

ISSUES PAPER: Food Chains & Regulatory Reform: A Competition Policy Pilot Study

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Competition policy

India's traditional food marketing system has witnessed significant changes since 2000 including the emergence of private markets and improved commodity supply chains. While the central and state governments continue to liberalise the regulatory regime and competition, a particular public policy challenge in the coming years will be the further development of the *Competition Act 2002* and a Competition Policy to help guide India's reform program.

While India's program of reforms is well underway, food chain regulation remains significant. For example, there are approximately 222 regulatory measures that influence the functioning of agricultural markets (Acharya, 2006). While several of these have been repealed or consolidated, the remaining regulatory stock continues to represent a significant competition restriction indicating a need for a comprehensive review of food chain regulation.

How farmers benefit from food chain competition

An important issue associated with microeconomic reform in the context of Indian food chains and food security is the need to ensure farmers benefit from the reform process. In addressing this concern it is useful to consider the determinants of farm productivity - an important contributor to achieving sustained growth in farm incomes.

Discussions about productivity often focus on farm level technologies and production system improvements. More fundamental determinants, however, and ones for which government is largely responsible are (i) the openness of an economy, (ii) the policy settings of government and (iii) the degree of competition.

These determinants play a central role in determining the nature of price signals flowing through food chains to the farm sector, which in turn act as 'drivers' of private sector investment.

It follows that closed economies, inefficient government policy settings and a lack of competition all act to significantly change price signals. Farm businesses can become insulated from ongoing developments in domestic and international demand and prices, farm investment becomes focussed on subsidised production activities, but importantly, other enterprises and associated supply chains fail to develop which would otherwise play a crucial role in addressing income, price stability and poverty concerns.

Gains to farmers may require a food chain regulatory reform perspective

About 80 per cent of India's 121 million operational land holdings have area less than two hectares. Given the importance of ensuring farmers gain from regulatory reform and given the fundamental role that price signals play in the emergence of those gains, it follows that the task of regulatory reform can usefully be approached from a food chain perspective.

Developing a food chain inventory of government regulation, for example, enables government and stakeholders to better understand the quantum of regulatory constraints on competition and hence the compliance costs and 'red tape' faced by industry. It also offers a manageable set of regulation that can be subject to review.

Having identified the relevant suite of food chain regulation, it follows that each of those regulations should be subject to scrutiny in terms of the public benefits and costs they generate. These benefits and costs can initially be considered qualitatively in terms of whether individual regulations are clearly designed to address accepted forms of market failure (*i.e. information deficiencies, externalities, public goods or anti-competitive market behaviour*).

This task of systematically reviewing regulation from a competition policy perspective also enables more effective forms of regulation to be considered. The approach would, for example, when combined with strategic research, enable detailed consideration of those parts of the food chain where competition or trade practices law could reasonably be expected to provide appropriate protection against anti-competitive conduct.

The effective transition to trade practices law may also ultimately enable the gradual withdrawal of direct government intervention in farm businesses for the purpose of ensuring stable or fair market returns.

Proposed research

The project aims to assist the Indian Government in developing its competition policy framework by trialling the review of certain regulations from a competition policy perspective.

1. For a select number of case study food chains document the regulatory stock.
2. Identify the currently stated objectives of each regulation.
3. Assess whether those stated objectives clearly focus on efficiently addressing an accepted form of market failure (take into account the OECD Competition Toolkit).
4. Identify where the efficiency costs of particular regulations are sufficiently large to warrant quantitative assessment in order to enhance transparency and facilitate debate and consideration of reform options.

Some issues for discussion: (i) case study selection – targeting a low growth industry may be appropriate (ii) should regulation throughout the case study industry supply chain be assessed, or only regulation in a particular part of the food chain (iii) ideally, this work would be aligned with the emerging work program of the Competition Commission of India.