25 years of tinkering in agriculture – Ashok Gulati

Part second –

Direct reforms in agriculture and their impact

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Fertilizers subsidy reforms

- After facing uproar over its announcement of raising urea prices by 40% in 1991 budget congress rolled it back to 30%. The effort was to phase out large subsidies on agri inputs and get the fiscal deficit under control.
- In 1992, joint parliamentary committee was appointed to look into this issue , which recommended further lowering of urea prices by 10% but freeing up phosphorous and potash fertilizers.
- As a result, no progress achieved in reducing burden of fertilizers subsides or correcting the usage of N, P & K fertilizers.

- The quantum of fertilizer subsidy ballooned suddenly in 2008-09, as global prices of chemical fertilizers increased substantially while domestic prices, especially of urea, remained frozen.
- As a result , fertilizer subsidy crossed Rs. 100 000 crore .As a percentage of AGDP , it was 10%, and as percentage of union government’s tax revenue, it crossed 20% . In the union budget of 2017 ,fertilizer subsidy was budgeted around 70000 coroe along with pending bills of 45000 crore.
- Data from Bihar gives us some idea of fertilizers getting diverted to neighbouring countries . In FY 2013, fertiliser consumption in bihar was 200kg/ha way above all India average of 131 kg/ha. Figures of wheat and rice cultivation are not commensurate with such levels of consumption as per the directorate of economics and statistics data.

Trade reforms

- In 1991 , much of the global trade in agriculture was subject to many types of non tariff barriers. These included licensing of exports and imports , restriction of trade through generally one body (canalization) and the use of minimum export prices (MEPs).
- India’s trade policies have largely been ad-hoc and unpredictable. A case in point is the 2007-08 global food crisis, which triggered a ban on wheat and rice exports.
- These polices have been observed to be subservient to overall objective of food security and price stabilization much to the detriment of farmers who have born the burnt of such ad hocism.
- To illustrate evolution of India's trade polices and their impact , we will look into case studies on cereals and edible oils.

(a) Story of edible oils

- It starts from 1986 when we were importing about 30 % of our consumption requirements. It was the second biggest import item after crude oil.
- Scarcity of foreign exchange in 1990s compelled us to formulate TMO technology mission on oilseeds to attain self sufficiency in oilseeds production.
- As per suggestion of Dr Kurien , the ‘famous milkman of India’. All the imports of edible oils stopped. This led to flaring up of domestic prices of edible oils, and about 7 million hectares of area shifted from cereals to oil seeds as result.

- India achieved self sufficiency in 1992-93 when imports fell to less than 5% but during the same year , we fell short of cereals and almost 3 MMT wheat had to be imported to fill the gap.
- Point to be noted here is this , that import price of wheat was almost double of price paid to our farmers as MSP for their domestic produce and domestic price of edible oils were 60% -70% higher than their import prices
- This reflect the kind of inefficiency that was prevailed in our agriculture partly because of excessive interventionist sort of policies.

- After the reform quantity restriction on imports of edible oils were abolished and instead tariff were levied which were reduced overtime but as soon as global edible prices fallen significantly in 1997 due to east Asian financial crises , tariff was raised to 90% for edible oil imports in fear of losing significant gains of 1992 , known as yellow revolution in Indian agriculture.
- Even in 2016 , with moderate import duty we are importing 50% of our consumption requirements.

(b) Story of cereals

- Cereals exports and imports were highly restricted primarily through canalization route. It was further restricted through high MEPs or outright quantitative restrictions.
- The year 1994 which saw the change import policy for edible oils also saw the change in common rice exports which were opened to the private sector without much restrictions.
- As a result India emerged as the second largest exporter of rice exporting around 5 MMT in 1995-96.
- The journey of rice exports , however has not been very smooth. It has suffered several times due to falling global prices but more often due to restrictive government export policy through either higher MEPs or outright bans on common rice exports (as during 2007-11).

- Wheat experienced an even more restricted export policy regime. It faced bans during 1996-2000 and again during 2007-11.
- Nevertheless both rice and wheat has seen significant increased in exports . During the FY 2013-2015, India exported more than 10MMT rice and became one of the largest exporter of rice in the world.
- Like rice , wheat exports too were substantial during the same period. In fact , during the same period India exported 62 MMT cereals , an annual average of more than 20 MMT.
- This has been the largest export of cereals ever in Indian history, a sort of cereal miracle.

- Gradually , India opened up export of other commodities. In commodities such as cotton and beef we became the largest or second largest exporter in FY 2014.
- Despite the reforms and impressive performance , policy governing trade front is still highly restrictive ,especially in the case of pulses, sugar , oilseeds and edible oils.
- Still exist anti-agriculture bias but not to the degree as it did before the reforms.

Domestic agriculture marketing & production-policy reforms

- Although Agri commodities have national markets certain laws such as ECA and APMC act makes the marketing of commodities less efficient and riskier.
- For example under ECA, movement of commodities can be restricted between states, or even between districts within a state; limits on private sector stocks of essential commodities can be imposed , strangulating the rile of private players.
- Similar limited licensing of commission gents under APMC creates a rent seeking class of commission agents , who have oligopolistic powers and take away undue share in the value chains of the most Agri commodities.

- Existence of dualistic market structure , particularly for wheat and rice ,under which part of the marketed surplus of certain commodities is procured by the government (FCI) to be distributed to an identified vulnerable section of society at highly subsidized prices, complicates the already strangulated Agri markets.
- This combine with the levy system for rice and wheat in different states under which mill owners had to deposit a certain part of their production at predetermined prices at FCI further limits the efficiency of market system .
- Over the years levy system has been completely dismantled

- All such restrictive polices increased the gap between the farm gate prices and the retail prices, enlarging the antiagricultural bias in system and in policy making.
- Most of them have been relaxed , however , the draconian ECA and APMC policies are still in place which economic survey 2019-20 also mentioned recently.