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A way to manage falling prices of pulses

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Market and MSP dynamics Table 2

Movement of market price of tur relative to MSP

	Market price July 2010- June 2011		Market price July 2011- June 2012		Market price July 2013- June 2014		Market price July 2014- June 2015		Market price July 2015- June 2016		Market price July 2016- June 2017	
	₹/quintal	as % of MSP	₹/quintal	as % of MSP	₹/quintal	as % of MSP	₹/quintal	as % of MSP	₹/quintal	as % of MSP	₹/quintal	as % of MSP
July	3,708.40	123.6	3,041.40	95.0	4,046.80	94.1	4,003.20	92.0	6,041.70	130.6	8,916.70	176.6
August	3,318.90	110.6	2,972.30	92.9	4,147.50	96.5	4,220.20	97.0	6,774.30	146.5	7,794.80	154.4
September	3,382.20	112.7	3,083.50	96.4	4,074.80	94.8	4,057.70	93.3	7,159.10	154.8	7,386.90	146.3
October	3,277.30	109.2	3,115.50	97.4	4,094.00	95.2	4,274.40	98.3	8,213.90	177.6	7,365.60	145.9
November	3,089.20	103.0	3,058.30	95.6	4,196.40	97.6	4,109.20	94.5	8,436.10	182.4	6,963.00	137.9
December	3,024.30	100.8	3,056.60	95.5	4,078.50	94.8	4,179.40	96.1	8,671.30	187.5	5,660.20	112.1
January	3,169.10	105.6	3,080.20	96.3	4,000.50	93.0	4,727.30	108.7	8,360.40	180.8	5,018.00	99.4
February	3,375.50	112.5	3,004.30	93.9	3,957.80	92.0	4,881.30	112.2	7,812.30	168.9	4,702.10	93.1
March	3,318.90	110.6	2,974.00	92.9	3,939.80	91.6	4,896.70	112.6	7,834.50	169.4	4,687.60	92.8
April	3,334.60	111.2	3,402.40	106.3	3,956.10	92.0	5,136.40	118.1	8,329.00	180.1	4,534.20	89.8
May	3,225.10	107.5	3,518.70	110	3,974.90	92.4	5,743.20	132.0	8,540.60	184.7	4,380.10	86.7
June	3,097.00	103.2	3,600.20	112.5	3,851.10	89.6	5,944.40	136.7	8,698.20	188.1	4,239.70	84.0

Note: We have taken price data roughly corresponding to the agricultural year, starting from sowing season. MSP includes Bonus. In 2016-17, the market price did remain above MSP until about December 2016. However, there was a sharp reduction in market prices since the beginning of the year as the improved monsoon situation became more evident. Source of data: CMIE for market prices and MSP+Bonus

Procurement of the excess output vis-a-vis a normal year, rather than open-ended purchase, is a viable option

A bountiful harvest that implies an increase in output may not always increase the nominal income of the farming sector, which is subject to the behaviour of input and more particularly output prices, which may sometimes move sharply. There can, therefore, be years in which there is a sudden and sharp increase in output causing a steep fall in price and income.

High price sensitivity

Policies have attempted to address the challenge of achieving the twin goals of raising food production and ensuring a minimum price impact through a variety of price support, procurement and public distribution policies. But the problem of low prices as output rises significantly has remained intractable in the case of commodities where price support mechanisms are weak. The experience in the last couple of years has been one of output prices not being remunerative to farmers as output increased.

In the case of pulses, government policies are rightly aimed at increasing production to address the protein deficiency in the vegetarian diet of the population. Pulses production declined in 2014-15 and 2015-16 as compared to the levels in 2013-14, but then in 2016-17, rose by six million tonnes or 37 per cent over 2015-16 (Table 1). This pattern was also observed in different components such as gram, the major pulse crop grown in the rabi season, and tur or arhar, a kharif season crop. The comprehensive reports by the Chief Economic Advisor in 2016 and a technical expert committee in 2012 have suggested a number of measures to enhance productivity and market support measures. But the recent experience of increased production and its impact on prices calls for a different approach.

In the case of tur, production rose by two million tonnes in 2016-17, that is, by 80 per cent over the previous year. However, this rise was over a sharp decline in output in two previous years.

The price of tur was declining during much of 2016-17 from the highs reached in the previous year (which was due to a sharp reduction in output), dropping below MSP in some months and registering a decline of 25 per cent during October-March over the same period in the previous year (Table 2). In the case of gram, while the production increase was registered in 2016-17, its price impact was felt in 2017-18 because the output began to reach the market only in early 2017-18. This pattern was seen in the case of gram when the production increased in 2013-14 and price declined in 2014-15.

A good monsoon in 2016-17 in much of the country led to a good harvest and commodity prices eased. The impact of the bountiful crop was also felt in the case of pulses as in onion and soyabean.

Minimising price fall

How should this issue of the impact of a sudden increase in output be addressed, especially as it would accentuate the problems of small farmers switching to pulses to supplement their income? Suggestions have included the creation of buffer stock of pulses, making the minimum support prices (MSP) binding through appropriate legislation for the farm commodities whenever they are prescribed.

A robust procurement mechanism is necessary for the MSP to be effective as a market support measure. Even where the government — Central or State — presently announces MSPs for a range of commodities, including pulses and oilseeds, the procurement system in relation to them has been weak. In the case of rice and wheat, the system has developed over the years, especially in the States which substantially supply grains to the public distribution system.

An alternative scheme without recourse to procurement has now been launched in Madhya Pradesh. In this 'Price Deficiency Support Scheme' farmers are paid the difference between market price and the MSP . The MP scheme does not envisage procurement but only payment to farmers and, therefore, it may not restrain the drop in prices. Procurement, on the other hand, would reduce supplies in the market and impact market prices for all the farmers, provided farmers are able to transport their produce to the mandis. An effective procurement system, therefore, may have a wider impact for the farmers.

Establishing a procurement system to stabilise prices, that is accessible to all farmers is a challenge. Such a system should be complemented by good marketing infrastructure that attracts producers to the markets where procurement takes place. A full-scale procurement will be expensive and needs to be supplemented by an efficient distribution system.

Absorbing excess supply

Taking the case of pulses, where prices have moved down when production increased, can we design a system where the production in excess over normal level be absorbed? Exports should normally play this role. But we have restrictions on foreign trade. Only recently this restriction has been removed. It is, however, difficult to build an export market on an 'on- and off-' basis. Until recently, the buffer stocks and imports in the case of pulses were considered necessary to deal with rising prices. But now the scenario is one of declining prices.

The level of procurement should be such as to stabilise the prices at the 'normal' level. The objective should be to stabilise prices when prices fall below a certain level by acquiring the 'excess'. The MSP fixed by the Centre takes into account the cash expenditure on materials incurred in the production, imputed value of family labour besides the hired labour and imputed value of other inputs owned by the farmers, and therefore may be considered as the 'normal' price level in the case of pulses. Interestingly, the MSP was seen to be well above the average paid out costs and imputed value of own resources of farmers to the extent of 60 per cent in some years such as 2009-10. A procurement policy aimed at supporting price level of pulses, as a 'market protection measure for the farmers' would have to aim at absorbing 'excess production' from the market, departing from the 'open-ended' procurement approach.

Taking the case of arhar, the approach here is to suggest procurement of excess production or increase in output over the 'normal' year. It may be more realistic to consider changes in production over a 'normal year' rather than a previous 'bad year' when production was 'low'. Taking production level of 2013-14 as 'base' and allowing for some normal increase in production, such an approach may have required procurement of at most of one million tonnes in the case of tur in 2016-17. At an MSP of ₹45,000 per tonne, the initial financial outlay would be ₹4,500 crore for procurement. The ultimate financial burden will be the difference between the initial outlay and the revenue from the sales of stocks acquired. It may be only half of initial outlay. Of course, the approach would have to be extended to all the pulses and not tur alone. The procurement policy proposed can be fine-tuned to the market conditions. Procurement can stop as soon as market prices touch the MSP. Putting in place such a procurement plan will help the farming community in general over the long run with the main beneficiaries being farmers with small land holdings.

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Output trends

Table 1

Production of pulses *(million tonnes)*

	Arhar (Tur)	Gram	Other pulses	Total pulses
2000-01	2.25	3.86	4.97	11.08
2001-02	2.26	5.47	5.64	13.37
2002-03	2.19	4.24	4.70	11.13
2003-04	2.36	5.72	6.83	14.91
2004-05	2.35	5.47	5.31	13.13
2005-06	2.74	5.6	5.05	13.38
2006-07	2.31	6.33	5.55	14.20
2007-08	3.08	5.75	5.94	14.76
2008-09	2.27	7.06	5.24	14.57
2009-10	2.46	7.48	4.72	14.66
2010-11	2.86	8.22	7.16	18.24
2011-12	2.65	7.70	6.73	17.09
2012-13	3.02	8.83	6.49	18.34
2013-14	3.17	9.53	6.55	19.26
2014-15	2.81	7.33	7.01	17.15
2015-16	2.56	7.06	6.73	16.35
2016-17	4.60	9.08	8.72	22.40

Source: CMIE, Economic Outlook