Health of the Pulse Sector

Background:

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- The price increase in pulses based on Consumer Price Index (CPI) has dropped from a high of 46 per cent in December 2015 to 0.2 per cent in November this year.
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- The corresponding decline in overall food inflation is from six per cent to two per cent, reflecting the faster decline in the price of pulses.
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- The persistent problem of high pulse prices for the last few years appears to have abated, at least for now. This is good news.
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- However, there is another crisis brewing in the sector.
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Recent Performance:

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- The downward spiral in prices started in July this year.
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- Not only inflation, which is based on year-on-year calculations, but actual prices also have shown a decline in the last three months, the declines of various pulses ranging from three per cent to 14 per cent in major metro cities.
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- This improvement is mainly due to an impressive increase in the kharif pulse production from 5.5 million tonnes in 2015-16 to 8.7 million tonnes in 2016-17, an increase of 58 per cent.
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- This is indeed a creditable turnaround from the last couple of years, when pulses were one of the major commodities contributing to food inflation because of production shortfalls.
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How did the turnaround come about?

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- High market prices of pulses in the last two years and some serious efforts by the government have helped induce an increase in supply.
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- In particular, the liberal increase of nine per cent in minimum support price (MSP) and pronouncements of establishing a buffer stock of pulses to the tune of two million tonnes have encouraged farmers to devote more area to pulses.
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- The favourable monsoon further helped and the production of kharif pulses soared.
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1. *Arhar* production increased by 1.8 million tonnes in 2016-17, a jump of 74 per cent.
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2. The corresponding increases for *urad* and *moong* have been 45 per cent and 32 per cent respectively.
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- This trend is likely to continue with the expectation of a good rabi harvest as well, due to an increase in MSP by 15 per cent for rabi pulses.
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Reasons for fall in price:

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- The increase in production resulted in a sharp drop in prices.Wholesale prices fell sharply in various markets.
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- In the first week of December 2016 there have been 209, 197 and 785 instances of the market price of *arhar*, *urad* and *moong* falling below the MSP in several *mandis* in various parts of the country, which is 30, 28 and

112 instances per day respectively.
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- Decline in demand due to cash crunch after demonetisation has aggravated these price declines.
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- However, absence of effective procurement by public agencies is certainly the most important reason for this price slump.
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- Although MSP is announced for about 25 commodities, procurement takes place only for wheat and rice.
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- Pulses have suffered for a long time due to this lopsided policy.
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- Pulses production is more unstable because of less irrigation and greater pest attacks.
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- Absence of assured procurement by the government made farmers reluctant to cultivate pulses. This is the main reason why pulses are mostly grown on marginal lands and drier regions of the country.
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Arvind Subramanian Committee Recommendations:

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1. **MSP and Procurement**
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- Government procurement machinery should be on high gear to ensure the procurement of kharif pulses at this season’s announced MSP.
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- To ensure effective procurement, a High Level Committee comprising Ministers of Finance, Agriculture, and Consumer Affairs and Principal Secretary to PM should be constituted.
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- There should be weekly reporting by procurement agencies on the ground with physical verification of procurement.
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- Buildup 2 million tons of pulses stock with targets for individual pulses, especially tur (3.5 lakh tonnes) and urad (2 lakh tonnes).
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- These should be built up gradually but opportunistically, buying when prices are low as in the current year.
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- Announce MSP of Rs. 40/kg for gram for rabi 2016 and MSP of Rs. 60/kg for both urad and tur for kharif 2017 (adjusted for inflation between 2016-17).
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- Minimum Support Prices for other pulses should be increased by the same percent as calculated in this report for tur, urad, and gram.
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- MSP to be increased to Rs. 70/kg in 2018 when short duration kharif tur is ready for commercialization. Efforts to be made to give production subsidies to farmers for growing pulses in irrigated areas of about Rs. 10-15 per kg to be given via DBT.
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- Instruct CACP to comprehensively review its MSP-setting framework to incorporate risk and social externalities.
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2. **Other Price Management Policies**
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- Eliminate export ban on pulses and stock limits; at the very least limits on wholesalers should be eliminated.
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- The greater the limits on procurement by the government, the greater the urgency to take these actions to ensure that market prices stabilize above the MSP.
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- The worst case scenario for farmers is weak procurement and stock limits which force farmers to sell most of their output at market prices that are well below MSP.
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- More generally, the use of trade policy to control domestic prices, which induces policy volatility, should be avoided.
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- Immediate Encourage states to delist pulses from their APMCs Immediate Review Essential Commodities Act,1955 and futures trading of agricultural commodities with a view to preserving objectives but finding more effective and less costly instruments for achieving them.
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3. **Institutions for procurement-stocking-disposal**
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- Create a new institution as a Public Private Partnership (PPP) to compete with and complement existing institutions to procure, stock and dispose pulses.
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- Announce clear rules for disposal of stocks.
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4. **Minimizing Adverse Impacts.**
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- Encourage development of GM technologies.
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- Grant expeditiousapproval to indigenously developed new varieties of pulses.
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Conclusion:

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Despite these recommendations and those of several committees before, procurement is hardly effective and farmers continue to face hardships. There are reports that farmers are being turned away from procurement centres on trivial grounds (*Down to Earth*, October 1-15).

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There are also reports of large scale import of pulses for building buffer stocks while domestic procurement remains inadequate. This imbalance also needs to be addressed, in order to ensure that farmers continue to produce pulses. With few international sources of supply, increasing domestic production becomes *sine qua non*.

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However, there is a need to avoid the kind of stock pile-ups that are frequently witnessed in case of rice and wheat, which is the result of lopsided pricing and stocking policies.

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An urgent procurement mechanism needs to be set in place for pulses to avert imminent misery to pulse farmers but excessive procurement needs to be avoided.

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Category: Mains | GS - III | Economics

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Source: Business Standard

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