

Executive Summary

Policy Environment for Price Support in Pulses and Oilseeds

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In India twin objective of agriculture price policy encouragement to domestic production and fair price to consumers continue over the decades with some periodic changes in focus. The price support in the earlier decades of planning was to provide cheap grains through fair-price shops to its consumers. The source of grains: imports vis-à-vis domestic production was not important. However in the mid-1960s following food scarcity a major point of departure in price policy emerged in the country. The period was also accompanied by bio-chemical technology in fine cereals. Price policy since then has started aiming at domestic production. The MSP -based price support has been instrumental in encouraging domestic production and largely succeeded in making India self-sufficient in a few commodities.

This has helped farmers in certain areas to receive remunerative prices for their produce. This is also reported to have increased the uptake of chemicals, and caused a tubewell revolution in a certain part of the country, though concerns about such agricultural development have also emerged afterwards. Past studies report that effective implementation of MSP has provided price insurance to farmers. Despite the importance of price support in the development of agriculture, the state of farmers continues to deteriorate and farmers' stress is being reported from different parts of the country. Accordingly, Union Government attempts to increase farmers' income by different means that also include the provision of remunerative prices for their produce to farmers.

The MSP-based price support is also criticized on various accounts, its impact on fiscal drain of public money and contribution to degrade natural resources is well recognized. Price support is also considered trade distortionary in an open economy. Despite these shortcomings of the MSP-based price support, the farmers of specific regions are agitating to legalize the Minimum Support

Price of commodities. Against this backdrop, the present study looks into the price support as it exists and its likelihood in the future development of agriculture. The first section looks into the market price for pulses and oilseeds and also discusses the MSP in important producing states of the country. Subsequently, the study ascertains effect of imports on the domestic price of pulse and oilseeds. The study reviews price support in some WTO member countries. All these were finally concluded in the last section.

The study first compares the market price with MSP of some pulses (urad, arhar, and lentil) and oilseeds (groundnut, mustard seed, niger, safflower, sesame, soyabean, sunflower, toria /rapeseed, and copra) in major producing states of the commodity. The comparison shows that market prices of the selected pulse and oilseeds are frequently lower than the MSP of the commodity. This to some extent is unexpected considering the price of pulse and oil in the consumers' market. The present study refers to this situation as a depression of price. This is more frequent in oilseeds than pulses. This can have various reasons, the presence of suitable infrastructure (market, storage) is important for market prices to remain firm in most of the commodities. In oilseeds besides the (post-harvest) infrastructure, the efficiency of processing units is instrumental for farmers' prices to remain high in the wholesale market.

The study while comparing the market price of a commodity with MSP and collating it with government procurement, noted that the state of Madhya Pradesh (MP) has never required government procurement in soybean, though this is the most important soyabean-producing state of the country. This may be construed as a situation wherein the market price of soybeans in Madhya Pradesh has not been significantly lower than the MSP during the reference years. The success of the e-choupal for marketing and procurement of soyabean is known to most of us. Similar instance of the presence of Marico in North Kerala for procurement of coconut has led to the firm market price of the commodity in the region (Jha 2016, PSS IEG Policy Brief). The above instances show that the existence of private players (efficient post-harvest operators) has been important for prices to remain firm in the market.

With government procurement at MSP, the market prices around the region are supposed to be at par with the MSP. However, the collation of market price suggests that it is not so for certain commodities (urad). Such depression in the price of (unlike oilseeds) cannot be attributed to inefficiency in processing especially in an open framework. Some people feel that the price of the

specific pulse remains depressed following its imports during the period. The policy for the import of pulse (urad) is possibly embedded in the market access commitment (in WTO) of the quota of 5 MT with variable import tariff for pulse. The statistics suggest that imports of urad are lower than the market access commitments of the pulse. Therefore there is limited potential for alteration of the import of urad without violating WTO commitments. However, trade observers suggest that the import of cheap pili matar (a pulse) from Canada instead of Urad may fulfill our commitments to WTO and simultaneously improve the cheap source of protein for the bulk of consumers.

In an open economy framework with market access commitment, depression in market price is at times attributed to the import of the commodity. There is the possibility that imports affect farmers' price of a commodity and there are enough literature to suggest that the current price of a commodity influences farmers' decision on the acreage of the crop in subsequent years. The present study in one section assesses the effect of imports on the domestic price of some pulses (arhar, lentil, moong), oilseeds (mustard, sunflower seeds), and coconut. The analysis was based on the transmission of international prices to the wholesale price of commodities in the domestic market. The present study in the absence of the international price of the above commodities (some pulses and oilseeds) for a sufficiently long period, considers the unit value of imports as a proxy for international price. The market price in the present analysis is the average wholesale price arrived from important producing states of the commodity.

To find the long-run relationship between the international price and the domestic price of the commodity, the ARDL test was performed. Analysis of time series data requires a check on stationarity of data. The present analysis found that all referred commodities except the international price of sunflower were stationary at the first difference. After checking the stationarity of data, the optimum lag between these variables was checked with Akaike Information Criteria (AIC). The study found that the optimum lag between variables has varied for commodities chosen, and the ARDL was estimated with suitable lag for variables.

The calculated F-statistics for the estimated ARDL test was less than the lower bound rate (at either 1 or 5 percent) for all commodities (arhar, lentil, moong, mustard, sunflower, and coconut). The estimates thus negate the existence of the long-run relationship between wholesale prices and the unit value of imports (international price) for all referred commodities. The findings are against the impression that wholesale prices of commodities are influenced (significantly) by imports of

the commodity. Many India-specific studies contradict the existence of a long-run relationship between the world and domestic prices in many agricultural commodities. A few of the past studies (Ghosray 2011) suggest that transmission between the world and domestic price of commodities with many intermediaries is conditional; experiences show that transmission between the world and domestic price is strong when the world price of the commodity is falling, but it is weak when the world price of a commodity is increasing.

Despite the above findings, it is important to review the kinds of support to agriculture, especially the price-based support among the WTO member countries. Though the WTO Agreements on Agriculture are against trade-distortionary support, a review of their practices suggests that most of them barring a few (Australia, Brazil, Chile, New Zealand, South Africa) support their agriculture. Considering the WTO Agreements many countries have crafted their support to address the condition of their farmers. These supports are not necessarily non-trade distortionary. Some of these have successfully shifted their support from the Amber (support with *deminis* condition) to Blue box (income support). The support at times is for specific agricultural commodities that have the potential to distort world trade of the said commodities.

A country like European Union is purchasing a certain quantity of a commodity at a price higher than the world price in most cases. However, procurement (unlike India) is not open-ended. Such supports are in vogue for many non-EU countries also, for example in Indonesia government purchases specific commodities (cereals) at prices higher than the world price. China has provisions for the minimum purchase price of commodities. A country like the United States has a scheme of counter-cyclical payment which is inversely related to the market price of the commodity. In Turkey, farmers are paid deficiency payments as the difference between the world and domestic price of the commodity. A few WTO member countries including Thailand and the US pay price insurance as direct income support to farm producers. A few WTO member countries like Russia support their farmers with a combination of border measures and the market intervention scheme.

Some (WTO) member countries substituted their price support with income-based support to farmers. The countries have decoupled their support to producers (farmers) from “acreage” and “production” of the commodity to make such support WTO legal. The WTO Agreement on Agriculture also allows many kinds of support (price, income) to small holders and subsistence farmers.

India given the trade practices of the WTO member countries has started income support for small and marginal farmers (PM-Kisan Samman Yojana of Rs.6000 per year). The country (as compared to many WTO member countries) has a limited fiscal capacity to support its farmers, while the small and marginal holdings are around 120 million. This adverse situation makes the PM-KSY (income support) less meaningful. Whereas a country like China with a small size of holders similar to India, but the size of the economy many times of India has succeeded in providing meaningful income support to their farmers.

The poor state of post-harvest infrastructure also allows WTO member countries to support the post-harvest operation (especially logistics) of agricultural commodities. The fiscal capacity of the country again restricts it; while poor infrastructure in a large part of the country may be cited as another reason for the continuation of price support.

Nevertheless, agriculture in India is dominated by marginal and small farmers, and many of them are too deprived to invest in their farms. Therefore financial assistance from the government for custom hiring facilities, collectives, subsidized credits, etc. is desired to support farmers. However, in the presence of limited support of this kind price support remains important at least in the transition phase. In the present study, transition refers here to a situation when the Indian economy grows to the extent that its fiscal capacity to support its farmers becomes meaningful.

The above were some arguments in defence of price support in an open economy. Above all, kindly note that effective MSP-based price support has been instrumental in increasing the productivity of many commodities. And such support termed as conditional is essential for a country like India where the bulk of people spend more than 60 percent of expenditure on food.

The price support especially the MSP-based procurement is at times criticized as it has encouraged mono-cropping and degraded natural resources. A careful look into the issue suggests that the above problems have cropped up because of the selective use of commodity-specific price support in the country. The price support should not be blamed for such problems; in fact, wider use of commodity-specific MSP-based procurement (price support) would minimize the problem of mono-cropping and the problems associated with it.

The wider use of MSP-based procurement does not necessarily mean higher spending of public money. Meticulous planning for MSP can reduce the cost for the government. There are some suggestions. Another reason for the extension of MSP-based procurement to many commodities

stems from the fact that procurement of pulses and oilseeds through NAFED and similar organizations (NCCF) has been found profitable (Jha 2019). The study further found that regular distribution of these commodities through the cooperative network would further improve the profitability of collectives and the sustainability of the operation.

There is also scope for diluting MSP for the procurement of a commodity in an open economy. The MSP is announced at the time of sowing of the crop, while procurement (if any) happens after four / six months of the announcement of the MSP. The MSP announced may be adjusted with the changes in the international price of the commodity between the announcement and procurement of the crop. The adjusted MSP (procurement price) should not be more than the import parity price of the commodity, and it should not be less than the cost of production (Cost A2+FL) of the commodity. The procurement price may be announced by the CACP (Commission for Agricultural Cost and Prices) just before the harvest of the crop. Such adjustment in price between the sowing and harvesting of a crop is necessary for both producers and consumers (also processors) of the commodity and ensures a sustainable supply of the commodity for consumers and processors. This kind of flexibility may reduce government spending.

The present study also argues that the market access commitment of India to the WTO (a part of trade policy) may be tailored to the strength of the country. The above analysis indicates that imports of urad are more frequently associated with a market price lower than the MSP of the commodity despite government procurement of urad from many markets. The import of urad during the period of analysis was embedded in the quota of 5 MT for pulse (with variable import tariff). Such imports have possibly depressed the price of urad, though econometric analysis did not support the same.

However, a kind of pulse named *pili matar* imported from Canada is cheap for poor consumers in India. A market access commitment at disaggregate (rather aggregate) level in pulse which allows imports of pili matar rather than urad will be beneficial for both consumers and also producers of pulses in the country. The study, therefore, proposes market access commitment at disaggregate rather than at the aggregate level.

The study also highlights the presence of private players in the post-harvest operation of a commodity (ITC-e-Choupal) for prices to remain firm in the region. This reduces the burden of

procurement on the government. The previous studies (Jha, 2019) suggest that private players have also been instrumental in infusing technology into the eco-system of related commodities.

The involvement of big corporates in the post-harvest infrastructure can also address the problem of inefficiency in the processing units (oil complex). Consequently, prices of edible oilseeds remain firm (above the MSP). By the time such good practices are implemented, MSP-based price support becomes indispensable in the country.

Table 1: Market Price Lower than MSP in some markets (across states) despite PSS Intervention in the Region.

Crop	State	
Urad	Intervention Period	Date and Markets in Madhya Pradesh
	26/11/2010 to 14/12/2010	26/11/2010 (Sironj), 27/11/2010 (Sironj)
	16/11/2012 to 26/2/2013	Market price available during this period for all markets are mostly higher than MSP, except than 3/1/2013 (Mandusar, Vidhisa) 4 to 17/ 01/2013 (Vidhisa)
	Intervention Period	Date and Markets in Rajasthan
	20/11/2012 to 31/03/2013	Available prices for all the markets are below the MSP
	Intervention Period	Date and market in Uttar Pradesh
	17/11/2012 to 21/01/2013	29/12/2012 (Bulandshaher) 31/12/2012 (Bulandshaher) 15/1/2013 (Bulandshaher) 16/1/2013 (Bulandshaher) 19/1/2013 (Bulandshaher)