Note on Agricultural Crisis in India

with special reference to paddy in Andhra Pradesh (AP)

- Paddy farmers in AP and Karnataka are in crisis. The market (millers) is offering a price well below the Minimum Support Price (MSP). While the MSP for fine variety of paddy is ` 1030 / quintal, the market price is often ruling below MSP. FCI only procures rice from millers, and the state does not procure paddy in AP. Therefore even the MSP protection is not available to farmers. Routinely certificates are issued to millers by State Civil Supplies department to the effect that they purchased paddy at MSP

- The farmers and traders have about 4 million tons surplus rice stock in godowns (in addition to the stock with FCI) in the State of AP, and the Rabi rice harvest is extremely good. Per acre yield of paddy is of the order of 30 quintals in Rabi, and it is expected that we will have total yield of 10 million tons of paddy, which is equal to 6.5 million tons of rice. The total rice stock available in AP is thus of the order of 10 - 11 million tons. This is in addition to the 3.8 million tons of rice stock available with the FCI in AP. Even after meeting the balance levy requirements of FCI (4.2 million tons), the state will have 6-7 million tons surplus rice available in private markets.

- AP's rice off take for Public Distribution System (PDS) is about 4 million tons per year. With the glut in market and high PDS off take, there is a depressed market for rice. Rice prices over the past one year have declined by about 20% even as cost of production has risen on account of labour costs (Employment Guarantee Act effect).

- Information from Karnataka regarding market conditions of rice is similar, and millers are offering below MSP. The enclosed table shows the paddy prices that prevailed in a few select markets in AP and Karnataka on May 3, 2011.

- Across the country too there is a glut in food grains. Current year's production of rice and wheat in Kharif and Rabi put together is of the order of 178 million tons. Including the coarse cereals, and excluding the corn utilized for other purposes, the total cereal availability is about 200 million tons. With glut in market both rice and wheat farmers are often getting a price below MSP.

- FCI has about 44.2 million tons of cereals in its godowns as on April 1, 2011 (28.8 million tons rice and 15.4 million tons of wheat).

- This is more than double the buffer stock norm of 21.2 million tons for April 1, 2011. With the bumper Rabi harvest, there will be an even bigger buffer stock. The carrying costs of FCI are about ` 370/ quintal. In addition, there is enormous wastage on account of poor and inadequate storage.

- Greater off take through PDS and the so called Food Security Act are no solution. Evidence shows that in states like AP about 20-30% of the PDS food grains are 'recycled'. Some more stock goes into open market illegally.

- International prices of cereals are ruling high because of failure of crop in Russia, Pakistan, and to some extent in China. The US is diverting about 25 -30% of corn to ethanol production. This is a perfect time to explore external market for our food grains. Only when demand picks up can farmer get a sustained and satisfactory price for food grains.

- The food grain glut seems to be a long-term trend. Production is increasing, even as per capita consumption of cereals is falling. Correspondingly, consumption of milk, eggs, meat, fish, fruits and vegetables is increasing significantly.

- All this presages the need for liberalization of agriculture. The license-permit-quota Raj in agriculture is causing great rural distress. Per capita incomes in rural India, as a ratio of urban incomes, are steadily falling.

- India must export agricultural products regularly, while ensuring the required realistic levels of buffer stocks to meet any short-term deficit.

- In terms of non-food crops, there must be open borders, and farmers must be able to export at will if there is a price advantage.

- When it comes to imports, there should be a moderate import duty to afford protection to Indian farmers. The revenue generated through import duty should be passed on to farmers of the same commodity as incentives to boost production and make the country self-sufficient.

- We are importing about 8.5 million tons of edible oil at zero import duty. We can easily impose a 10-15% duty and boost indigenous production of oil seeds to make the nation self-sufficient.

- In respect of perishable commodities, the solution lies in retail chains providing direct market access to farmer and compressing market chain. This coupled with storage and agro-processing will minimize volatility of prices, and help both farmers and consumers.

- The recent proposal of food security to be given through PDS to 90% of rural people, and 50% of urban people seems to be unsound in principle and in practice. It is bad principle because it will further depress the markets and deepen the agrarian crisis. It is bad practice in the light of the phenomenal corruption in PDS prevailing now, and the vast rent-seeking and huge market for postings in civil supplies departments.

- We need to think of more innovative methods to help the genuine poor without harming farmers, agricultural sector, and rural economy.

- In this backdrop, urgent and effective short-term and medium term steps are needed to address the agricultural crisis:

Short-term

- GOI should work with AP State and FCI to ensure that paddy farmers get at least the MSP with a possible bonus of ` 100 / quintal of paddy. The state is levying a tax of `1500 Cr on rice procurement in the form of Rural Development cess and Value Added Taxes. These revenues could be utilized to give a bonus to farmers. The state should be persuaded to take the responsibility of directly procuring paddy, and supplying milled rice to FCI under the levy scheme.

- GOI should immediately permit a significant quantity of rice – say 5 million tons to be exported by FCI and other state agencies like STC, PEC and MMTC. There should be no preconditions of sale price on such export. Any price that covers the costs and generates even marginal profit is to the advantage of the country and the farm sector.

Medium-term:

- Export market must be tapped consistently without any restrictions, subject to the condition that the required buffer stock is in place.

- On agricultural imports, a moderate import duty should be levied on a continuing basis, and the revenue realized should be passed on as incentive to the farmers producing that commodity. eg: edible oil seeds.

- Farmers should be encouraged to shift to no-cereal crops wherever feasible, so that the market glut is avoided.

- In respect of perishable crops, retail market chains should be encouraged on a large scale across the country to compress the market chain. In addition, creation of adequate cold storage, and agro-processing facilities with guaranteed minimum price to farmers producing fruits and vegetables, with freedom to sell in the market when the price is attractive should be taken up in a priority basis.

- Any further vacillation on the agricultural front is a recipe for disaster. The deepening agrarian crisis has serious political and social repercussions.

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