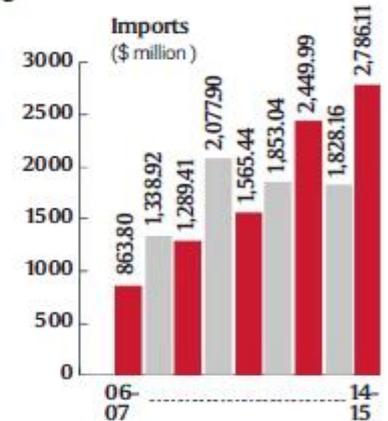
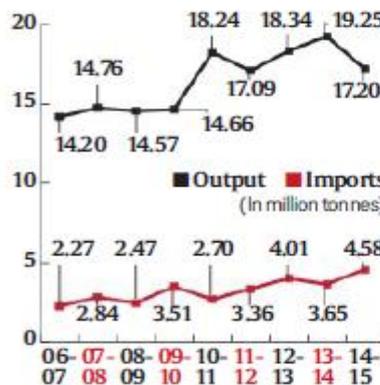


Conundrum of Pulses Price Rise

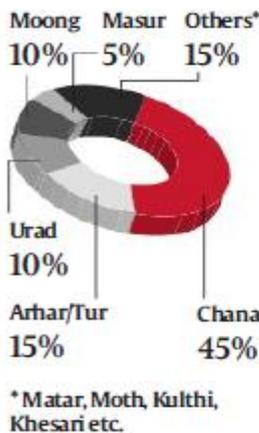
Introduction

- The major pulse crops grown in India are Gram and Tur.
- Gram, with a production of more than 7 MT, contributes more than 41 per cent in the total pulses production of the country.
- Tur's production of 2.7 MT and a contribution of about 16 per cent, is the second major pulses crop grown in India.
- Other leading pulses grown in the country are Urad and Moong.
- **Major pulses producing states-** Maharashtra, Karnataka, Rajasthan, Madhya Pradesh and Uttar Pradesh which together account for about 70 per cent of the country's total kharif pulses output.
- The average agri-GDP growth in the **first four years of the 12th Five-Year Plan is going to be below 2 per cent**, way below the target 4 per cent.
- Production of pulses slipped down by 12% in 2014-15 compared to the previous year. As a result, prices of this essential item have zoomed up by more than 100% across the country.
- Lower growth is causing increased farmer distress and rising suicides.

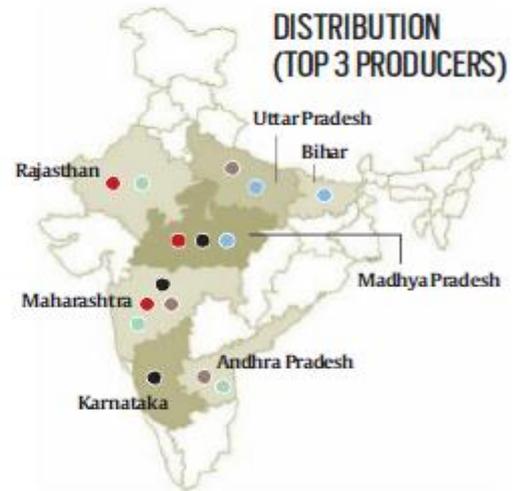
PULSES: PRODUCTION VS. IMPORTS



SHARE OF PULSES



DISTRIBUTION (TOP 3 PRODUCERS)



Why rise in prices of pulses?

1. Low yields due to:

- Cereal – centric food policy:

India's cereal-centric food security policies emphasize rice and wheat while dis-incentivizing the production of pulses through higher MSP for rice and wheat, presenting a demand-supply mismatch. The higher prices for cereals meant that pulses increasingly became marginal crops grown on marginal [less fertile] land. This has hit yields.



○ Low irrigated and drought prone areas for pulses: Production of pulses in the 2014-15 crop was estimated to be around 17.38 million tonnes -- around 9.5 per cent less than last year -- because of drought in Maharashtra and Karnataka, the two big states that lead in cultivation of pulses. The crop is cultivated on around 23-25 million hectares of land across the country. Only half of that is under irrigation; in some pulses like tur(arhar) -- which is selling at over Rs 200 per kilogram in some cities -- less than 5 per cent of the total sown area is under irrigation. Dependence of pulse production on rainfall has made it a risky proposition for the farmers, who are further attracted to cereals.

PROTEIN SOURCE HIT

PULSES GOT COSTLIER BY UP TO 64 PER CENT IN LAST ONE YEAR MAINLY DUE TO FALL IN DOMESTIC PRODUCTION

India produces 18-20 million tonnes of pulses annually and has to import 3-4 million tonnes to meet the domestic demand

18.43 mt pulses production estimated in 2014-15 crop year (June-July), against 19.78 mt produced in the previous year

The maximum increase in retail prices was witnessed in urad in the past one year, while tur, masoor, gram and moong dal prices have also shot up

3.4 mt pulses import estimated in 2014-15, while it was 3 mt in 2013-14

"There is an issue with pulses these days, because there has been an impact on the crop, also of international prices"
— ARUN JAITLEY, Finance Minister



PULSES HAVE BECOME DEARER BY ₹20-35/KG IN DELHI
Tur (arhar) prices is currently ruling at ₹108 per kg, up from ₹80 per kg

Gram dal prices have gone up to ₹70 per kg from ₹55

Masoor dal cost ₹95 (from ₹80) per kg

Moong is being sold at ₹110/kg

2. Import Dependency and low global surplus - India

is the largest producer and consumer of pulses in the world. But India's production of pulses has stagnated at around 18-19 MMT for several years now. The shortfall between production and consumption is made up by imports, mainly from Canada, Myanmar and some African countries. In 2004-05, imports of pulses were 2 MT, by 2011-12 they had crossed 4 MT. Import dependence is now over 22 per cent of domestic demand. Unlike wheat, rice and oilseeds, the global marketable surplus is limited to around 13 to 15 million tonnes. This makes international prices shoot up even at the slightest increase in demand from India. The landed price of imported tur is today around \$2,100 per tonne, as against \$700-800 a year-ago.

FOOD FOR THOUGHT		(million metric tonnes)				
	2010-11	2011-12	2012-13	2013-14	2014-15	
Production	18.2	17.1	18.3	19.8	17.4	
Imports	2.8	3.5	4.0	3.5	4.6	
Exports	0.2	0.2	0.2	0.2	0.2	
Available domestic supply	20.8	20.4	22.2	23.1	21.7	
Imports as share of domestic supply (%)	13.4	17.1	18.1	15.2	21.1	

Source: Ministry of Agriculture

3. Changing dietary needs: The demand for other protein food is rising, indicating emerging preferences for "high value" food across all income segments. According to NSSO data, while consumption of cereals (as a proportion of proteins) fell from 69.42% to 62% in rural areas between 1993-94 and 2011-12, consumption of pulses went up from 9.76% to 10.57%. The trend was even more pronounced in urban areas.

4. Hoarding and black marketing: The big traders and wholesalers indulge in hoarding and black marketing which adversely affects the retail prices of pulses. Recent raids have recovered around 36,000 tonnes of pulses hoarded by traders.

Steps Taken

The government has tried out various policy instruments:

- Restrict/ban exports of these commodities and open up imports at zero duty.
- The government has also decided to create a buffer stock of lentils mainly through imports.
- The government has invoked the Essential Commodities Act (ECA) to impose stocking limits- forcing private trade to liquidate stocks immediately and taken action against hoarders and black marketers.
- To increase production of pulses, the minimum support price for Urad and Arhar dal have been increased to Rs.4625 per quintal and for Moong dal to Rs.4850 per quintal.
- The government invoked the Rs 500-crore Price Stabilisation Fund to pay for transportation, handling, milling and processing to reduce the cost of imported pulses.

4. Analysis

- **MSP** - Pulses enjoy the lowest cost of production with negligible use of fertilizer and insecticides with higher potential of production. Also, pulses MSP has **increased over 50 per cent in the last five years** but the output has remained stagnant. However, the market prices are higher than the MSPs declared, the government does not procure pulses and it is rain fed and therefore, a risky crop.
- **Consumer protection** - Allowing import of pulses at zero duty and imposing export controls reflect an inherent consumer bias. With an open export-import policy, prices of a commodity will settle between its export and import parity prices — and if our domestic prices are higher, nothing will go out. But if our farmers/ traders can get a better price outside, it will only incentivise the peasantry to produce more. Consumers can be protected through an income policy instrument.
- **Stock limits** - To support the consumption, spread through the year, of a commodity harvested within a short-span of one to two months, we will have to stock. By putting stocking limits, all large stockiest are converted into “hoarders” overnight and compelled to offload in a few days. This offloading may give temporary relief, but the resulting low private stocks will haunt future markets. In the long run, this tool will discourage the creation of storage capacities. Farmers will sell immediately after harvest and, in the absence of storage incentives, there would be a glut and prices will plummet.
- **Creation of buffer stock through imports**- The government plans to create a buffer stock for pulses “preferably by imports” has been criticized as it will only benefit importers and farmers in Canada or Australia. A buffer stock should be built by procuring from farmers here.

5. Way Forward

- **Changes in Trade Policy**- To incentivise the **peasantry to produce more pulses abolish all export controls on pulses**. Importing and selling pulses in domestic markets at prices below the import parity price is anti-farmer.
- **Better Management of Supply Gap to fight price volatility**- Abolish stock limits under the ECA. It will encourage and incentivise the farmers to store not sell off immediately. It will help in building the buffer stock and most importantly the benefits of this buffer stock will go to farmers not to the hoarders which will encourage farmers to grow more pulses.
 - India can enter into long-term supply contracts with land-abundant countries - Australia, some African countries and so on - which would guarantee a year-round minimum volume. India has to start thinking globally about food security, just as it has been doing about energy.
- **Procurement by Government** - There is a procurement arrangement for wheat and rice and not for pulses and oilseeds. On similar lines, to increase domestic output, government should also put in place a proper mechanism to procure.
- **The role of commodity exchanges**- A robust commodity exchange should facilitate price discovery and spot prices/ premiums should be reflective of future volatilities. With regulations through the SEBI, the exchange can act as a messenger of short- to medium-run future prices.
- **Focus on technology improvement**: In the late 1980s, a technology mission for pulses was set up. During the time it was functional, overall yields did see a steady uptrend, but as soon as it was wound up, they plateaued. Perhaps it is time to initiate a new mission focussed on long-term improvements in productivity, which should address both efficiency in cultivation and, very importantly, ways to increase storability and shelf-life.

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