

International Workshop
Achieving Food Security in India:
Improving Competition, Markets and the Efficiency of Supply Chains

Research Project
*Facilitating Efficient Agricultural Markets in India: An Assessment of
Competition and Regulatory Reform Requirements*

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Overall Project Objectives

- Facilitate efficient policy reform of India's agricultural sector
- Enhance the development of market based policy frameworks and the skills of policy makers



A Two-Stage Project

Stage 1 (2009-10)

Document agricultural policy developments in the BRICs countries

Stage 2 (2010)

Regulatory Case Studies in India

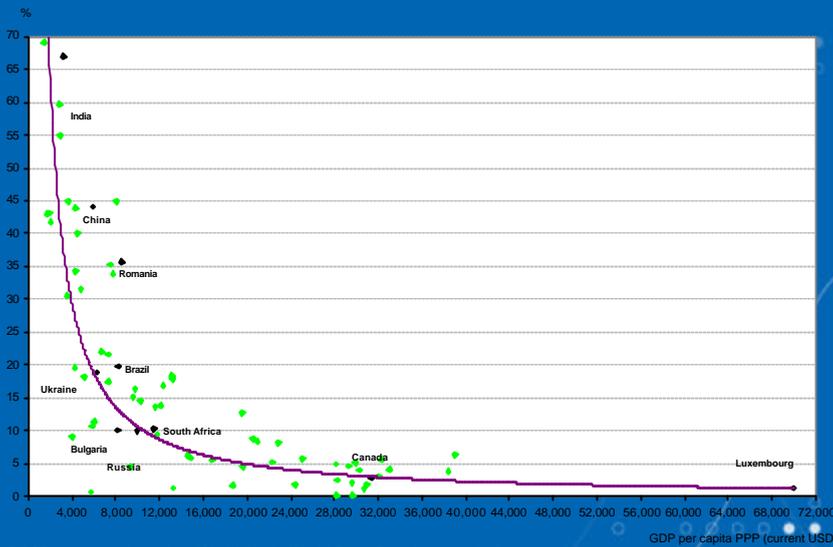


Agriculture in BRICs

- Population: BRICs have combined population of 2.85 billion (43% of the world): India and China (2.4 billion)
- Reliance on agriculture
 - China (& India) – Heavy social reliance of large portions of population on farm incomes
 - Russia & Brazil- Much less reliance on agriculture
- Importance in the economy
 - Contribution of agriculture to GDP is highest for India at 18.6%, followed by China at 12.5%, Brazil at 8.4% and Russia at 5.0%



Agriculture's share of total employment and GDP per capita, 2003-05 average



Source: OECD, 2007: 17 based on World Bank, World Bank Development Indicators, 2006
<http://ocde.p4.siteinternet.com/publications/doifiles/512007031P1G6.xls>



Agriculture Policies in Brazil: Pre-reform

- The agriculture policy focused on import substitution for consumer goods and food products
- Aim: To deliver high levels of self-sufficiency
- Approach: Regulated prices with only exceptions being orange juice, sugar and coffee. The high tariffs on imported goods encouraged manufacturing industries at the expense of reduced competitiveness of sectors that included agriculture



Agriculture Reforms in Brazil

Reforms:

- The reforms were introduced between 1987 and 1995 with a changing orientation towards a liberal regime. Restrictions such as tariffs, import quotas, export licensing and quotas were removed
- Investment restrictions on the food processing industries were removed
- Producer support was reduced
- Increased agricultural production and a slightly lower agricultural employment reflecting major improvements in agricultural productivity



Agriculture Policies in Russia: Pre reform

- Prior to the disintegration of the Soviet Union, large scale production of grains, meat, sugar and cotton was carried out on collective farms using highly subsidized heavy machinery & other inputs
- Aim: To deliver high levels of self-sufficiency in food products and raw materials for industry
- Approach: Regulated commodity prices along with direct payments & input subsidies to maintain farm profitability



Agriculture Reforms in Russia

Reforms (post 1990s):

- A series of market based initiatives such as privatization, reduction on producer support
- Subsidies equivalent to 80% of gross value of agricultural production were gradually withdrawn
- Inputs like fertilizer, credit & fuel continued to be subsidized to compensate the producers
- Main purpose was decentralization of production and the creation of favorable conditions for the development of competition
- The reforms were also characterized by de-monopolisation and privatisation of the state enterprises and removal of the price controls
- Increased competition and productivity



Agriculture Policies in China: Pre-reform

- Prior to adopting the open door policies, Chinese economy was isolated from the international economy
- Aim: To deliver high levels self-sufficiency, particularly in grain production
- Approach: Agriculture was collectivized, with state controlled quantities and prices



Agriculture Reforms in China

- **Reforms:**

- Commencing late 1970s the central policies in agriculture were abandoned promoting foreign trade and economic investment
- Farmers were allowed to sell portion of their produce in free markets, compared to the earlier mandatory production quotas set by government
- Most commodity prices were deregulated and were the outcome of market forces
- Farmers could diversify production which not only improved rural diets, but also farming incomes



Agriculture Policies in India: Pre-reform

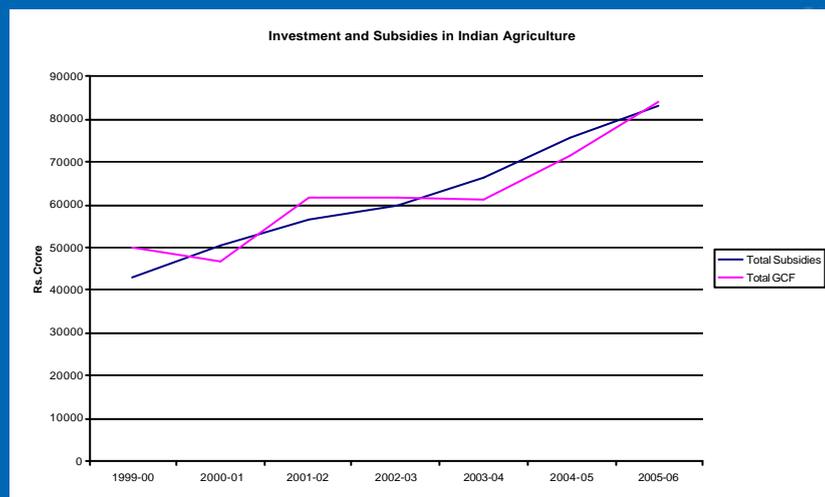
- Government's role in domestic agricultural markets
- Aim: Food security and price stability
- Approach: Regulation of various agricultural activities to protect interests of producers and consumers; controls on market pricing, storage, transport and quantitative restrictions on trade

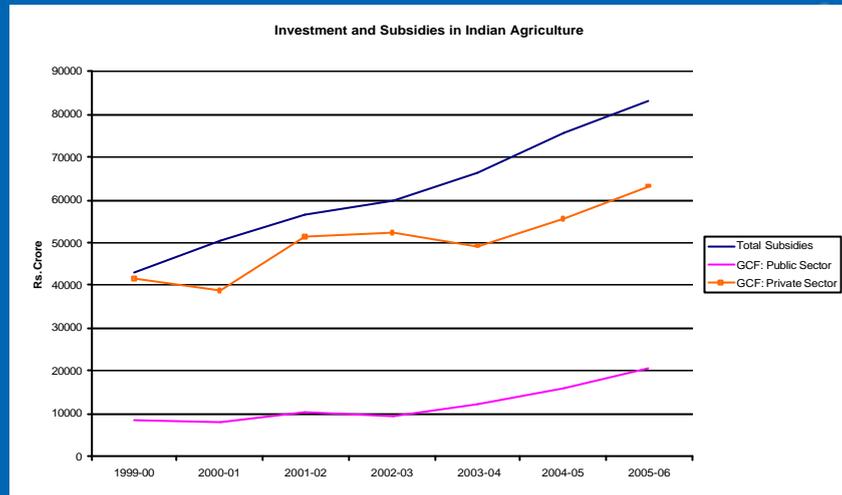


Agriculture Reforms in India

Reforms:

- Reforms since 2000; increased investment
- Diluting QRs on imports; lowering import tariffs
- Attempt to regulate the markets by price determination in a transparent manner before an auction committee
- However, the long chain of intermediaries adds to the cost to the consumers and reduces the returns to the farmers
- The State Agricultural Produce Marketing (Development and Regulation) Act, 2003 was introduced to move away from a controlled regime towards regulation and competition. This included provisions for establishment of private markets, contract farming.





Moving Forward on BRICs Study



Before finalising the BRICs Report: We seek suggestions from the workshop participants about the specific issues that we need to address?





Report on Working Group on Competition Policy

Planning Commission (2007): Reference to Agriculture

- There is huge potential to advance competition in the agricultural sector both from the demand as well as from the supply side
- On the demand side, the Model Agricultural Produce Marketing Committee Act is likely to provide a framework, which will abolish the mandi tax and permit the farmers to sell their produce outside the mandi so that the farmers will get a legitimate share in the final value of their produce
- On the supply side, competition in supply of inputs such as seeds, fertilisers, pesticides and credit may be augmented which will facilitate timely, effective and adequate supply of agricultural inputs in the country and will lead to greater efficiency through more realistic pricing, conservation of input use and more rational crop selection.



Stage-2: 2010

- Document agri-food chain regulation for several agricultural sectors / industries
- Qualitatively apply market failure assessment: impediments to competition
- Quantitatively consider benefits from policy reform



Key Tasks

- Document the food chain regulatory stock.
- Identify the objectives of regulations.
- Assess whether objectives clearly focus on efficiently addressing an accepted form of market failure
- Where criteria are not met assess the significance of the efficiency costs (government failure). Assess reform options



Market Failure Criteria for Evaluating Regulation

Information

Externalities

Public Goods

*Anti-competitive Competition
(the role of trade practices law)*



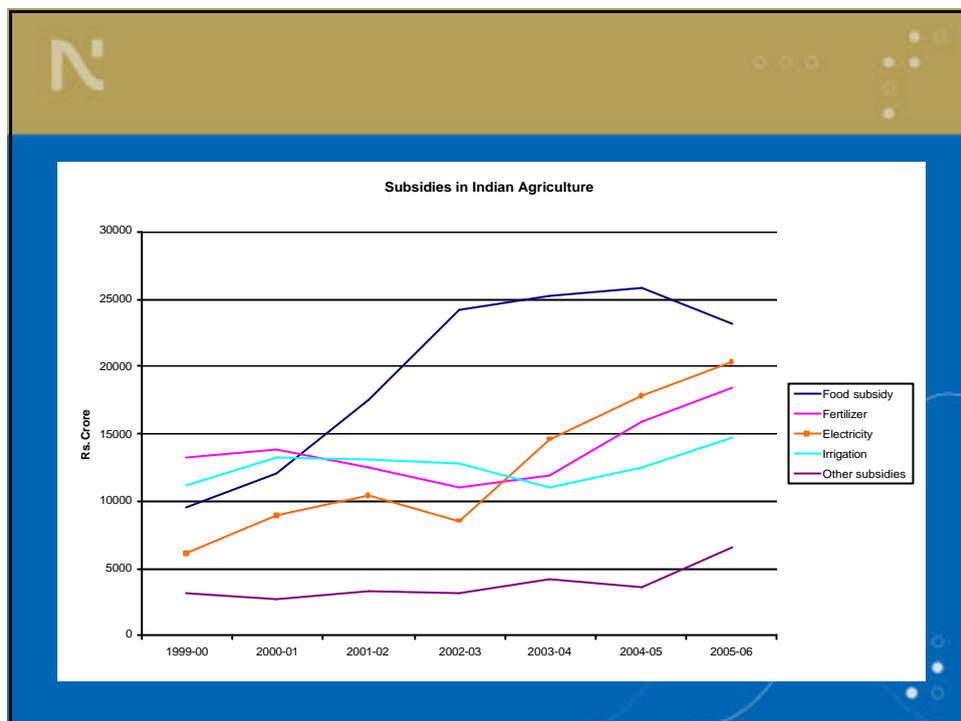
Some issues for discussion

- Case study selection – targeting traditional sectors like wheat and expanding sectors like horticulture
- Should regulation throughout the sector's supply chain be assessed? Or only regulation in a particular part of the food chain?
- Ideally, this work would be aligned with the emerging work program of the Competition Commission of India



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Thank You



India's Top 5 Agricultural Import, 2007-08

Top 5 Imports	% in total agricultural imports
Vegetable Oils Fixed (Edible)	34.6
Wood & Wood Products	18.3
Pulses	17.7
Wheat	8.9
Fruits & Nuts Excluding Cashew Nuts	6.2
Total of top 5	85.8
Share of agriculture in total imports (avg during 2005-06 to 2007-08)	3.3



India's Top 5 Agricultural Exports, 2007-08

Top 5 Exports	% in total agricultural exports
Cotton Raw including Waste	10.3
Oil Meals	10.2
Rice (Other than Basmati)	9.5
Marine Products	8.8
Sugar	6.9
Total of top 5	45.8
Share of agriculture in total exports (avg during 2005-06 to 2007-08)	11.3