Editorial Comments

Transforming India's Food Grains Distribution Network

India's current food programmes need a relook

India has strived hard for enabling food security of the country. Besides increasing the production, policies have also been designed to increase the access of adequate amount of food at affordable prices.However, our social schemes have far outlived their intentions and calls for frequent interventions in sync with the contemporary scenarios.

The pivotal National Food Security Act (NFSA) which was passed in 2013 specifically aimed to ensure food security for all people, at all times marked a paradigm shift in the approach to food security from welfare to rights based approach. About two thirds of the population covered under the Act receive highly subsidized food grains Rs. 3, Rs.2 and Rs.1 per kg for rice, wheat and coarse grains respectively. At present, the government supplies 5 kg of subsidized food grains to each person per month to over 81 crore people via 5,00,000 ration shops in the country, costing the exchequer about Rs 1.4 lakh crore annually.

Six years into successful implementation of the scheme, it appears only logical to revise the subsidized price. Increasing the prices marginally with due consideration of the economically vulnerable section of the society, will ease the burden on public funds to a large extent. Besides this, India is facing allegations 'trade-distorting subsidies' at the WTO. If a consensus emerges at WTO regarding this, India will be forced to reduce the quantity of agricultural products it buys from the farmers. In addition to this, the government wouldn't be in a position to increase the MSP in favour of farmers as it would increase the overall level of subsidies. This in turn will force the government to increase the prices of subsidized food grains distributed under National Food Security Act. Instead of caving under the pressure of increasing the price of subsidized food grains, the government can preemptively revise the price upwards for wheat, rice and pulses covered under food security act within comfortable zone.

It might be feasible to include the impact of inflation on existing prices and adding charges for all the actual expenses incurred like transportation, logistics, warehousing etc. , which may vary from approximately Rs. 5 – 7 per kgs in different areas. FCI may further suggest such cost based pricing to each state to be adopted to reduce the burden on government as well as ease pressure from WTO. It could safely be advised to make the food grains available to the targeted population at Rs. 3, Rs. 4 and Rs. 6 per kg for coarse grains, wheat and rice. The revised prices will be less than 25% of the prevailing average market prices of Rs. 12-14 for coarse grains, Rs. 18-20 for wheat and Rs. 26-30 for rice.

Currently the food stock with FCI exceeds three times the buffer stock norms of 21.04 million tonnes. The huge buffer stock of about 74 million tonnes available with the government although ensures food security, the excess indicates the blockage of money, adding to fiscal deficit. Besides,the food grains stored under CAP (covered area plinth) is partly exposed to rain and other weather conditions inflicting damage to the tune of 40%. This make liquidation of about 25 million MT excess stocks an immediate necessity.

It is high time decisions be made regarding the offtake of the excess food grains. Exploring options that would creatively utilize the excess would be rewarded to the producers as well. Involving states with advanced PDS systems; PSUs and private sector; extending part of surplus stocks to needy countries as humanitarian aid, especially to African countries, under South South Cooperation; doubling allocations under NFSA can change the current scene of loss and misuse.

Besides liquidating the stocks, strategy for future course could be changed by assessing buffer stock for excess, frequently than initially proposed 5 years. Also, conditional cash transfers (CCTs), rather than physical distribution of subsidized food, have been found to be much more effective in achieving food and nutritional security. In long term, changing the cropping pattern to include more coarse grains, oilseeds, pulses and horticultural crops need to be encouraged through rationalising MSP scheme.

Editorial Comments

Certifying All Seeds

Replacing the existing seeds Act will encompass all seeds sold commercially

India's move to replace the existing Seeds Act, 1966, to introduce certain changes in accordance with the changing norms, speaks of bringing uniformity in certification. It is a significant move considering the dependence of the majority of the farmers on seeds bought commercially.

Although certification of seeds are mandatory in India, hardly a few percentage of seeds sold qualify that criteria. More than half of all the seeds sold in India are not certified by any proper testing agency, and are often of poor quality. Currently, about one third of seeds used in India are saved seeds – the seeds that the farmer himself saves from his harvested crop which he may re-plant or sell locally. The remaining seeds which are bought and sold commercially, 45% come through the ICAR system which goes through the mandated certification process. The other 55% are sold by private companies, most of which are not certified, but are 'truthful label seeds'. The quality of this category of seeds are guaranteed by the producing agency i.e., the company. That is, they are simply self-certified by the company. It is this category of seeds that the new law will affect the most. This category will be removed with the new law, and certification through a proper lab process will be made mandatory. Planting materials such as cuttings, grafting and tissue culture plantlets would also be included in the definition of seeds, and hence would be brought under the ambit of the law.

The new law that replaces the Seeds Act, 1966 enacted over half a century ago, could increase overall agricultural productivity by up to 25%, according to the ministry. The main aim of the new legislation, which is ready for submission to the Cabinet for approval, is to bring uniformity to the process of quality regulation. The 1966 Act has not endorsed all category of seeds, as it states only 'certain' category of seeds to be regulated. The new law makes no exception to any category of seeds and all types of seeds sold in the country, including exported and imported seeds are included in its ambit. The new Bill will also raise the stakes by increasing penalties for non-compliance. Currently, the fine ranges from Rs. 500 to Rs. 5,000. This is expected to be raised to a maximum of Rs.5 lakh. The Bill has been pending for so long, but it is important that companies be held accountable for the quality of the seeds they sell, and the claims they make. If a seed fails at the germination, flowering or seed-setting process, the company which sold it must be held liable and made to provide compensation.

Barcoding which also forms part of the new law necessitates a software system that will be able to track seeds through the testing, certification and manufacturing process. The barcoded seeds ensures transparency and traceability. This will weed out poor quality seeds sold affecting the productivity of agri output. By connecting to a dealer licensing system, seeds will be tracked through the distribution process as well. In place, the system will be able to indicate region wise distribution of a particular seed.

The challenges however, would be to bring the thousands of seed companies on board. The fear of data being shared to competitors may deter or delay the process. The transition may also take some time as there are requirements of developing software, testing them and transferring them to states. Convincing the companies and farmers would be a mammoth task, so is creating awareness among farmers. Beyond implementation, spreading the relevance of this system among the farmers is more important.

Editorial Comments

Futures Market – The Future?

A study points at the benefits of Futures Market in increasing farmers' income

Futures market has so far remained farther from the farmers. Only a few have ventured into the uncertain terrains of futures market, although benefits galore. A similar finding has been voiced in a study co-authored by Tirtha Chatterjee, Raghav Raghunathan and Ashok Gulati.

Stating that linking farmers to futures markets can be mutually beneficial to both, a study by Icrier has suggested initial focus should be on commodities markets in which there is few government intervention. An early action by NCDEX, the premier agri futures exchange, in collaboration with Nabard, which is the main body promoting farmer producer organisations (FPOs), can bring rich dividends to farming community as well as the exchange, the study said. The study specifically asks for the exchange to identify production centres for those crops, which are not protected by heavy government intervention, build delivery centres around them and encourage futures trading in these areas through FPOs. Bringing in FPOs to the scene will be beneficial to small farmers. FPOs can procure and aggregate the produce and ensure that both size and quality standards are met as per requirements for participation in futures markets.

Only a handful of FPOs transact in the NCDEX. From the first FPO transacting on NCDEX in 2014, the number of FPOs has increased to 69 as of May 2018. However, 80% of these FPOs had traded only once on the futures platform.Their share in overall agri-futures trade was just 0.004% between April 2016 and May 2018.In India, the acreage-related decisions are based on the last year's prices rather than on future expectation of prices. This leads to a vicious cycle of glut and lower prices followed by scarcity and high prices.The role of agri-futures is therefore critical given that it not only aids in price discovery but also mitigates price risk by ensuring a predetermined price.

The study also pointed out how China has fared well in this segment. China is the world's largest player in futures market in terms of number of contracts traded, despite starting in 1993.A programme of futures plus insurance was introduced in China in 2016 as it intends to move from a state-controlled economy of minimum support prices towards a market determined price structure in future. Under the scheme, farmers buy insurance to ensure the minimum selling prices/earnings, while insurance companies make payments to compensate when commodity prices are less than agreed futures price levels. The price data related to the insurance contracts shall be based on futures prices of the Dalian Commodity Exchange. The scheme, started as a pilot stage for soybean and corn, has since been scaled up to cover more areas. "Alongside developing and focussing on the agri-futures markets, another critical initiative taken by the Chinese government is slowly freeing the commodity market from government intervention.

China was raising MSP since 2004, and ended up piling huge stocks. As a market correction measure, since 2014, it has been reducing its MSPs for rice and wheat and removed corn from the support. It is slowly moving towards a Direct Income Support (DIS) based intervention. Some of the key takeaways from China's experience in this regard are: state support for futures market is critical, encouraging use of futures by farmers and consistently training and educating farmers for that, easing government protection from the commodity market by reducing the number of commodities covered under MSP-scheme and reducing MSPs for others besides innovative and customised products.

For futures market to achieve the objectives of price discovery and risk mitigation and have an impact on Indian agriculture, it is necessary that more farmers and farmer-producer organisations (FPOs) participate in it. The prevailing notion that participation in futures market is akin to gambling need to be addressed. The small and marginal farmers need to be brought under larger groups to increase the scale to be traded in the futures exchange.

Editorial Comments

Storm in a Tea Cup

Tea sector is facing an unprecedented crisis

A storm is definitely brewing inside the tea cup. Tea workers going to strike quite recently over wage hikes and the world's largest tea producer, McLeod Russel's plan to sell tea estates with unviable yields due to adverse weather conditions, are perfect portrayal of things gone wrong for the tea industry. At a time when specialty tea is scaling new heights in the auction centres, tea industry has issued a public appeal asking government to ban expansion of tea for at least five years and provident fund (PF) contribution of workers to be taken over by the state government for three years to provide relief to the industry. India's successive production spurts have become reasons of peril for the industry as a whole.

India is the world's second largest producer of tea whose production has grown 60 per cent. However, the increase in production was not accompanied by price increments or exports. Exports remained stagnant at around 200 million kg. Except in FY13, there has been no significant spike in export prices. Per-unit realisation of tea has been more or less flat over the past six years. In the absence of export potential, planters are dependent on the domestic market. Interest of the ace tea marketers of India - Tatas or Unilever has waned. Mergers and acquisitions have become a rarity. To make matters worse, the production cost has increased. About one third of the Assam gardens have defaulted PF obligations.

The genesis of the problem was the over-supply of cheap tea hitting domestic prices. As a social measure, tea farming was encouraged in Assam as a part of which the Centre created provisions for bought-leaf factories to cater to the segment. The bought-leaf factories (BLFs) became the source of cheap tea that was produced using green leaf procured from small growers. Although it offered gainful livelihood opportunities to unemployed youth, it was also responsible for creating a deep imbalance in the sector.Besides, the cost of production of tea in India is one of the highest in the world.High wage structure, high social welfare cost, and high transportation and handling charges have contributed to the increase in production cost.

Many believe that Tea Board needs a structural overhaul as it has partly been held responsible for the debilitating tea industry. The CAG's performance audit in 2011 said that the Board had failed in regulation, its inspections were "non-transparent", the subsidy schemes didn't deliver, research was not fruitful, and even the internal audit was weak. The industry associations have no representation on the board, which is loaded with politicians and chosen 'experts'.

The tea industry is also burdened by the social obligations imposed upon them by the archaic Plantation Labour Act. With time, changes should be made. With tea industry fighting for its survival, states should extend a helping hand. While planters take charge of the wages in cash, PF, ESI, etc, as in other industries, the state should build hospitals, houses and schools.Governments can ensure that planters pay basic minimum wages for agriculture. The small grower-BLF combine should be replaced by contract farmers, creating room for the organised sector to grow. It would help in ensuring greater market connect.

The government can no longer turn a blind eye to the crisis brewing in the tea sector. With the Indian tea industry providing employment to over 1.2 million workers directly, any disruptions to the way of functioning may affect a sizeable population.