National Competition Policy and Economic Growth of India

Agricultural and Food Sector Study

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Structure of Presentation

• Purpose and Scope
• Methodology and Steps of Analysis
• Agricultural Value Chain
• Agricultural Marketing: Regulations and Institutions
• Legal Analysis
• Economic Analysis
• State Level Study
• Challenges
Purpose

To promote effective implementation of National Competition Policy by advocating for legislative changes identified in the select sector

Scope of the Study:

- Review of existing Laws/ Acts.
- Identification of the competition distortion issues
- Suggest new reforms to make the agricultural marketing sector competitive.
Methodology

**ANALYSIS**

**SECONDARY DATA AND LITERATURE**
- **LEGAL ANALYSIS**
- **ECONOMIC ANALYSIS**

**PRIMARY SURVEY BASED RESEARCH**
- **PERCEPTION SURVEY:**
  - Political economy constraints
  - State perspective of the stakeholders with respect to the reforms of the sector.

**PROPOSED LEGISLATIVE CHANGES TO INFUSE COMPETITION IN THE SECTOR**

**ADVOCACY AGENDA**
Steps of Analysis

1. Agricultural marketing structure: structural rigidities, imperfections, competition distortions
2. Laws/acts, institutions that are responsible behind this structural rigidity and competition distortions
3. Political economy constraints behind this distortions
4. Proposed specific legislative changes to promote competition in the sector
5. Hypothetical economic benefits of the proposed competition reform
6. Advocacy for identified legislative changes to promote competition in the sector
Secondary Data and Literature Survey
Agricultural Marketing: Regulation and Institution

• Agricultural Produce Markets Regulation (APMR) Act
  ✓ APMC: regulate market and marketing activities

• Institutions:
  ✓ Public sector institutions
    - Directorate of Marketing and Inspection
    - APMCs
    - State Agricultural Marketing Boards
    - State Directorates of Agricultural Marketing
  ✓ Cooperative sector institutions
    - National Agricultural Cooperative Marketing Federation
    - State Cooperative Marketing Federations
    - Primary Agricultural Cooperative Marketing Societies

➢ Excessive regulations in domestic marketing: high marketing cost, risk and uncertainty – dampening growth
APMCs: Structural Regulations, Imperfections & Competition Distortions

- APMC framework
  - Creating a class of rent-seeking middle men
  - Preventing development of essential facilities
- Conduct of APMCs
  - Tie-in arrangements and cartelization
  - Incomplete Information
  - Market Distorting
  - Abuse of Dominance

Thus the current framework of the agriculture marketing sector makes a strong case for competition investigation.
Legal Analysis
Relevant Acts

• **Central laws/acts associated with agricultural marketing**
  - Model APMC Act 2003
  - Essential Commodities Act 1995
  - Forward Contracts (Regulation) Act 1962
  - The Warehousing (Development And Regulation ) Act 2007
  - National Cooperative Development Corporation Act, 1962

• **State level acts:**
  - Gujarat Agriculture Produce Market Act 1963
  - Gujarat APMC Amendment Act 2007
  - Himachal Pradesh Agricultural And Horticultural Produce Marketing(development And Regulation) Act, 2005
  - West Bengal Agricultural Produce Marketing (Regulation) Act, 1972
  - The Karnataka Agricultural Produce Marketing (Regulation) Act, 1966
## Competition Assessment - Example

### Agriculture Produce (Grading and Marking) Act, 1937

<table>
<thead>
<tr>
<th>Section No.</th>
<th>Nature and Scope of the Section</th>
<th>Nature of Impediments</th>
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| **Section 3B** | Power of authorised officer to seize agricultural produce: Any officer with prior authorization made in Sub-section (1) of section 3A may seize and detain any agricultural produce, if he finds an offence under this act and rule made. | - Limits the ability of suppliers to compete  
- Reduces the incentive of suppliers to compete |
| **Section 3B (2)** |  |  |
| **Section 5B (1)** | Power to prescribe compulsory grade designations in respect of certain articles  
The central government is empowered in public interest or protection of the consumer to restrict the sale or not to sold any schedule article or class of articles with the grade designation mark  
No person shall sell or offer to sell or distribute or offer where notification under sub-section (1) issued in respect of any area or areas.  
Contravention of the provisions of this section shall be punishable with imprisonment for a term not exceeding six months and fine not exceeding five thousand. | - Limits the ability of suppliers to compete  
- Regulatory and policy barriers |
| **5B (3)** |  |  |
| **5B (4)** |  |  |
ECONOMIC ANALYSIS:
A THEORETICAL APPROACH
Agricultural Markets characterised by short and competitive intermediary chain
Hypothetical Model

• One input (X)[say food product]-one output(Q)[say food processor] case.

• Scenario: Competition and regulatory reforms

  \[ \text{Reduction in input costs} \]

  \[ \text{Exogenous supply shift in X market.} \]

• Let \(|k|\) be the reduction of cost of production per unit (k<0)
Suppose the new price be $w_2$.

The change in **producers’ welfare**: 
\[
\Delta \pi = \int_{w_1-k}^{w_2} \frac{\delta \pi w_1}{\delta w_1} \, dw_1 = \\
\int_{w_1-k}^{w_2} s(w_1 - k) \, dw_1 = AE_2 w_2(w_1-k).
\]

Demand side: the d-curve will shift from \(D_1\) to \(D_2\).

The change in **consumer surplus** = 
\[
\int_{w_2}^{w_1} D(w_1) \, dw_1 = \text{area } w_1 E_1 E_2 w_2.
\]

The consumer surplus can be further subdivided into final consumer and processors’ surplus using the output market model.

Total welfare change = area \(AE_2 w_2(w_1-k)\) + area \(w_1 E_1 E_2 w_2\).
State level Study: Perception Survey

- **Objectives:**
  - ✓ to explore the current status of the APMC acts at the state level vis-à-vis the practices on the ground.
  - ✓ to identify political economy constraints
  - ✓ perspective of stakeholders w.r.t reforms

- Structured questionnaire based interview
State Level Study

The **proposed states** are:

- ✓ Himachal Pradesh,
- ✓ West Bengal,
- ✓ Karnataka and
- ✓ Gujarat

**Commodity selection:**

- ✓ Select food grain items and agricultural products
Challenges

- Data and information availability
- Appropriate model to hypothesise economic gains e.g. revenue gain (if any)
- Commodity selection criterion?
  - Common food and agri products under APMC in selected states
  - State specific products under APMC of each state.
Thank You