

Monopoly and Wheat Imports

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After several years, India is buying wheat from international markets. The government has announced purchases of 3.5 million tonnes. The decision is prompted by rising prices in wheat markets where the government has been unable to compete with private domestic purchasers. On the other hand, government stocks are low and the public distribution system needs supplies.

The landed cost of the contracted imports is nearly Rs. 1000 per quintal while the government offers domestic growers Rs. 700 per quintal. So why are we importing? The government rationale is that that costs of moving wheat from the producing hinterland to the coastal consuming states is so high that it is cheaper to import wheat directly to these parts.

There is a strategic element to the decision as well. The early trends in procurement suggested that the government and its agencies would not be able to purchase the required quantity. By offering higher prices, private traders were able to pre-empt supplies. To compete, the government would either have to increase its offer price (and incur the additional costs that it entails) or somehow make private traders less willing to buy at higher prices. The government has done both. It has hiked the initial procurement price by Rs. 50. Through imports, the government has added supplies. This breaks the price expectations of traders and makes them more cautious in buying strategies.

The government decision has drawn angry responses from farmer organizations. Others have denounced the decision, as part and parcel of the logic of economic reforms, the goal of which, it is claimed, is to impoverish the farmer. The opaqueness of the deal including the choice of supplier and the price of contracted supplies have also received media attention.

The truth is that food policy needs more reforms and not less. The truly uncomfortable part of the import policy is that such decisions are still made by the government. But let's turn to the good news first. One reason why we are importing wheat is because some of our agricultural reforms, however fragmented and disjointed, are working on the ground.

Newspaper accounts speak of active and aggressive wheat purchases by "multi-national firms like ITC and Cargill." This is a recent phenomenon. Under the stifling controls on storage and transport, wholesaling was a preserve of small traders. Flour mills relied on them. While the mills could have potentially realized economies by integrating backwards, the inspector raj dissuaded them. This is beginning to change as these restrictions have loosened.

Over the past decade, Indian agricultural markets have seen halting, tentative reforms. Quantitative restrictions on imports and exports were abolished because of commitments

to trade agreements at WTO. The Essential Commodities Act, which gave Central and State governments extensive coercive powers to police stocks and their movement, remains. However, the Central government campaigned with state governments to suspend the Control Orders under this act so as to remove the restrictions on purchase, storage and transport of specified commodities. Similarly, the Central government also led the effort to amend the Agricultural Produce Marketing Act that exists in several states so as to remove the monopoly of the quasi-government agricultural marketing bodies on the wholesaling of commodities. While the shortening of the supply chain is certainly good news to consumers, the flowering of agri-business is also beneficial to farmers.

The danger is that bad ideas could come back. Already there are calls that government must do something to check speculation and other `evils'. The government must resist. The marketing acts did little to keep foods inexpensive for the poor; on the other hand, some officials, politicians and merchants feasted well on the rents due to these regulations. More importantly, the return of such controls will short-circuit the entry of the organized sector in food processing and retailing.

Importing food is the right way to deal with domestic scarcity. The manner of intervention is, however, a throw back to the bad old days when agricultural trade flows were dictated by the government. What is striking about the present intervention is that the imports are on government account, canalized through government agencies and the tariffs have been removed on only these imports.

The state trading agencies do not have an inspiring record with respect to efficiency. Why should they receive a monopoly on these purchases? More fundamentally, the choice to import (rather than procure domestically) and the follow up decisions on the quantity and source of imports are always open to criticism for poor judgment and alleged favours shown (such as the relaxed quarantine norms for the Australian wheat imports). Indeed the government should not be in the import business at all.

As the primary concern is to secure food supplies in the coastal states, the transparent and efficient mechanism would be for the government to float tenders asking for the supply of the required quantities of grain at the desired locations. The winning contract would be the cheapest. It is immaterial who wins it – whether the Food Corporation of India (FCI) or a private player (Indian or foreign). It is irrelevant where they source it – from Indian farmers or from somewhere else. The import tariffs would apply to all imports of grain and not just to those on government account.

The mechanism is simple and transparent. Even farmers would recognize that such contracts would not unfairly privilege foreign supplies. The competition between FCI and private players would also ensure that farmer and consumer interests are not held hostage to FCI's costs.

The longer run concern is whether wheat imports is a sign of things to come. Because of comfortable foreign exchange reserves (thanks to the success of economic reforms

elsewhere in the economy), food imports do not bite as they did once. The real worry is the stagnation in the agricultural economy not so much from the point of view of economic growth but what they mean for rural living standards.