

Issues Related to Agricultural Price Policy under W.T.O regime

Dr. Meanakshi Kundu

Asst. Prof. of Economics
D.A.V (P.G) College, Karnal

Dr. Aruna Malik

Asstt. Professor of Economics
Hindu College, Sonapat

Abstract:

Agricultural prices have shown a tendency for wide fluctuations in inter and intra year. The three main factors responsible for these fluctuations are firstly relatively low price elasticity of demand for agriculture commodities, secondly biological nature of agriculture production and thirdly seasonal nature of the agricultural industry i.e. the output becomes available at particular time/times in a year. Due to inelastic nature of demand and supply that causes several fluctuations in agriculture prices in India. So to protect and insure the farmers through guaranteed minimum support price, agriculture price policy has introduced in India. The main motive of the price policy was to protect the consumer's interest. For this purpose agricultural prices commission was established in 1965. So in this regard, this paper will describe the issues related to Agriculture price policy under W.T.O. regime.

Keywords :

Minimum support price; elasticity of demand and supply; Agriculture price policy; MSP

Introduction:

Agriculture price policy in India has evolved through two distinct phases.

The price policies originated during the war to deal with the problems of inflation and acute food grains. These policies were consumer oriented and attempted to stabilize prices at relatively low levels so as to keep down the cost of living as well as to control inflation. These policies included :

(i) Procurement by the govt. of locally available surplus of foods grains at procurement prices which were lower than market prices.
(ii) Import of food grains.
(iii) Equitable distribution of available supplies to consumers at least in the statutory or partial rationing. These policies were continued till June 1952, when a policy of gradual relaxation of controls and a shift to free trade was undertaken. This change in the policy was mainly due to realization that the continuing food crisis was likely to be perpetuated in an artificial manner as a result of the high commitments undertaken by the govt. On the one hand and the difficulties of procurement on the other hand. The real solution is not imports or controls on procurement and distribution but substantial increase of production within the earliest possible time that can solve the Indian food problem. Therefore, the third plan initiated a price policy keeping in view the interest of consumers as well as producers so as to give a boost to the production. In order to motivate them the agricultural prices commission was established in 1965 for advising the govt. In 1965, the highest priority was to maximize production since the country was passing through a critical shortage of food grains. In 1980, the criteria for commission were modified and the commission was called upon to consider :

- (i) The need to provide incentives to the consumers for adopting improved techniques.

- (ii) The need to ensure national utilization of land, water and other production resources.
- (iii) The likely effect the price policy on the rest of the economy particularly on the cost of living, level of wages, industrial cost structure etc.
- (iv) Terms of trade between agricultural and non agricultural sector.

Agriculture price policy in post-import liberalization period:-

Liberalization of agricultural imports in terms of removal of quantitative restrictions came as a result of India losing the case in WTO to maintain QRs under Articles 18:B (balance of payments restrictions). To counter the effect of QR removals, it was felt that appropriate adjustments in tariffs might be required¹. However, even before the QR removals began, tariff rates on selected agricultural products were raised. It was observed that agricultural tariffs, for all, except 231 tariff lines at HS sin digit code level, have been raised since 1997.

1. Sekhar C.S.L. (2003), Volatility of Agricultural prices –An analysis of major international and domestic prices, Indian council for research on International economic relations, New Delhi.

QR- Quantitative Restriction

WTO has estimated that the simple average applied tariff rate has gone up from 35% in 1997-98 to 41% in 2001-02². However, it was also estimated that due to reduction in leak tariff rates, despite selective increases, the average tariff rates on agriculture would be 37.5% in 2002-03. On a micro basis, tariff rates were raised in 37.5% of tariff lines in which QRS had been removed. Tariff quotes are also maintained on maize, milk powder, refined rope/ mustard and sunflower oil. Under the Uruguay round, India has bound all its agricultural tariffs: 100% for primary

products, 150% for processed product and upto 300% for edible oils. India has also renegotiated some tariff rates under Art XXVIII: 1, which included grains, edible oils and dairy products. The tariff bindings under the Uruguay round (UR) was estimated at an average bound rate of 115.7% in 2005 (WT/TPR/S/100, P.28)

Related issues to Agriculture price policy under W.T.O. Regime :- Keeping the WTO mandated negotiations in mind as well as the rather embryonic ideas on domestic agricultural policy reforms, the following issues needs consideration:-

- (i) There is a problem of sequencing of policy reforms. There is a generic problem which has been faced by all countries going for liberalization. In India, this has been raised with respect to what should have come first: domestic policy reforms or external trade policy reforms.
2. WTO report 2002, P.100

As s well known, for reasons which are partly fire-fighting, partly political, India opted for external sector policy reforms to begin with. As observed earlier, efforts were made to keep agricultural trade out of the reforms package. Despite the govt's best efforts. India was forced to open up due to WTO regime. As a consequence, India has now a quasi liberal agricultural policy in the sense of not having quantitative restrictions, a fairly high bound rates, a moderately high applied rates and a distinct possibility of restrictions in the tariff profile in the near future. But there has been no change in the domestic agricultural trade policy,

including price policy. Most economists might have preferred a sequencing which focused on domestic agricultural reforms to be followed by trade policy reforms. However, since there is no way now to reverse the sequencing, alarming a domestic price policy of the current pervasion be consistent with a liberalized trade policy regime.

The liberalized trade regime essentially allows the price mechanism to work. It is the impact of higher procurement price of wheat and other crops on international competitiveness can be easily seen from the data of ministry of Agriculture and World Bank sheets of different years. International prices of wheat and maize increased sharply during the last quarter, in contrast with generally declining price of rice.

Price change of key food commodities

Indices	Jan 2014 April 2014 (%)	April 2013- April 2014 (%)	Aug 2012- April 2014 (%)
Food	4	-2	-16
Fats & Oil	-1	7	-16
Grains	-1	-17	-26
Other	7	1	0
Fertilizer	-7	-23	-30
Prices			
Maize Wheat	12	-21	-33
Wheat	18	5	-7
Sugar	13	-1	-16
Soybean Oil	6	-9	20
Crude Oil	3	6	0
Rice	-12	-29	-30

Source : World Bank Report, 2014

These data shows incompatibility of price policy which is administered and non market clearing with another set of policies, which is market based and of market clearing type.

The ratio would have been much worse had the rupee not appreciated by more than 45% during the last few years. If global trade in agriculture gets more integrated in future as it does appear, it seems that there has to be considerable rethinking on how this problem can be

addressed³. While in the long run there may not be much option but to get away from the current policy regime for the

- (i) Transitional period, several adjustments in the current policy regime can be considered.
 - a. The political elements in the price fixation need to be taken out. This is possible making CACP's recommendation not advisory but statutory.

- b. The current practice of announcing MSP for many as 25 commodities can be reconsidered. In any case, except for rice & wheat, their effectiveness is of doubt.
 - c. CACP itself should reconsider what is the role of MSP and procurement price. It should be open for debate whether the earlier distinction between MSP and procurement price needs to be recognized a new and whether MSP would be a better concept for future, one consequence of going towards MSP would be to go for cost concepts in price fixation which would be based on variable costs rather than full costs. This would obviously mean less security for the farmers but may go towards eventual delinking of providing security through an administered price mechanism in future.
3. Parekh, et.al (2003) op.cit
- d. If MSP has to go in future to make the domestic policy consistent with a liberalised trade policy, farmers interests will have to be protected through market-based instruments such as forward trading and comprehensive crop insurance.
 - e. It should be accepted that in a policy regime which can only become more than what it is at present, the issue of competitiveness of agriculture has to be addressed not by looking at measures at the border but within the border. This

brings the issue directly to domestic policy reforms, ensuring public and private investments to agriculture, introduction of technology at post harvest stage, conformity with SPS requirements among others.

What is becoming clear is that in the coming years, the agricultural price policy has to be brought out within an integrated framework of all economic policies, both domestic and external. While the interests of the farmers should continue to be protected, the efficiency aspects would have to be accorded due recognition.

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