

Food and Agribusiness: Walking the tightrope to balance consumer and producer welfare

A Roundtable Discussion

New Delhi
April 16, 2010



Rabo



Rabo Equity Advisors and 9.9 Media hosted a session titled **“Food and agribusiness :Walking the tightrope to balance consumer and producer welfare”**, which brought together 25-30 CEOs and managing directors from high growth companies from sectors like agriculture inputs, food and beverages, poultry, irrigation, in and around Delhi to engage in a contemporary and thought provoking debate. The discussion raised key issues such as :

- Can there be consumer welfare in the absence of producer welfare in Indian agriculture?
- Do market intervention mechanisms like MSPs and other agricultural subsidies increase the welfare of producers at the cost of consumers?
- What role can technology play in balancing producer and consumer welfare?
- What are the institutional failures which led to food inflation and what measures can be taken to address

Introduction

Agriculture is a very intricate subject around the world and is getting more complex with varied issues like the shortage in supply of land, water and labor, pure consumerism, shifting of production base and processes. Both developed and developing nations have their own set of challenges to deal with these issues.

In India, politics and the unique socio-economic fabric add to the intricacy. Agriculture is a state subject where none of the national policies can be seen as all pervasive. Every state has its own problems, priorities and preferences and hence different perspectives on producer and consumer interests. Another interesting point to keep in mind is that for agriculture, the producers are also the consumers. Hence, welfare of one can't happen at the cost of the other.

Processors' welfare

The representatives of processing industry in the audience pointed out that the discussion cannot be confined to the producers' and consumers' welfare. If the agricultural processing industry doesn't get any return on capital, or are the ones who get squeezed every time, there is a strong possibility that many agricultural commodities will be wasted due to lack of processing. Several commodities over the past 10 years had seen falling yields and lower productivity. Imports have also been rising tremendously. Hence, they urged to add the dimension of processors' welfare to the discussion.

The panel acknowledged the relevance of processors' welfare and reinforced that the primary objective of the discussion should be to ensure an overall foolproof agriculture system. There are good prospects for investing in food processing. But industry has to take the lead here and the government should not distort the picture again by providing subsidies. They should simply act as the enabler and not dictate long-term economic decisions.

Decreasing productivity and increasing imports

While talking about this issue, the panel stated that Indian economy will have an enduring deficit, largely because of the pressure of the population. We are among the most intensively cultivated and the most intensively irrigated countries on the planet with among the least water capable resources. And there is nothing significant happening across the world which will change the agriculture productivity.

Land is a fungible resource and we have basically reached a saturation point with respect to land usage. It is more like a matter of choices. The land that would be required to produce 7 million tons of vegetable oil can produce 40 million of grain. So, with the available wastelands, we need to explore opportunities to enhance productivity.

While claiming to be the producers,, we are actually a net importer of agricultural products, other than marine products.

Significant measures that may be adopted by Indian Agribusiness to increase productivity include:

- Establishing full integrated supply chains and combining the markets with the production centres.
- Laying more emphasis on value addition. India is processing a very low percentage of what it is producing. With such a large population and a major portion of the population below the poverty line, we need to constantly look at measures to minimize wastage.
- Indian agriculture also faces broader challenges, such as small farm holdings. While we can't wish them away, we need to find ways to make them viable entities. This may be done via more integration, contract farming and corporatization.
- Creating more awareness and policies pertaining to insurance cover, risk management available to producers and farmers which are currently negligible in India. No amount of subsidy could make up for the loss of that institutional framework that needs to be in place. So we need to develop models that would provide viable insurance cover without resting on determinations by local authorities of the amount of pay out to the farmers in wake of natural calamities.

Subsidies to the producers

The panel stated that the Indian government does not subsidise to the same extent as many of the developed countries. Whatever is being given out by way of subsidy is also being slowly liberalized. For instance, all fertilizers except Urea are completely decontrolled. Water is still being subsidized but we need to do away with it gradually through better conservation and efficiency. This amount of subsidy is eating away the public money available for capital creation. If we divert all our resources towards subsidies, we will be left with no money for sizeable public investments and asset creation.

The producer in India has lost sight. If we look at the 1980s, the farmer in India was at a disadvantage. In terms of support price, the prices of the major commodities were kept lower than the rest of the world. In the 1990s, India continued to increase the support price and subsidise the major commodities, and we became the high price island for agricultural products. Then when there was a need to dispose of the surplus stocks, it could not be sold at the price at which it was purchased. This generated a huge public debate on the extent of subsidies in India, where the government was buying commodities at prices higher than the global price!

While we need subsidies and safety nets for farmers, we need to eliminate indirect subsidies, which get 'lost' in the system and are opaque to operate. The UID project may herald a new transformation as we could then provide food and subsidies to farmers through the smart card. Distortion in subsidies has caused immeasurable and negative damage to long term capability. If we are to accept the fact that

India is going to be deficit nation, we need to optimize our resources and conserve and optimize our land use. In Punjab, for instance, subsidies and the distorted procurement system for rice is turning that state into a potentially barren area. The water level is falling at 1 to 2 feet per year. Land is becoming less and less productive every year. All this is simply driven by the rice rotation and Punjab, never a historic rice producer, is now a rice producer. In our desire to give away subsidies, we are giving away long term competitive capability.

The audience pointed out, that India is a large importer of oil. If we are in fact limited by agricultural land and that is fungible, then the crops we produce should reflect our competitive advantage. But in oilseeds, we are not competitive in any category except for groundnut oil. We are improving in soybean, sunflower and mustard, but are globally competitive only in groundnut oil.

Setting up Cooperatives

With an efficient value chain, the benefits will flow not only to the consumers but also to the farmers. And whatever inefficiency is extracted is distributed across segments.

But the backend is the most difficult part in India. Currently, it may not be moving in any particular direction, and it cannot be consolidated except by converting it into a cooperative. The cooperative movement needs more encouragement in India.

In the Netherlands, producer cooperatives are a huge success. If we look at micro-finance, it has been a success in India because they have been able to bind people in the rural areas. It has tasted success even in urban areas.

When we consider the consumer side, we get into endless details about the benefits of organized trade and the fear of kirana stores being wiped off. However, despite all the enlightenment and education that our politicians, civil servants have, why are we getting into this debate on organised retail? How does the color of money matter? The debate should be about organized or unorganized retail and not about dollar vs rupee. After all, consumer welfare is about good prices, good products, and quality products.

Efficient Credit Delivery

Another issue is credit delivery. In rural areas, credit is an important input. We need to explore what has been done about imparting efficiency to credit delivery. The single most important source can be cooperatives and banks. But there has not been enough done to make these institutions efficient. If these steps are not taken, then it will not matter and credit will never reach the right pockets. The biggest challenge is no fund can invest in a cooperative. There has been a pre determined effort to revive the cooperatives in the country. The percentage of cooperatives which have credit availability has been falling in the country. It used to be 26%- 28% at one point of time. But now the lending has come down to 16-17%.

Public Private Partnerships in Agriculture

The audience felt that government must explore public-private partnerships in irrigation as well. If PPPs have succeeded in building roads and dams, there is no reason for it to not happen in the case of irrigation. They also advocated that the private sector be involved in the agricultural extension system and the private players who get involved should be given incentives to remain motivated and invest in the agricultural sector.

The panel remarked that since agriculture is a state subject, state governments believe that getting into public – private partnerships would be like going back into the hands of the capitalists. Thus, state governments are unwilling to consider PPPs. Changes in agriculture will be incremental and gradual because we need real leadership and commitment to drive change.

Encouraging usage of Genetically Modified Seeds

The audience also questioned the esteemed panelists why we as a nation were still uncomfortable with Genetically Modified seeds when our productivity level was still so low.

The panelists acknowledged the need and relevance of genetically modified crops but stated that an overall consensus was required to adopt new measures (like GM seeds). The government can't do this alone. In case of BT cotton, the farmers all across India had taken a strong stand against it. But today, we all know that 98% of the cotton cultivated area is under BT cotton. So such a consensus is required along with setting up a proper regulation mechanism. Building this consensus takes time. Ideally, there should be no debate around GMO. The only sector in agriculture in India which has shown a tremendous growth in the last decade is Cotton, because of private sector investment by a foreign company in GMO BT cotton. Given the situation, we need to figure out what we can do to maximize what we have.

Conclusion

The challenges and issues pertaining to agriculture are too many and too vast to be resolved over a short interactive discussion. But the group was successful in setting the context for a series of similar discussions in future. It was an effort to help them get their voices heard and list down the issues at each level of value chain. It brought together the leaders of various sectors of agri business and got them into an in-depth discussion where they not only shared their apprehensions but also could appreciate the challenges faced by other partners.