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GOVT MUST NOT SACRIFICE RISE IN FARM INCOMES AT ALTAR OF SHORT-TERM CONSUMER INTEREST

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

“When money is bad, people want it to be better. When it is good, they think of other things”.

One needs to simply replace “money” with “onions” to appreciate how the above observation on inflation by John Kenneth Galbraith still rings true. When onion is today retailing at Rs 55-60 per kg, Twitter handles and WhatsApp forwards are littered with clichés about the bulb bringing tears, making people cry, and so on. But when growers were realising Rs 3/kg a year ago, the same concerned folks had “other things” to think of.

The public cannot be blamed, though. Contrary to the 1974 Kishore Kumar song, it does not know everything. The problem comes when governments, too, take the same shortsighted approach. The average modal price of onion from January 2016 to May 2019 at Maharashtra’s Lasalgaon market was Rs 9.92/kg, which just about covered the basic cultivation cost of Rs 8 or so. That rate rose to Rs 12.22/kg in June, Rs 12.52 in July, Rs 18.80 in August and Rs 33.15 in September (till Friday).

But in June itself, the Narendra Modi government withdrew a 10 per cent export incentive given on the free-on-board (FOB) value of shipments. And on September 13, it virtually banned exports by imposing a minimum FOB price of $850 per tonne (Rs 60/kg), below which onions cannot leave the country. In addition, the state-owned MMTC was asked to import, if necessary from Pakistan.

On September 29, the de facto export ban became de jure, along with stockholding limits being imposed on the trade. This policy — of doing little when producer prices are low for extended periods, but jumping into action at the slightest hint of consumer despair (“tears”) that is often temporary — translates into a one-sided bet against the farmer. Last year, the three-acre Nashik grower who harvested 300 quintals of rabi onions in April, and stocked it in his low-cost kanda chawl storage structure for offloading through the summer and monsoon months, would have lost his shirt: Lasalgaon prices averaged just Rs 7.67/kg in September, hardly an increase over the Rs 6.70 in April. This time, there was a chance to make some money that comes, maybe, once in three years. That possibility has been scuppered by the government’s actions and admonishments. Since September 19, Lasalgaon rates have already fallen from Rs 45 to Rs 36/kg.

The costs of government shortsightedness aren’t small. India, in 2018-19, exported 21.83 lakh tonnes (lt) of onions, which was a tenth of its production and valued at Rs 3,467.36 crore. Bureaucrats and ministers have no idea what it takes to build export markets and the damage that a single Directorate General of Foreign Trade notification can do. Nor do they know what low retail food inflation — this has averaged 1.38 per cent year-on-year from September 2016 to August 2019, as compared to 3.50 per cent for overall consumer price inflation — means for producer incomes and incentives.

Unfortunately, it isn’t onions alone. Even more dangerous is the proposed signing of a free trade agreement with the 16-country Regional Comprehensive Economic Partnership or RCEP bloc, which could open India's market to cheap milk powder and butter fat imports from New Zealand and Australia. Currently, India allows only up to 10,000 tonnes of powder imports annually at 15 per cent duty, with quantities beyond this limit attracting 60 per cent rate. There is talk of the Modi government not being averse to significantly raising the quota for imports at the concessional duty, while bringing down the rate itself from the existing 15 per cent. India apparently does not want to be seen as stalling the RCEP deal that is to be concluded by November.

One indication of the official mood is a presentation made at a stakeholder consultation meeting called by the commerce ministry on September 18, in which it was claimed that India's likely milk production of 170.93 million tonnes (mt) in 2020-21 would fall short of consumption at 204 mt. This, when the animal husbandry and dairying department's own output estimate for 2017-18 was 176.35 mt! Further, the gap between production (238.48 mt) and consumption (341 mt) was expected to widen by 2033-34, thereby strengthening the case for imports. These predictions were supposedly made using data from the National Dairy Development Board, which the latter has not only denied, but also gone on to cite a Niti Aayog report that had projected India's milk output of 330 mt in 2033 to exceed demand at 292 mt!

Again, the context matters. Last year at this time, dairies were selling skimmed milk powder (SMP) at around Rs 140/kg and ghee at Rs 320/kg. The gross revenue from processing 100 litres (103 kg) of cow milk containing 3.5 per cent fat (ghee) and 8.5 per cent solids-not-fat (SMP) would, then, have been roughly Rs 2,380. After deducting chilling, transport and processing costs of Rs 500-600, the maximum that farmers could be paid was Rs 1,800-1,900 or Rs 18-19 per litre. But today, SMP and ghee rates have recovered to Rs 280 and Rs 390/kg, respectively. As a result, farmers are getting Rs 29-30 per litre.

What will the inclusion of dairy products under RCEP's purview do? India's yearly SMP production is 5-5.5 lt, of which 2-2.5 lt is used by dairies themselves for reconstitution into milk during the "lean" summer months. If, say, 1 lt of powder from New Zealand were to come in, it would depress the market. Indeed, the very prospect of a deal is enough to create a negative sentiment, when we are entering the "flush" winter season. Milk producers, like onion growers, have suffered low prices for much of the last 3-4 years, forcing them to reduce herd sizes or underfeed their animals. It would be a tragedy if, just when prices are improving from lows, their interests have to be sacrificed at the altar of short-term consumer interest or saving a trade deal.

The Modi government should actually take heart from the price recovery now being seen in onion, milk or even maize, jowar, pulses and soyabean. With the surplus monsoon rains delivering a bumper harvest — if not in kharif, definitely in rabi — it is farm incomes that offer the best hope for an economic turnaround. The consumer's real friend is the producer. And we shall also keep our jobs if he starts earning and spending again.

harish.damodaran@expressindia.com

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