

Enabling a Competitive, National Market for Food

Macro/Finance, NIPFP

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Food prices

- Increasing demand for labour intensive crops
- Rising cost of labour
- Markets are oligopsonist and oligopolist
 - ① Markets with high entry barriers and legally supported opportunities for collusion
 - ② Fragmentation of the food market with no national market
- Cost plus pricing has contributed to higher food prices.

Way forward

- Need to create competitive markets for food.
- What can be done by the central government?

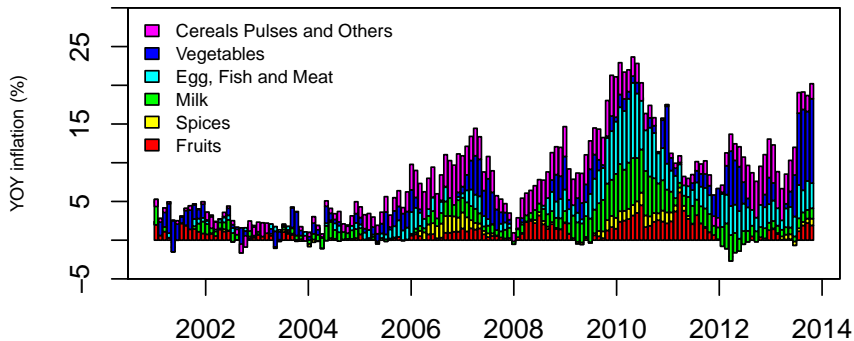
Outline

- Recent spike in food prices
- The regulatory framework for food markets.
- What can the central government do?

Part I

Food inflation in recent years

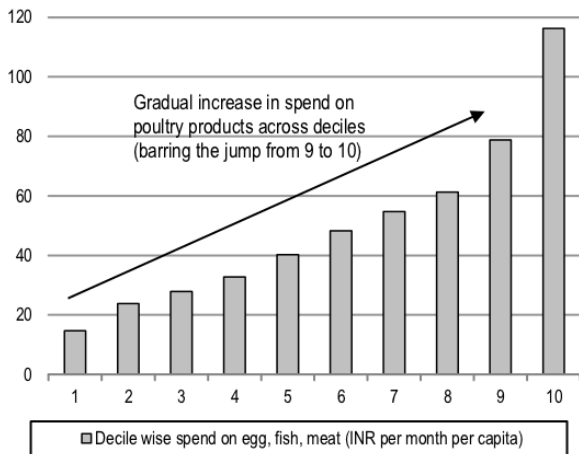
No single item responsible for food inflation



Both demand pull and cost push

- Demand pull
 - High growth of urban and rural incomes
 - Changing consumption basket and higher demand for non-cereals such as pulses, egg, fish, meat, vegetables.
- Cost push
 - Sharp growth in rural wages and rise in cost of production
 - Rise in cost of production due to high labour intensity of non-cereals

Demand: Consumption patterns change with income



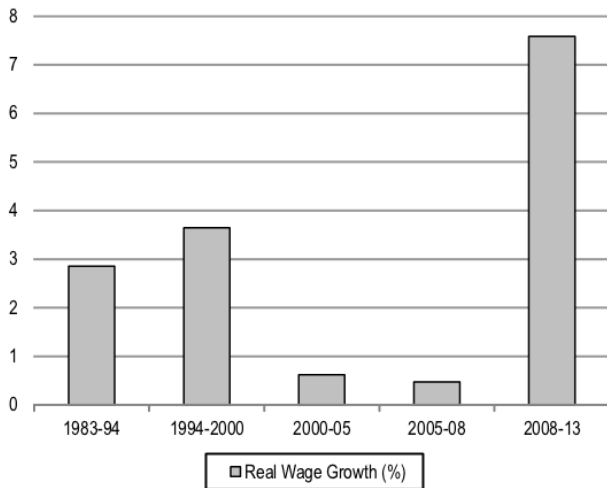
Source: Labour bureau, NSSO , Credit Suisse

Demand: Vegetables are more labour intensive

Commodity	Mandays per hectare
Wheat	55
Onions	124
Cabbage	110
Tomatoes	195

Source: Joshi, Gulati, BIRTHAL, Tiwari (2004)

Cost: Rural wage rise



Source: Labour bureau, NSSO , Credit Suisse

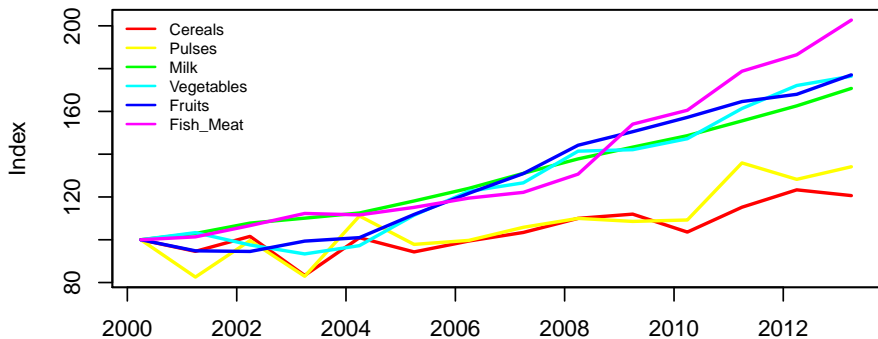
Rising consumption of labour intensive crops

- Consumption pattern shifting to more labour intensive crops
- Rise in wages pushes up labour costs
- Combination of change in labour costs and shifting to more labour intensive food items.

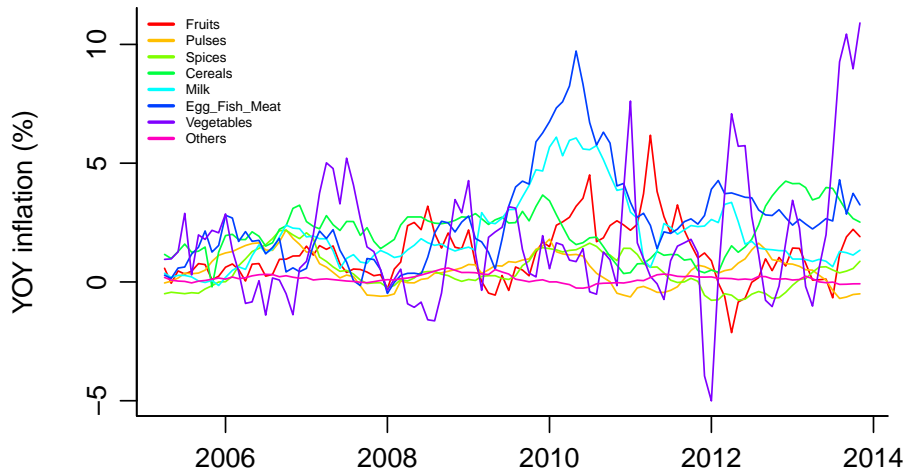
Part II

Cost plus pricing

Both demand and supply have increased



So have prices



Market for food

Farmer \Rightarrow Pre-Harvest Contractor \Rightarrow Commission Agent/Broker (APMC regulated) \Rightarrow Wholesaler (APMC regulated) \Rightarrow Retailer Consumer.

- Production: competitive markets
- *Trading: oligopsonistic and oligopolistic markets*
- Retail markets: competitive.

Consequences

- Mark up pricing \Rightarrow High share of middlemen
- Inadequate investment in food supply infrastructure \Rightarrow High market cost

Share of middlemen and farmers

	Farmer	Middleman	Market Cost
Vegetables	39%	30%	31%
Fruits	34%	47%	19%
Average	53%	31%	16%

- Marketing costs: 22.17% (for green peas), 50.25% (for tomatoes), 33.14% (for sapota), 69.43% (for apples).
- In direct selling markets the share of farmer: 85 to 95 percent.

Agricultural produce marketing framework

- APMCs regulate *who* can farmers sell to, *who* can participate in such markets and *where* such markets can be established.
- Long chain of intermediaries:- Arhatiyas, Commission agents wholesalers and retailers.
- **Anti-competitive practices:**
 - APMCs directly participate in the markets they regulate.
 - Licences: not transparently allocated, specific, periodic, limited.
 - No more than 30% of transactions are open auction based.

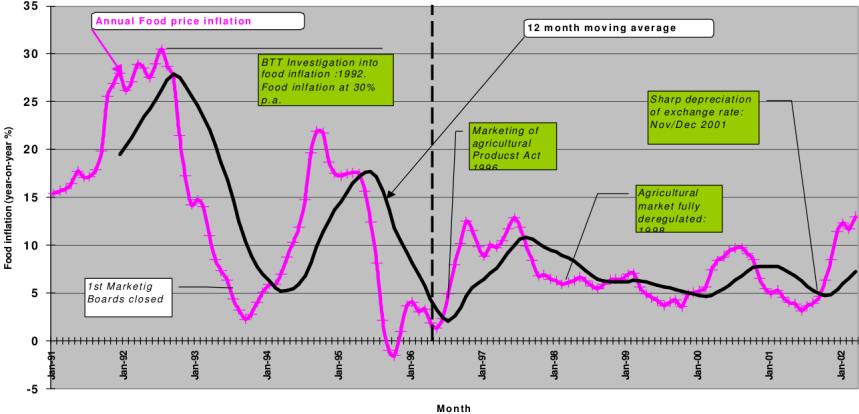
Part III

International experience

“Marketing of Agricultural Produce Act, 1996”

- closed all schemes and control boards.
- Created a board to identify and dismantle all controls

Food price inflation and deregulation



Part IV

Towards a competitive market for food

Competitive Market

- 1 We have competitive markets for almost all other goods
 - Cement Control Order, Aluminum Control Order are history.
- 2 Agriculture seems to lag behind:
 - 1 APMCs - May be *promoting* cartelisation like floor trading did. We need to prevent designated places for trade.
 - 2 Essential Commodities Act - Artificial state-imposed controls - traders get harassed.
 - 3 Even modern laws have regressive rules - no private market can come up within 25 kms of a state APMC
- 3 We need a competitive market for food.

A national market

- Goods should be able to move freely everywhere in the country
- Market participants/traders/buyers/customers should not have to register separately with every state government/APMC.
- General legal protection for all inter-state and intra-state commerce. Not merely for specific cases.

Two approaches

- 1 Remove 'coercive provisions under APMCs'
- 2 Create legal solution for a national market

APMCs are a wrong approach

- 1 APMCs:
 - Try to *create* not *markets*.
 - Use monopsony powers and legal penalties.
- 2 State should enable a national market.
- 3 Remove legal and administrative burdens created on modern marketing and trade in food stuffs.
- 4 Bihar - Repealed APMC Act in 2006

301. Freedom of trade, commerce and intercourse.—
Subject to the other provisions of this Part, trade, commerce and intercourse throughout the territory of India shall be free.

Legal Solution: Constitution Seventh Schedule

List and entry	Subject of entry
List I Entry 42	“Inter-State trade and commerce.”
List II Entry 26	“Trade and commerce within the State subject to the provisions of entry 33 of List III.”
List II Entry 27	“Production, supply and distribution of goods subject to the provisions of Entry 33 of List III.”
List III Entry 33	“Trade and commerce in, and the production, supply and distribution of, - ... (b) <i>foodstuffs</i> , including edible oilseeds and oils; ...”

Legal Solution: Supreme Court agrees

- Two 5-judge bench decisions:
 - Belsund Sugar Co. Ltd. Vs. State of Bihar and Others (1999)
 - Atiabari Tea Company Vs. State of Assam (1961)

- *Belsund Sugar:*

“the provisions of Entry 33 of List III override the legislative powers of the State Legislature in connection with legislations dealing with trade and commerce in, and the production, supply and distribution of, goods enumerated...foodstuffs, including edible oilseeds and oils.”

- *Atiabari Tea Company:* Article 301 is to be regarded as:

“imposing a constitutional limitation on the legislative power of Parliament and the Legislatures of the States...wherever it is held that Article 301 applies the legislative competence of the Legislature in question will have to be judged in light of the relevant articles of Part XIII.”

Powers of the Parliament and Gov

- 1 Parliament can set up a national body for promoting free trade, regulate and licence all national traders
- 2 Under this all national traders would be exempted from APMC, Essential Commodities and Warehousing Act.
- 3 Government of India has the power to prevent states from making rules which hinder free trade
- 4 It can set up a body to identify and prevent technical barriers to interstate trade.

Part V

Solutions

Enable a Competitive National Market for food

- Establish a national body to license/regulate the national market for food.
- National traders should be exempt from all state regulation
- National traders should be free to transport and store foods across the nation

Create a WTO for technical barriers

- As in South Africa, we need to actively dismantle barriers to trade
- Some of them are direct, some are indirect in tax and inspection laws
- Some are existent, some may come up in the future
- We need a body to constantly:
 - Identify barriers
 - Require them to be removed
 - Standardise procedures
 - Reduce transaction costs of tax administration through simpler procedures

Repeal Laws

- Laws like APMC may be *promoting* Cartelisation
 - If 5 cement producer got in a room and elected a representative to fix prices of lime at a single price, they would be hauled by the Competition Commission.
 - APMC laws seem to *require* that.
 - Democracy and markets don't mix.
- Essential Commodities Act and export bans provide short term solutions.
 - In the long term they destroy any price signal that the good should be produced
 - They destroy the ability to depend on long term contracts
 - They destroy the ability to trade nationally
- There may be more laws which we need to identify in a systemic manner

Thank you.