GOVERNMENT OF INDIA
AGRICULTURE
LOK SABHA

UNSTARRED QUESTION NO:3855
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REPORT OF ALAGH COMMITTEE ON AGRICULTURE
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Will the Minister of AGRICULTURE be pleased to state:

(a) whether the Y.K. Alagh Committee on agriculture submitted its report to the Government;

(b) if so, the details of recommendations made by the Committee;

(c) the details of recommendations accepted and rejected by the Government;

(d) the action taken on the recommendations accepted by the Government; and

(e) the reasons for not accepting all the recommendations?

Answer

MINISTER OF STATE IN THE MINISTRY OF AGRICULTURE (SHRI KANTI LAL BHURIA)

(a): The Y.K. Alagh Committee set up by the Government to Examine the Methodological Issues in Fixing of Minimum Support Prices of Agricultural Commodities submitted its report to the Government on 27th June, 2005.

(b): The details of recommendations are annexed.

(c) to (e): The recommendations are being considered.

Annexure

Recommendations of the Expert Committee headed by Prof. Y.K. Alagh to Examine Methodological Issues in Fixing of Minimum Support Prices.

1. Diversification policies are now undergoing dramatic changes in a phase of rapid growth, opening up of economies to trade impulses diversification. It is imperative to formulate policies that encourage diversification, in tune with changing pattern of demand.

2. In the wake of the opening up of the agricultural economy and its macro demand effects, and currently there is no organization of the Central Government to analyze various aspects of these changes, it is appropriate to explore whether CACP which makes both price and non-price recommendations for accelerated agricultural growth, can be assigned a role to develop new agricultural policy perspective and advise the government in formulating appropriate policies and strategies.

3. In view of the important changes that have either taken place or are likely to take place in future under the WTO regime viz. Removal of QRs (Quantitative Restrictions) and Tariffication Process, Reduction in Subsidies, Market Access and Food and Livelihood Security Policies negotiated in the WTO Regime, it may be necessary to examine whether there is need to reposition the Commission in terms of its mandate and remit but also to examine the existing cost concepts for the purpose of fixing minimum support prices.

4. A statutory status be assigned to CACP

5. The Terms of Reference of CACP should be revised as follows.

(i) To advise on price policy of cereals, pulses, oilseeds, fiber crops and such other commodities as the government may indicate from time to time with a view to evolving a balanced and integrated price structure for the agricultural sector in the perspective of overall needs of the economy and with due regard to the interests of the farmers and the consumers.

(ii) To advise from time to time on the tariff structure and other measures relating to imports and exports of agricultural commodities and their processed products.

(iii) While recommending the agricultural price policy and trade related measures, the commission may keep in view the following.

The need to provide incentives to the farmers for adopting improved technology and for developing a production pattern broadly in the light of demand pattern including that for exports.

The need to ensure food security both at macro and household level.

The need to ensure sustainable use of land, water and other natural resources.

The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products, and competitiveness of agriculture and agro-based commodities.

(iv) The commission may also suggest such non-price measures related to credit policy, marketing policy, crop and income insurance and other sectors as would facilitate the achievements of the objectives set out in (i) above.

(v) To recommend from time to time, in respect of different agricultural commodities, measures necessary to make the price and tariff policy effective.

(vi) To take into account the changes in terms of trade between agricultural and non-agricultural sectors.

(vii) To examine, where necessary, the structure of taxes, levies and transport costs of agricultural commodities and recommend measures as would facilitate the achievements of the objectives set out in (i) above.

(viii) To keep under review the developing price situation and to make appropriate recommendations, as and when necessary, within the framework of the overall price policy.

(ix) To undertake studies in respect of different crops as may be prescribed by Government from time to time.

(x) To keep under review studies relating to the price policy and arrangements for collection of information regarding agricultural prices and other related data and suggest improvements in the same, and to organize research studies in the field of price policy.

(xi) To advise on any problems relating to agricultural prices and production that may be referred to it by Government from time to time.

(xii) To effectively integrate these measures with its pricing recommendations and to show to the extent possible, with numbers and monetary calculations the extent of such integration in meeting the costrequirements of a competitive agriculture

6. The trade policy objectives and the level of MSPs should be integrated. The CACP should be repositioned and emphasis should be laid not only on cost but also on issues such as tariffs, credit policies, market trends, market structure and broad macro economic policy to meet new challenges so that it can play a vibrant and dynamic role in consonance with domestic and global changes.

7. The CACP should continue to monitor complementary system of trade, tariff, rural credit and marketing and related policy environment and incorporate its recommendations in the price policy reports submitted to the government from time to time.

8. A roadmap for principal crops not based on historical costs but opportunity costs at the margin be developed so that technological progress and India`s competitive advantage such as bright sunshine and cheap labour are given a free reign to play.

9. A variant of the principle of Long Range Marginal Cost, adopted for the reform of industrial pricing in India and currently used for fertilizer pricing as recommended first by the CERC for power pricing, should be considered for analysis and development pricing and economic policies in the Road Map for agriculture. The farmer must be given incentives of pricing and non-pricing nature to internalize these costs in a transitional regime for a well defined and limited period. Higher level policies of support have to be implemented to meet the costs of a competitive agriculture in the medium term of three to five years.

10. Valuation of family labour should be based on the actual market rate for casual labour .

11. The rate of interest which is actually paid by farmers (and not nominal rate of interest) on credit should be taken into account by DES while estimating the cost of production.

12. The CACP and DES should jointly conduct a study to ascertain the actual spread of expenditure vis-a-vis borrowings during the crop season .

13. Data on premium actually paid by farmers for crop insurance should be regularly collected and be included in the cost estimates.

14. In a trade dominated economy, the opportunity cost of resources is determined in theory by the working of competitive forces. The

argument for ignoring land rent does not exist any more in a WTO policy led system. In an era of market led growth, it would be most appropriate to consider rent as it prevails in the market .

15. Estimates of marketing and transport charges incurred by farmers should be generated at least once in three years and CACP should take these into consideration while formulating its recommendations on MSPs .

16. The DES should take necessary steps to replace the existing software with a new one with latest features so that full potential of the data collected under the CS Scheme is exploited. Once new software is put in place, it would also enable DES to switch over from normative rate of interest to actual rate of interest paid by farmers.

17. The Committee is of view that the data collected under CS Scheme are of fairly good quality and it will not be statistically sound to blend the yield rates from any other source with the data collected under the Scheme. Therefore, the existing practice of deriving the yield rate from the CS scheme should continue.

18. A Technical Committee, comprising officers from DES, CACP, NSSO and IASRI be constituted to look into the relevance of the existing Survey Schedule for Cost Studies and modify it, if necessary.

19. For continued cooperation of sample farmers under CS scheme, innovative methods of encouragement such as award of recognition certificates and token gifts for family members of respondent farmers should be put in place.

20. DES should explore the possibility of expanding the crop coverage to certain fruits and vegetables such as tomato, cauliflower, cabbage, ginger, turmeric, apple, pineapple, mango, banana, grapes and citrus fruits (potato and onion are already under the Scheme) and build up strong and sound data base on cost of cultivation/ cost of production of these horticultural crops.

21. The need for undertaking in-depth quantitative analysis and also, building sound in-house data is strongly felt. To strengthen analytical work in the CACP, the statistical wing and also trade and tariff wing in CACP at various levels be strengthened to cater to the multifold functions of the Commission in the emerging scenario. Also CACP should have adequate financial resources to conduct field studies including selective visits abroad.

22. The CACP should consider quality aspects in its price and non-price recommendations while recommending the level of MSPs for various commodities to induce farmers to produce better varieties of commodities covered under the MSP regime and to integrate policy with the market economy.

23. For effective implementation of MSP policy in all parts of the country, FCI, NAFED, CCI & JCI should be restructured so that price support operations become effective in all parts of the country and do not remain confined to a few selected regions.

24. For effective implementation of price policy, responsibilities of national nodal agencies and concerned state governments in the matter of advance planning and implementation of price support policy should be clearly delineated.

25. Import of edible oils to India has been progressively increasing, especially during post-1995 period. Its percentage to domestic production was as high as 95% during 2002-03. The data on wholesale prices of oilseeds indicates that the terms of trade have been moving against the edible oil sector. The tariff rates on edible oils should be revised upwards for sustaining the assurance of Minimum Support Prices to oilseed growers .

26. There are distortions in cotton trade. There are issues of supply of cotton to the textile industry in a phase in which quotas have been abolished. These are important. Policy can be designed to establish a level playing field between highly subsidized imported and domestic cotton for the Indian yarn manufacturer. This can consist of automatic setoffs for the producer. The Committee recommends that additional protection in the form of reasonable level of tariffs be applied on cotton.

27. It is important that Government agencies appreciate the damage done to the Indian agrarian economy of the kind of import quantities shown in this report. Many agencies show so called low imports by ignoring, for example, cotton imports, sugar imports and edible oil imports.
Also the impact of an inadequate policy regime since the early Nineties need to be recognized.

28. APMC Act be amended so as to increase the involvement of private sector in development of marketing infrastructure.

29. A massive campaign of publicizing the benefits of amendments in state APMC Acts and sensitization of key stakeholders (farmers, traders, processors, consumers and PRIs) should be launched by the Government of India.

30. The Producers Company legislation now on the statute book provides an important method of strengthening farmer groups to take advantage of strategic alliances for growth.

31. The Commodity exchanges should be promoted in various parts of the country .

32. The CACP may consider using the NCDEX and other networks for informed analysis and as a policy instrument in its working.

33. Though India`s software achievements are remarkable, yet rural India is unconnected. There is an urgent need that IT must bloom in the fields. For a wider spatial coverage to generate useful database and information packages to enable farmers to take right decision at right time, there is a need to extensively promote IT in agricultural marketing.

34. The Committee is of the considered opinion that if recommendations of different Committees on rural credit are implemented, it would help Indian agriculture sector become more competitive in the global market.
The Committee endorses these recommendations and suggests for its implementation in a definite time frame.

35. The Committee recommends that CACP should continue to monitor the complementary systems of trade, tariff, rural credit and marketing, insurance and related policy environment and incorporate its recommendations in the price policy reports submitted to the government from time to time. The Committee has in a counterfactual below shown that achievable targets in instruments like tarrifs, taxes, reduced effective interest rates and better marketing support can be integrated with pricing recommendations which are alternates with MSP increases. These should become the standard practice. This integration would be market friendly and WTO compatible in the sense that it would not show in AMS calculations and would serve the purpose of policy. The committee also recommends that this should be specifically incorporated in the revised ToR of CACP.

36. The Committee recommends that trade policy objectives and the level of MSPs be integrated. The Committee has analyzed the efficiency shifters with which Indian agriculture can move from a subsistence low yielding activity to a dynamic competitive sector capitalizing on the advantage of a peasantry which has historically proved its enduring and hard working nature and the sunshine with which the nation is endowed. Now is the time to move to a dynamic trading agriculture competing with the rest of the world. Unfortunately the global agricultural market is highly distorted and phasing of the reforms has to be consistent with the changes in the world markets. India has assumed a leading role after

Cancun round of negotiation. This would determine phasing and volume of tariff levels. But the policies for enhancing the competitiveness of Indian Agriculture have to be implemented with a sense of urgency. To make agriculturalist competitive, the farmer has to be supported in terms of the cost of production of efficient farming. These costs monetize existing practices, meet the immediate costs of technology adoption and learning and are sometimes embodied in new inputs. Many of them are of immediate kind and after an initial thrust and support, the farmer will compete on its own.

37. The existing support policy for subsistence agriculture with average cost has to continue in transitional period. Also if monetary/ tax and tariff policy do not work on account of limitation of Inter- Ministerial coordination or market failure, MSP has to take the slack. The CACP has to function and continuously re-work these numbers and policies.

38. There is no relationship between MSP declared by the Government and the market prices especially in case of crops like sugarcane and cotton. Natural cycle of 18 months in case of sugarcane crop, for instance, has been distorted by imports of sugar during the second half of the decade of nineties. Cotton imports of a sixth to a fifth of demand make a mockery of the MSP. There is a need for integration of various policies of the Government such as price policy, monetary policy, tariff policy, fiscal policy etc. In this backdrop, the Committee recommends that CACP should be repositioned and emphasis should be laid not only on cost but also on issues such as tariffs, credit policies, market trends, market structure and broad macro economic policy to meet new challenges so that it can play a vibrant and dynamic role in consonance with domestic and global changes. Besides, CACP should put in place a system of preparing periodical reports, preferably quarterly or biannually on `State of Indian Agriculture : Its Competitiveness`.

39. Conventional cost analysis done by the Committee for crops like cotton and sugarcane does not separately analyse the cost behaviour of efficient and inefficient farmers in terms of productivity and hence essentially misses the question of the economic environment required to let the Indian farmer compete in a globally competitive economy. Historically in India, the mid-eighties saw the first transition from a regime with output, investment, technology and import control at the commodity level to a regime which would use fiscal and not quantitative controls. In 1985, India designed an extensive programme of reform emphasizing internal competition initially. In the mid-eighties around two-thirds of organized Indian industry was removed from price and quantitative controls to tax and tariff rate interventions. From firm level controls the economy moved to industry level interventions with strong schemes of incentives and disincentives. These would discriminate between industries, but not between firms. The policy framework was seen as a transitional regime, leading later in the early nineties to uniform and low tariff rates and freely convertible exchange rates.

The Committee recommends that a roadmap for principal crops not based on historical costs but opportunity costs at the margin be developed so that technological progress and India`s competitive advantage such as bright sunshine and cheap labour are given a free reign to play. The capital cost for such an economy at the margin would be higher than the historical costs. But current output costs would be lower per unit of output, although they would again require larger working capital requirements.

40. Fixed capital formation in the public sector in agriculture at constant prices is less in the nineties as compared to the absolute level reached in 1976-77. The disastrous nineties for agriculture must be reversed. Agricultural profitability and private investment fell, because India globalised without preparation. Income, output and then employment went down in agriculture. Rural urban inequality went up. A Road map is essential for each crop to reverse the profitability trends. Initial capital requirements of progressive farming, lead to costs around a sixth higher as compared to the `average` procurement prices. Tariff, tax and monetary policies must make the difference. (Alagh, 2003) Each region has to lobby with facts for its crops, with facts.
$ The farmer must be supported to shift to a competitive cost regime through technology and economic support. For that his capital cost will be higher, although current costs will be lower.

$ To make the agriculturist competitive, the farmer has to be supported in terms of the cost of production of efficient farming. These costs monetize existing practices, meet the immediate costs of technology adoption and learning and are sometimes embodied in new inputs. Many of them are of immediate nature and after an initial thrust and support, the farmers would be able to compete on their own.

41. The average yield for the higher rent and machinery category of paddy farmers in Punjab was 57.5 quintals/hectare but for the lower rent and machinery category was 51.1 quintals/hectare for the year 2000-01. Cost of production per quintal for higher rent and machinery cost at the mean level was Rs. 431 per quintal, but for the low yield, low rent and machinery costs was Rs. 391 per quintal. There is a ten per cent difference. If average costs of both kind of farmers are taken into account for price setting, the competitive

farmer will never get the incentives to expand and the low yield farmer to modernize and become competitive. It maybe noted that the earlier analysis misses this aspect completely on account of a static framework of analysis.

42. An earlier stylized example to illustrate this principle worked with aggregated data, rather than the direct estimates given above.

@ Some tehsils had per hectare seed costs higher than the state average, suggesting a possible technical superiority leading to a cost and productivity advantage. In the existing policies no allowances are made for higher capital costs and internationalization of technological superiority.

@ With this stylized data the desirable economic profiles for paddy were worked out under two assumptions- an interest rate for long term investments of 7.25% which would follow from RBI Governor Y. Venugopal Reddy`s monetary policy announcement, if operationalised on the field and an existing Business As Usual (BAU) rate of 14.5%. Similarly, the interest rate for working capital is ideally 9.75% and a BAU rate of 19.5%.

@ The outcomes are :

S.No.	Cost item	Normative Monetary Policy	BAU
1.	Return on Net worth	77.30	77.30
2.	Return on Term Loan	27.05	54.10
3.	Interest on Working Capital	26.00	52.10
4.	Depreciation	129.2	129.12
5.	Input cost	400.00	400.00
6.	Total	659.61	712.66

The concept of efficiency shifters as described above is a variant of this argument. The important point is that tariff, monetary and tax policies can be integrated in a measurable sense with the desirable price environment to be provided to the farmer.

43. In the Wheat example the average yield of the low cost producers was 45.9 quintals/hectare, while that for the high rent, etc. category was 51.6 quintals/hectare. The cost per quintal was Rs. 462.02 for the high rent and machinery case and Rs. 429.74 for the low category. In other words the difference was 7.51%.

44. The efficiency or LRMC price follows from these arguments. In each case a Road Map has to be build up for describing the environment for a progressive and competitive agriculture.

45. Taking into consideration the importance of reliable cost data and concerns expressed in earlier sections of this report, the Committee also recommends that:

(a) adequate budgetary support should be provided to CS scheme;

(b) for facilitating better supervision of data collection, Field supervisors of the scheme should be provided transport facilities;

(c) posts falling vacant in the scheme at the level of implementing agencies and Cost Study Division of DES should be filled in on priority; and

(d) adequate promotional avenues be provided to the staff of the scheme working in Implementing Agencies.

46. This report should also be translated into regional languages for wider public discussion.