

Govt anticipation on food prices

Availability not a current problem but one could emerge from September, given supply-side issues, which is why Delhi is being pro-active, say officials

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The measures announced by the government on Tuesday to dampen food prices, particularly on export and import, were more in anticipation of likely shortages from September, aver officials. They say stockists are already hoarding food products, in anticipation of such shortages.

On Tuesday, the government imposed a \$300 a tonne minimum export price (MEP) on onions, whereas exports are not rising at a rate alarming enough to merit a clamp, they said. "In onion, the early kharif crop is expected to hit the market from July-end; hence, the price would cool down by itself. Hence, by imposing an MEP of \$300 a tonne now, the government seems to warding off any speculative hoarding," said a senior official.

In March, India exported around 100,000 tonnes of onions, around 50,000 tonnes less than in February. Since then, unofficial estimates put export at 80,000-90,000 tonnes a month.

"The real problem in onion is expected to emerge around September-October. By putting an MEP of \$300 a tonne, the Union government has taken a bold and timely step," said Ashok Gulati, professor at ICRIER, the economic policy institute, and former head of the Commission for Agricultural Costs and Prices.

Data from the department of consumer affairs show the average retail price of onions across India has risen by ₹5 a kg between May 1 and this Tuesday.

D K Joshi, chief economist at rating agency CRISIL, said the step was basically due to caution. "It is in anticipation; there is no pressure from the exports side," he said.

Other products

So, too, with potatoes, where the government plans to impose an MEP. India exported around 130,000 tonnes in 2013-14 (ending March 31); the last of this was in January. "This year (2014-15), potato exports have not been much," said another official.

On milk as well, industry sources said the government decision to consider withdrawing all export incentive is to do

PRICES PINCHING CONSUMERS

Monthly all-India average price of select commodities (in ₹ per kg)

Items	Jan	Feb	Mar	Apr	May	Jun
Onion	22	18	17	19	20	-
Potato	18	15	16	18	20	21
Milk*	35	35	36	36	37	38
Mustard oil**	98	98	98	98	97	96
Urad	64	65	66	67	69	71

*In ₹/litre, **mustard oil (packed)

Source: Department of consumer affairs

much with its anticipation of a surge in prices around September-October. The government provides a five per cent duty credit scrip incentive on export of skimmed milk products under the Vishesh Krishi and Gram Udyog Yojana. "April onwards is typically a lean season for milk production as supplies go down and there is a natural uptick in prices. Not much skimmed milk powder export is happening at this point," an official said.

In March, 8,000 tonnes of skimmed milk powder (SMP) was exported, down to 4,200 tonnes in April, officials said. In May, exports further went down, they said, though they did not have final figures. The plan to stop the export incentive will have its impact around October, when supplies go up and exporters purchase in large quantities to ship SMP outside.

"Milk processing plants typically start working around November," a senior industry official said. Average milk prices across India have moved up ₹10 a litre since May 1.

On Tuesday, the government had also said it would offer a line of credit to states for importing edible oils and pulses. The daily average price of a kg of packed mustard oil has, in fact, dropped by ₹1 between May 1 and Tuesday across the country; that of soybean oil has remained flat in this period.

In pulses, the average retail price of urad has risen by ₹5 a kg from May 1; masur has risen by ₹4 a kg. Experts attribute this as more to do with low sowing during the rabi season.

"Extending a line of credit to states to enable them to import both these commodities also seems to have been taken keeping in view the impact on supplies if rains fail in the central and western parts, where pulses and oilseeds are majorly sown and which do not have proper irrigation facilities," an official said.

Output not the issue

An official review on Wednesday found contracts on the National Commodity and Derivatives Exchange showed orderly behaviour, with no action warranted, according to sources. (However, as *Business Standard* reports elsewhere, potato prices, which are not on the NCDEX, are a different picture and the commodities market regulator took some action on this during the day). This reflects what Union agriculture minister Radha Mohan Singh had said, on availability not being the issue for now. He'd said production of onions and potatoes in 2013-14 was higher than the previous year. The country produced 19.3 million tonnes of onions in 2013-14, around 14.8 per cent higher than the 16.8 mt in 2012-13. Similarly, it produced 46.4 mt of potatoes, up 2.3 per cent over the 45.3 mt over this period.

"On the production front, there is no cause for worry, at least in the case of onions and potatoes. It seems hoarding and profiteering at the state level is pushing up prices," said a senior agriculture ministry official.

In sum, the MEP announcements, together with the Centre asking states to clamp on hoarders and delist fruits and vegetables from the Agricultural Produce Market Committee Act are aimed against hoarders.

Ramesh Chand, director with the National Centre for Agricultural Economics and Policy Research, said: "We have bumper crops of potatoes and onions and even then prices are rising because a cartel is working."

YES Bank chief economist Shubhada Rao said the government wanted to gauge where the problem was coming from — a genuine supply-side issue or if stockists were hoarding foodstuff, particularly onions.

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