Business Line

Dealing with food price shocks

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Reforms in agricultural marketing should include providing information on stocks held by distribution intermediaries. Fair and competitive practices should be regarded as the norm for all times, and not only in abnormal conditions.

Enforcing compliancewith stocking regulations should become part of a long-term strategy.

The dramatic rise in onion prices and the recent raids on onion traders serve to highlight the imperfections of agricultural markets. Although raids are not an option for governments in many of the perishable commodities, a sharp rise in the prices of mass consumption products leads to actions of last resort.

Fair market competition is expected to have emerged as a matter of course in the case of agricultural commodities, as these markets have had years and years to evolve along with the economy and become links to millions of producers and an even larger number of consumers. However, they have been the cause of unhappy producers and consumers, when prices rise sharply or when they drop.

Although there have been a variety of attempts to smoothen the flow of commodities from producers to the consumers, there has also been a set of ad-hoc reactions by the government. Some of these reactions should not have been knee-jerk but part of good governance — such as enforcing compliance with stocking regulations — and some, part of a long-term strategy, as in the case of foreign trade measures.

Sporadic and isolated spikes in prices of commodities are unavoidable. But the persistence of high prices of several commodities makes substitution difficult for the consumers, and makes greater demands on the agricultural marketing system.

ROLE OF INTERMEDIARIES

The general argument from the consumer is that when there is a sudden decline in supply, the stock which is already with the trader or in the distribution belt should be sold at the old price. The producer looks for stable prices in the retail market even when there is a bumper crop leading to a decline in the wholesale market where he sells his produce. Nevertheless, when the supply declines in reality, as we have learnt even in the case of onions, there is no quick way to replenish it in a hurry and the prices do rise sharply.

The volatility in prices of agricultural commodities is not new. The perishable nature of the commodities generally makes the impact of sudden supply or demand shocks unbearable to the producer or the consumer. The consumers do not stock the commodities, nor do the producers, except for the large producers.

The distribution is therefore left to the traders. The distinguishing feature of a lot of this trade is that it is largely unregulated and in the unorganised sector.

There are no regulations that put a ceiling or a floor on the price at which the commodities are traded except when the government agencies operate. There are no effective MRPs on fruit, vegetables, milk, fish or meat. Quality of the produce is a matter of trust. Although there are a few large aggregators of these intermediation services, particularly from the organised sector, the price shocks have not gone away.

REFORM STOCKING NORMS

It would be ideal if there were no uncertainties in farm production not only within the country but also outside, so that there are no price shocks. It is not clear if the marketing system has enough incentives to minimise price shocks: is the system deterred by the impact on consumers? Obviously, the consumers have nowhere else to go but to impress on politicians to act. The policy reaction would have to be in the form of more of fair practices and competition in the markets as a normal feature and not only during the abnormal price conditions.

The periodic raids on the private sector stockists show that the deficiencies in the marketing system are well known. There is not enough market competition. By the very nature of the relationship of the intermediary with the two ends of the market, there are bound to be market imperfections and regulatory measures have been necessary to ensure market competition.

However, the problem is not limited to the private sector operators. Holding of large stocks of grains by the government when the prices had shot up in the market was hard to defend. It may have been difficult to defend a specific price band in the face of severe shortages.

Traders, or in fact any agencies, in the distribution chain, are likely to build stocking facilities to meet the normal requirements of trade. This stocking function breaks down when there are severe disruptions. Who should carry or own the additional stocks to meet the cases of severe supply shortfalls? The missing links in the market infrastructure system have to do with information on available stocks and a Plan B in the case of a crisis.

The agricultural marketing sector reforms, whether in the form of more organised retail or revamping of regulation in agricultural markets, would have to include dissemination of information on stocks held by various distribution intermediaries and compliance with best practices to ensure competitive price and product quality; all of this to achieve a vibrant supply-side.

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