

SECOND NATIONAL REFERENCE GROUP (NRG) MEETING

CREW PROJECT

2nd July, 2014, New Delhi

1. Welcome & Introduction

Mr. Pradeep S. Mehta, Secretary General, Consumer Unity Trust Society, opened the meeting by welcoming and thanking the National Reference Group (NRG) members for attending the second NRG meeting under the CREW project.

OBJECTIVE: The objective of the meeting was to share the findings of the first phase, Research phase, with the NRG and receive their inputs on the same. Ultimately, the inputs would feed into the Diagnostic Country Report (DCR), the output of the first phase.

Mr. Mehta, echoed the main objective of the CREW project was to develop a body of evidence to engage in advocacy for promoting competition reforms in two key sectors, staple food and bus transport, across the four project countries. Further, he underscored the importance of the meeting as it marked the end of the first phase and beginning of second phase, design phase.

Mr. Subir Gokarn, Director of Research, Brookings, India and Adviser to the CREW project, observed that there are three elements of the project that make it promising yet challenging:

- Nature of competition varies as per the market environment, and this understanding is important for competition practice in developing countries;
- Balancing interest of producers (in non-tradable sectors) with that of consumers is a critical element in the design of an effective competition regime; and
- It is critical to develop understanding of certain ‘exogenous factors’ that influence how competition in a sector can lead to consumer and/or producer benefits.

He stated that the CREW project has been designed such that it covers the above crucial points. He mentioned that he was keen to see how CUTS and its partners would imbibe the same in designing an approach to advocate for competition reforms in developing countries.

2. Presentation on Research Findings – Staple Food (Wheat)

The presentation on research findings of the wheat sector was made by **Mr. Abhijit Sarkar**, Senior Economist, Indicus Analytics. The presentation included findings from secondary as well as primary data and the summary is as:

- The states selected under the project are – Bihar and Rajasthan as both rank high as wheat producers and have contrasting regimes
- In Rajasthan, it was found that in spite of adopting model APMC in 2005, there is less private participation. There are multiple government entities procuring like the Food Corporation of India (FCI), Rajasthan State Cooperative Marketing Federation (RAJFED) and the Krishi Vikas Sahakari Samiti (KVSS). The inputs node also seems to be dominated by government. Lastly, the warehousing facilities, it was found that the private participation accounted to only 17% share in total.

- In Bihar, the APMC was abolished in 2006. There is a government monopoly in procurement and the market is completely deregulated. There are 53 markets with proper infrastructure in total, while rest are informal in nature. Further, there are limited private players in the market like the ITC, Britania and so on. The PACS role was found to be contentious and warehousing facilities were found to be far behind that of Rajasthan. In inputs, seed sector was had good private participation while credit was dominated by government.

2.1. Open Floor Discussion

At the outset, **Mr. Sanjeev Chopra**, Joint Secretary, Department of Agriculture, mentioned that reforms and regulations play a very important role shaping the level of competition and efficiency. Further, he cited level of subsidies as a major impediment in the agriculture sector.

Mr. V. C. Mathur, Indian Agricultural Research Institute, provided that the environment in the wheat sector is such that it is uncondusive to competition. For instance, in case of certified seeds, for the high level of standards, domestic seeds are unable to compete with foreign seeds. On the issue of Agriculture Produce Marketing (APMC) Act, he mentioned that the same is not as relevant in wheat, as procurement is largely dominated by government agencies. Further, even where the Act has been modified, like in Rajasthan, the implementation has been poor.

Mr. Ajay Vir Jakhar, Chairman, Bharat Krishi Vikas, who himself is a large farmer, said it would be important to look at food politics as it strong influences consumers. Further, in providing models to increase competition, the impact on biodiversity needs to be kept in mind. He added that increase in yield cannot be looked at in isolation, factors like improved mechanization, usage of seeds, fertilizers need to be looked at as well. On the overall, he remarked that the government is doing precious little for the benefit of farmers and acknowledged the MSP regime. The private participation needs to be enhanced in procurement. He suggested that in the interest of farmers and private players, a model could be introduced, wherein the private players may procure at price lower than the MSP!

Mr. Ashok Vishan Dass, Chairman, Commission for Agricultural Costs and Prices, indicated that while introducing competition, sustainability and long – term benefits need to be kept in mind. Competition needs to be injected not only to improve efficiency and but also to pave way for better productivity vis-à-vis cost. He mentioned that the bonus provided by state governments on Minimum Support Price (MSP) is actually a competition deterring element. It attracts farmers from neighbouring states to sell to state offering such ‘bonus’ through traders and splitting the margins. This not only promotes market malpractices but also creates unwanted (additional) revenue stress on the state that announced such bonus.

Mr. Rohit Pajni, representative from ITC, the biggest private player in procurement after the Food Corporation of India (FCI), mentioned that the findings elucidated by Indicus, were in line with his own experience. The main hindrance in procurement with FCI is quality. Lot of times, produce is rejected on account of poor quality, rendering financial losses to farmers. Further, the quality of seeds is low, especially in Bihar and Uttar Pradesh. In Bihar, additionally, there is a dearth of warehousing facilities, which needs to be rectified.

Ms. Poonam Pandey, GIZ, impressed with the depth of the study, mentioned that it is important now for the CREW team to condense the findings and find ways to percolate them through the relevant stakeholders. **Mr. Sanjeev Chopra**, on the other hand, commended the data collected through the research phase but remarked that the same had to be refined to back the key findings, which didn't come out sharply.

Mr. Rijit Sengupta, Director, CUTS International, pointed that there were interesting issues that have been identified but have not been clearly spelled out for the paucity of time. He cited the example of Bihar Seed Sector where the level of competition between public and private players is directly benefitting the producers as well as consumers. **Neha Tomar**, Research Associate, CUTS International, added that even the fact that there is government monopoly in procurement in Bihar was proved wrong as farmers generally sell to private entities (out of convenience) that ultimately further the produce in private markets or sell to government entities.

While concluding the session, **Mr Sanjeev Chopra**, said that the research study should aim at bringing out such fine issues. The Department of Agriculture would welcome such findings and recommendations. Critical analysis of PACS (in Bihar) and impact of NFSM on farmers and consumers were asked to be looked at. Lastly, **Mr, Subir Gokarn**, mentioned that from the presentation it emerged that there are manmade and natural monopolies in the wheat sector. For instance, warehousing seems to be natural monopoly as private sector does not enter due to high investments and low returns at the beginning. In the design phase, CREW team needs to analyse such monopolies and find ways of breaking them.

3. Presentation on Research Findings – Bus Transport

The research findings were presented by Mr. Abhijit Sarkar, Indicus Analytics. Following are the highlights of the discussion:

- The states selected for the bus transport study are – Gujarat and Madhya Pradesh. In terms of the intracity routes, the cities under study are Ahmedabad (in Gujarat) and Bhopal (in Madhya Pradesh).
- The reason for the selection of these states and cities was the contrast that these states provided in terms of their regulatory environment and reforms.
- In Gujarat, the Gujarat State Road Transport Corporation (GSRTC) has the monopoly on the intercity routes. Within the Ahmedabad city too, the regulatory environment facilitates the operation of the public sector on the intracity routes. The public sector bus operators are the only operators who can function as “stage carriages”.
- In MP, the Madhya Pradesh State Road Transport Corporation (MPSRTC) had been dissolved in 2005 due to high operational costs. Even though the powers for deciding the fares and routes, still remain with the government entities, the private sector is responsible for operating on the intercity and intracity routes as “stage carriage”.
- By the provision of the Motor Vehicles Act, 1988 (MV Act), all private operators cannot operate as stage carriages, yet they do so in all the states.

- The findings show that the sentiment of the stakeholders – government officials, officials from the regulatory bodies, private operators, unions etc – all share the sentiment that the act should be amended to include the private operators in the purview of stage carriage.
- *An interesting finding from the government interactions was the leasing of the city bus service by AMTS (Ahmedabad Municipal Transport Service). AMTS is leasing out some portion of the city bus service in Ahmedabad to private operators. These private operators however still operate under the AMTS umbrella.*
- Both the cities have an operational Bus Rapid Transport System (BRTS) that work on separate revenue models. In Ahmedabad, the BRTS operates on ‘gross cost model’, where the fare collection is done by the government. A pre-decided percentage of earning is given to the private operator. In Bhopal, the BRTS operates on ‘net cost model’ where the fare collection is being done by the private players. The private players in Bhopal, just pay a pre-decided royalty per bus to the government entity regulating the BRTS in Bhopal.
- The private operator in Bhopal indicated that they are not too satisfied with the net cost model as this leads to an additional cost of hiring the conductors who collect the fares. Also this leads to more revenue leakage.
- In terms of the passenger satisfaction, overall the consumers seemed satisfied by the level of services being provided by the operators, both private and public.

The presentation was summarised by stating that in order to have a better integrated and efficient bus transport system, good regulatory body is needed to control certain factors ensuring proper competition in the sector. Also to have equitable competition in the sector, it would be better to have an open tendering process to allow equal opportunity for the private operators to enter the market.

3.1 Open Floor Discussions

Mr. TCA Srinivas Raghavan, Associate Editor – Business Line, questioned the economic sense on which the distinction between stage carriage and contract carriage is based. **Mr. Partha Mukhopadhyay** Senior Research Fellow – Centre for Policy Research, defined that if a vehicle is certified as stage carriage, it provides a predictable service to the passengers, thereby ensuring a consumer reliance and revenue. However **Prof. S. Sriraman**, University of Mumbai, negated the fact that there is any economic significance of this difference in the licensing process.

Mr. Chittranjan Dass, Secretary General – All India Confederation of Goods Vehicle Owners Association (ACOGO), highlighted the fact that as per the provisions of the MV Act, any number of operators could apply for a stage carriage license. The licenses and permits too, as stated by him, are granted on an adhoc basis without identifying the need for the starting of a new bus service. He further pointed out that in order to enhance the understanding of the implications of the reforms on the bus transport market, it is essential to do an analysis of the regulatory framework focussing on the MV Act and the Road Transport Corporation Act (RTC Act). This point was seconded by Prof. Sriraman.

Prof. Sriraman provided his inputs to enhance the report. He suggested that some states like Orissa, Karnataka, etc. that could not be included in the study can be taken up as a case study as they offer good examples of best practices. Especially the case of Orissa, where there are mostly private operators in the bus transport market, could be an interesting case to look at. *He willingly offered to*

guide *CUTS and Indicis* in undertaking the regulatory framework analysis for the Indian DCR. He further added that a point of advocacy for the CREW project in India for the bus sector, could be the removal of public transportation from the purview of the MV Act. **Mr. Ajay Shankar**, Member Secretary - National Manufacturing Competitiveness Council, also agreed to this point.

Mr. Mukhopadhyay stated that there should be provisions made so that reforms in the bus transport sector could be brought in at the state level itself. A successful example for this is Delhi. The Delhi government had started a system of free licensing that resulted in the introduction of the private players in this market. Even though they operated on profitable routes, this brought in healthy competition in this sector and improved the level of service being provided in the city. They operated on a gross cost model. He further elaborated that state authorities are better placed to judge the topography and the needs of the state routes, as they may demand the introduction of small vehicles like TATA Magic to fulfil the passenger needs. Therefore, he summarised by saying there is a need to amend the regulatory framework to allow the state governments the authority to take decisions on operating the bus transport sector.

Shreya Kaushik, Programme Officer – CUTS International, stated that during the interactions with the government officials in the course of the research, it was noticed that the government officials too were in favour of amending the MV act as it is hampering the free involvement of the private players in this market. The case in point was Gujarat, where the transport department had drafted a proposal to include the private operators in the gamut of stage carriage licensing. This proposal had been submitted to the central government for review.

Mr. Augustine Peter, Member – Competition Commission of India, praised the goal of the project and suggested to look at the study undertaken by National Council of Applied Economic Research (NCAER). This study contains the review of the bus transport market of major states in India and its analysis could add value to the DCR.

Mr. Anil Bhardwaj, Director – Ministry of Corporate Affairs, seconded the fact that there is a need of local regulatory framework to manage the public transport sector in the states than a centralised regulation. He further added that in order to increase efficiency and access, a multi – modal model of public transport services should be prevalent within the states like having trams, metros etc. *Also to reduce the clashes of jurisdiction and increase responsibility, it is appropriate to have a single Road Transport Corporation to manage the public transport within the state.*

Mr. Shankar, however pointed out that introduction of reforms takes a while to be implemented in the Indian regulatory structure. He stated that the amendment to the MV act has already been proposed and these recommendations have been lying for approval from the past four years with the central government. Therefore, care should be taken to choose the reforms for advocacy under the project as it may take long to see them coming to fruition.

4. Forthcoming Activities of CREW

The ‘Framework for Competition Reforms (FCR)’ was introduced to the NRG members. The outline of the FCR was presented by Rijit Sengupta. The highlights of the presentation are as follows:

- The FCR would form the basis of the development of the toolkit for competition reforms that the project aims to prepare.
- This FCR would be based on the findings from the CREW project from across the four project countries and the two sectors.
- The draft FCR would be prepared by the end of July and would be shared with the NRG members for review.

4.1 Open Floor Discussion

Mr. Bhardwaj stated that the MV Act stands lapsed and reform can only be brought by amending the act. He further added that the structure of the FCR looks useful and the methodology would be useful to propose some reforms. But he cautioned that ‘rectification’ could be a challenge and care should be taken in choosing the initiatives to be advocated for under the project. He suggested to review the FCR in light of current law making and executive machinery to advocate reasonable and practical reforms in the bus transport sector.

Mr. Dass added that findings could be useful in pushing the agenda of reforming the MV Act.

5. Closing and Way Forward

Mr. Peter appreciated the structure of the FCR and stated that the project has chosen the right sectors for review. The issue of wheat is a complex one because inputs in this sector are highly regulated. In terms of bus transport too, there is a need to regulate some aspects like entry. However price cannot be regulated too much. He further added that best practices in both the sectors; from all over India could be highlighted.

Ms. Pandey mentioned that it would be useful to share the DCRs from other countries too with the NRG members as it would bring across a good comparative analysis.

Mr. Mehta closed the meeting by thanking the NRG members for their suggestions and stated that CUTS would be keen on sharing with them the draft DCR for their review and valuable inputs.

ANNEXURE: ATTENDANCE SHEET

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