

FROM PLATE TO PLOUGH

IMPROVING PROCESSING AND DIRECT BUYING FROM FPOs COULD HELP CHECK LARGE PRICE VOLATILITY OF VEGETABLE LIKE TOMATO, ONION, POTATO THAT EXPORT BANS AND STOCKING LIMIT

Time to TOP up

LAST MONTH, ON September 13, when onion retail prices crossed ₹40/kg in Delhi, government was hyperactive and imposed MEP of \$850/tonne. Later on, as prices went further up to ₹50-60/kg, stocking limits were imposed on traders and exports of onions were banned. It created problems in neighbouring countries, especially Bangladesh, inviting a sharp jibe from visiting PM Sheikh Hasina on how this ban, without any notice, affected her cooking and she had to instruct her cook to prepare all vegetables without Indian onions. But now, when tomato retail prices have gone beyond ₹50/kg across the country, what will the government do? Will PM Hasina have to cut down even Indian tomatoes from her cooking, and forced to turn to China? Anytime, same situation may arise even in case of potatoes. Such knee jerk reactions like export bans or stocking limits on traders only show hollowness of our policies. We can certainly do better in addressing large price volatility of basic vegetables.

Tomatoes-Onions-Potatoes (TOP) are the three basic vegetables that face extreme price volatility, and the government often finds itself on the edge in fulfilling its dual objectives of ensuring remunerative prices for farmers and affordable prices for consumers. Accompanying graphic presents Wholesale Price Index of TOP since 2012. With a coefficient of variation (CV) of 52%, onion is most volatile, followed by tomato (47%) and potato (31%). Potato is least volatile because of higher processing-to-production share

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(7%) than onions (3%) or tomatoes (1%), and also because of large storage facilities for potatoes. In fact, of the total 8,000 plus cold storages in India, 90% are used for storing potatoes. But tomatoes can't be stored for long. The current spike in tomato prices is due to lower supply from major tomato producing states like Maharashtra and Karnataka owing to heavy rains.

The government had announced 'Operation Green-TOP' with an allocation of ₹500 crore in its budget of 2018. The idea was to build value chains of TOP on lines of 'Operation Flood' (AMUL model) for milk in such a way that will ensure higher share of the consumer's rupee to farmers and also stabilise their prices. The scheme is nested with ministry of food processing. But so far the progress is tardy. The AMUL model is based on large procurement of milk from farmers' cooperatives, processing, storing excess milk in skimmed milk powder form during flush season and using it during lean season, and distributing milk through organised retail network. Milk does not pass through any APMC, involves no commissions, and farmers normally get 75-80% of the consumer's rupee, as per AMUL's claims.

But, TOP are mostly traded in APMC

markets, with layers of *mandi* fees and commissions, and farmers get less than one-third of consumer's rupee. In a forthcoming ICRIER-NABARD study on 'Deconstructing Value Chains of Tomatoes, Onions and Potatoes' we estimate farmer's share to be 32.1%, 29.1% and 26.6% of the consumer's rupee for TOP respectively. This cries for massive reforms in APMC.

For stabilising retail prices of fresh TOP, and ensuring higher share of consumer's rupee to farmers, policy makers need to focus on three things.

First, buffer stocking with ample storage has to be created. While potatoes and onions can be stored, repeated stocking limits on onion traders discourages private investments in modern cold storages. For inviting large private investment in storages, Essential Commodities Act has to go. If the government feels that traders are colluding to rig the market, then Competition Commission of India should look into it. The government banning exports or imposing stocking limits is not a solution.

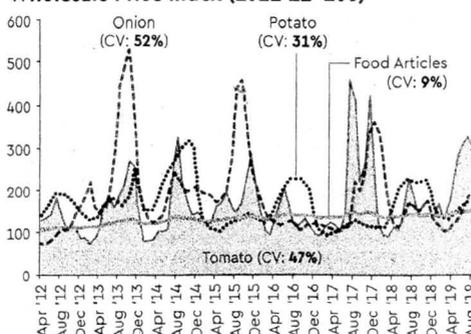
Second, increase processing capacities for TOP. Since, buffer stocking for tomatoes is not possible, processing remains the only solution. For this, GST for tomato puree and juice should be

reduced from 12% to 5%. Milk and most milk products attract 0 to 5% GST. To propagate the use of processed products (tomato puree, onion flakes, powder) among urban and bulk consumers (hospitals, schools, armed forces), government should run campaigns in association with industry organisations, as was done for eggs. Most of the advanced countries use large quantities of processed tomatoes and onions, which can be stored conveniently. India needs to have time bound targets to process and export at least 10-15% of TOP production. While India exports 10-12% of onion production in fresh and dehydrated form, it exports less than 1% of tomatoes and potatoes production (see graphic). It is time India starts using these relatively new products, like dehydrated onions, tomato puree, shredded potatoes and frozen *tikkis*/French fries, etc, the way they adopted milk powder, ginger-garlic paste, and frozen peas.

Third, direct buying by organised retailers from FPOs through contract farming, bypassing the *mandi* system, should be encouraged. Like dairy cooperatives, TOP cooperatives and retail outlets like *Safal* across the country should be opened. With over 400 *Safal* outlets across Delhi-NCR, onions are being sold at ₹25/kg when retail prices are hovering between ₹50-60/kg. Similar thing could have been done for tomatoes. However, this will require value chain development starting with market reforms along with infrastructure overhaul of existing APMC *mandies* in the country. With crumbling infrastructure, many APMC *mandies* are running over their capacity. Our visit to Kolar *mandi*, one of the largest tomato *mandi* of the country spread over 20 acres, revealed that the operations of the *mandi* have spread out to the adjoining areas. For better functioning, it requires at least two to three times more land and much better infrastructure. These reforms and investments can be undertaken on PPP basis, commissions can be reduced, contract farming encouraged, along with setting up of private *mandies* for better efficiency.

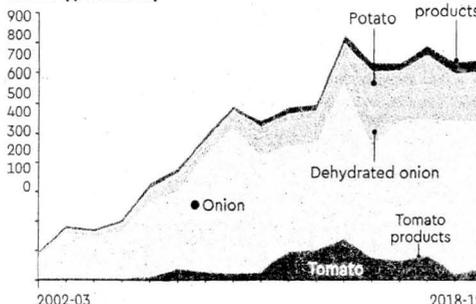
Government needs to find a sustainable solution for price stabilisation of TOP, than taking temporary ad hoc measures. It is time to TOP up!

Wholesale Price Index (2011-12=100)



Source: Office of Economic Adviser

Export value of fresh and processed TOP from India (\$ million)



Source: Directorate General of Foreign Trade