the replacement of the equipment in time and the entire produce was lost.

PK: In such instances, the entire cost has to be borne by service providers. And this is another concern which is resulting into hesitancy for a lot of LSPs for making aggressive moves in the cold chain.

SKS: We have spoken with insurance companies on this issue but their response is: they do not have the parameters to assess the failure of the machine deployed in cold chain operations. And, therefore, the issue is in a state of limbo.

PK: I think, they don't understand. And my suggestion would be that all interested parties – myself as a transport services provider, yourself as a produce owner and, of course, the government because they have the larger motivation and vision to bring the difference in the agriculture trade – they should develop a corpus wherein I would also willingly contribute. And it would not be a corpus of only money. It would be a corpus of domain skills as well. There should be a panel comprising people like me, you and somebody from the government and build our own insurance mechanism. IRDA could write some rules for us and we can develop some schemes on our own. Imagine how much this step can attract to bring LSPs closer to the agricultural sector. If I am insured, it could result in all efforts to reach out to the agrarian market. And this would benefit the farmers immensely.

Today farmers can't take the risk of going out to farfetched places to sell his produce because there is risk involved and he sells it to local aggregators. But I am a service provider unwilling to take that risk because of zero insurance coverage. So the government, if it really wants to push the market and the farmgate and bring them together, they have to fix this biggest flaw which is unavailability of insurance for perishable goods. The typical insurance company does not do that.

They did not do that in the marine sphere as well. So what did all ship owners do? They built up what is called the P&I club. They contributed money together and Lloyds Insurance was first to realize this. We can work on a similar model. For instance, out of the astronomical sums which the government is spending on pure infrastructure, it could create a small start up corpus for risk assuring the cold supply chain. It could just be a Rs 20 crore corpus where private players would also be contributing. And if I contribute a certain amount, an equal amount of perishable goods coverage would

be ensured by that war-chest.

Also since we will have a panel of vested parties as the controllers of that insurance corpus, we would also be able to collaborate together. Tomorrow if we find that repeatedly a company's refrigeration system or processes fail, that will be blacklisted. Such a mechanism would ensure the seamless coalescing of information, transparency and appropriate domain development in the cold chain. Four-five such innovative ideas need to be adopted to drive the entire industry which would also ensure that benefits are delivered at the farmgates. But here everybody is looking at equipment buying and selling, everybody is looking at building base infrastructure not realizing that every economy is based on ensuring the reach of the saleable product to the market and you have to tie the entire link.

SKS: I think, you have touched a very interesting topic. So far the focus of both industry and the government has been on hard infrastructure – the assets. But assets without requisite knowhow, the software, knowledge and strategy. It is ultimately these components which would make sum total correct. We are also noticing a lot of demand emerging out of metropolitan cities throughout the year and those traditional rules of seasonality are getting diluted. With the increasing size of the cities, there needs to be adequate capacity to produce in one place on which a lot of effort is going. But at the same time, efforts need to be made to ensure that the produce is made available at the right time and at the right place. I think, the recent crisis in onion is a case in the point where a difference in five percent production has created a havoc. Just five percent drop in production has resulted in seven times escalation in the price of onion. Also the fruits and vegetables marketing has to be different from the way it is happening today. In that context, allowing FDI in fruits and vegetables is not a bad idea.

PK: The government must promote that. Because one of the main reasons which has been propounded in favour of FDI in multi-brand retail is that it will help the agriculture sector. But if we are not willing to open multi-brand and yet the objective is to help the agriculture sector, then they can promote single-brand companies in F&V retail. We do not have single brand or multi-brand fruit and vegetable retail in the country.

SKS: It would do a world of good for cold chain in the country. There are a host of reputed firms globally working in this domain. Somebody like Cold Storage company of Singapore. It's a reputed firm and companies like these would be quite keen to come in the country provided there is a supportive environment.

PK: And that would be much in alignment with government strategy. You don't want to affect Kirana store but at the same time you want to help farmers. So the answer is F&V retail even as it is toughest supply chain to manage and requires expertise of the highest order.

SKS: Briefly if I have to sum up the pre-requisites to promote cold chain, there are two things which come to my mind. Firstly, the produce has to reach to the consumers at the right time and at the right pricing point, etc. But also the food safety issue. Most of the food that is coming today particularly not temperature controlled is a potential health hazard. Our cities are becoming bigger, more food will come and there would be a greater scope of risk.

PK: Absolutely, more scope of pandemics, epidemics, etc.

SKS: So cold chain promotion has to be also seen by the government as a tool to ensure supply of safe food to the masses.

PK: Cold chain automatically means a superior supply chain right from the selection level. It also means (alongwith FDI in fruit & vegetable retail happens), more branded foods with better safeguards. Yes, I totally agree that it will push through the government's agenda of food safety.