Dismantling FCI

RUPE

There ia systematic plan to dismantle the Food Corporation of India (FCI). The representatives of multinational grain companies—those from whom the Government wants to attract “private investment in agricultural marketing channels”—told the official Committee on Long-Term Grain Policy (CLTGP) that they would not make large investments in grain trading in India unless “the potential threat posed by high stock levels is removed’’. The “high stock levels” referred to here are the procurement and stocks for Public Distribution carried out by the Government; these stocks pose a “threat” to the super-profits the multinationals wish to make in India. The FCIs purchases and sales prevent the peasant’s price from sinking too low or the consumer’s price from rising too high. The multinationals can only make monopoly super-profits if the FCI gets out of the market.

For example, of the wheat crop, about one-half is kept by the peasants for their own consumption; one-quarter is ordinarily procured by the FCI; and one quarter is purchased by private traders. In other words, of the marketed surplus grains, the FCI normally buys about half, and sometimes more; it thus can control the market. However, procurement as a percentage of the wheat crop fell sharply - from 29.6 per cent in 2000-01 (marketing year 2001-02) to 13.3 per cent in 2004-05 (marketing year 2005-06).

The FCI set a target for procurement of wheat in the 2006-07 marketing season (April-May 2006) of a mere 16.2 million tonnes. This was 0.6 million tonnes less than that achieved in 2004-05, and far less than that achieved in earlier years.

Even a procurement of 18-18.75 million tonnes would barely have met the current requirements of the PDS, the welfare schemes, and the food-for-work programmes. Given that the Government claimed to be planning an expansion of the food-for-work programme each year, the requirements would be higher. More-over, according to the Government’s buffer stock norms, the stocks themselves needed to be replenished by 2.5 million tonnes. So the Government’s own projections and norms would require a procurement target of 21 million tonnes or so of wheat (18.5 million tonnes + 2.5 million tonnes). Yet the FCI fixed a target five million tonnes lower. That is, the Government was planning either to (i) starve the PDS, (ii) lower the allocation to welfare schemes and food-for-work programmes, or (iii) import; or a combination of the above.

There are now at least four schemes being discussed by the Government as preparations to shut down the FCI:

(i) Provision of food stamps.

(ii) Making direct cash payments to targeted families.

(ii) Booking purchases on the "futures market" instead of physically procuring the grain.

(iii) Outsourcing all major operations of FCI, and maintaining a skeletal staff.

(i) *Food Stamps :* The Ministry of Finance paper, Central Government Subsidies (December 2004) makes the following recommendations regarding reducing food subsidy :

1. lower the MSP [minimum support price] 2. stop open ended purchases of grain (ie the Government will not pick up all the grain offered at the MSP); 3. price the grain uniformly for all households at the Above Poverty Line (APL) rate, and then provide additional food coupons to the poor households.

Wherever food coupons/stamps have been introduced worldwide, they have been a means of reducing the coverage of food distribution schemes and reducing the real value of the food subsidy. Governments tend not to issue coupons regularly; retail stores often do not accept the stamps, since getting reimbursement is a further hassle; consumers are burdened with collecting stamps at regular intervals, and storing them carefully. And with price rise, the amount that can be bought with the food stamp declines.

(ii) *Cash payments :* The Chief Economic Adviser to the Finance Ministry, Ashok Lahiri, is preparing a blueprint for a new food subsidy system of cash payments for below poverty line (BPL) families instead of going through the PDS. A senior official told the *Business Standard* that "A system of cash payments can provide a choice to the beneficiary families who need not use the fair price shops for purchasing wheat and rice alone". In that case, procurement by the FCI would not be required. The official said that "We propose to look at alternatives [to procurement] in the coming days", said the official. As with food stamps, as prices rise, the value of cash falls, and the consumer gets less grain.

(iii) *Commodity Futures Markets:* Labanyendu Mansingh, Union Consumer Affairs Secretary, says "We have proposed the use of futures exchange platform by the Government to buy its grain requirements, rather than procuring them and incurring huge storage costs. I think it is a very workable proposal.... The Government could take positions in the futures exchanges for the month in which it needs grains for running the PDS, equivalent to the quantity of its requirements, and on the due date, ask for delivery. It should take a position at a price that it feels is remunerative for the farmers and pay it at the time of delivery, he said. This would ensure that the government would not even need to fix the minimum support price for wheat and rice. The Government would not have to incur huge storage and transportation costs... Against the price at which the government would have agreed to take position in wheat and rice futures, farmers would store their grains in accredited warehouses and use the receipts to get credit from financial institutions... The government is already working on a legislation to make warehousing receipts a negotiable instrument [ie like bills, against which one can obtain credit from banks]... The warehouses will be accredited by independent agencies...”

In commodity futures exchanges, the contract is to buy or sell a commodity such as wheat on a particular date for a particular price. The contracts are for standardised amounts, that is, for the same quality and identical amounts of the commodity (eg, one tonne of a particular variety and quality of wheat).

The party who has agreed to buy, let us say, one tonne of April 2007 wheat at Rs 8,000 then can resell this contract to others. If others in the commodity exchange feel that the market price of wheat might rise to more than Rs 8,000 by April 2007, they would be willing to buy the contract from the original buyer. The new buyer might then re-sell this contract to another, and so on, the price rising or falling depending on traders’ expectations, and on the amount of cash floating about in the market.

Traders buy and sell depending on what they expect the price of the contract to be the next day. The commodity futures contract becomes exactly like a share on the stock exchange, a piece of paper on which speculators gamble vast sums on their expectation of a rise or fall of the price of the share. The peasant does not get any benefit from this, since he/she is not in a position to speculate on these commodity exchanges. Nor can he/she really make up his/her mind on what crop to grow on the basis of the prices on these exchanges, since the prices fluctuate violently as the gamblers lay out huge bets backing either a fall or a rise.

Hardly any of the parties trading on these exchanges is interested in buying the commodity for use. For example, in April 2005, the little-known commodity guarseed (used for gums and medicines) saw trading on such a huge scale and such wild fluctuations that the authorities had to step in to check it. Trading on the commodity exchanges has grown from Rs 0.67 lakh crore in 2002-03 to Rs 5.71 lakh crore in 2004-05 and more than tripled again to Rs 21.34 lakh crore in 2005-06. It has gone up further steeply in 2006.

Since the gamblers can drive prices both up and down in the exchanges, leaving the fate of peasants and consumers to these gamblers portends catastrophe. Futures trading in various commodities earlier existed in India, but over the years the Government was forced to ban it in one commodity after the other in order to check acute speculation. Such bans in regard to most commodities were first instituted by the British during the Second World War, and continued thereafter. During the period 1962-70, the ban was extended to another 13 commodities, including cotton, oilseeds, jute, etc.

Now, the speculators on the commodity exchanges are not just local Indian seths; they include multinational firms, with even greater financial muscle. Foreign institutional investors (FIIs), mutual funds, and other speculators too want to get in on the action, and are lobbying for a change in rules to allow this.

Replacing public procurement with commodity futures bodes ill for the Indian peasantry and consumers. In the absence of physical procurement by the Government, the peasant would sell his crop to traders/trading firms at whatever price he can get, with no guaranteed minimum. And the consumer would be left helpless before the speculative activities of commodities futures traders.

(iv) *Outsourcing :* The Food Ministry has hired McKinsey, the US-based consultancy, to draw up a plan to "re-structure" the FCI. It has recommended slashing expenditure, including capital expenditure (ie purchase of lasting assets) by Rs 2,300 crore over a two-year period; further, it says that the FCI should outsource (ie contract out) its key operations like foodgrains procurement, handling, transportation, and distribution. The FCI's role is to be reduced to an agency for storage of buffer stocks for PDS. McKinsey wants 8,000-40,000 employees to be sent out by "voluntary" retirement schemes. The FCI staff has already been reduced by 9,000, or one-third, through Voluntary Retirement Schemes, in which many senior staff too left. A further reduction of this order will reduce it to a skeletal level. It is not a "re-structuring" programme, but a dismembering programme.

Reportedly, a Steering Committee chaired by the Secretary, Food and Public Distribution, R N Das, has already approved major recommendations of the McKinsey report. FCI Chairman-cum-MD V K Malhotra is also a member of the panel.

Already one can see the McKinsey recommendations being implemented. The minimum buffer stock norms for rice have been revised downward, and the Food Ministry has set a target of procuring just 23 million tonnes of rice for 2005-06 (compared to 24.7 million tonnes procured in 2004-05). The FCI is already engaging private parties in certain areas to carry out procurement. For example, one "National Collateral Management Services Limited" (NCMSL) has been hired by FCI to procure rice from Balaghat in MP and five districts in Orissa. The operations will be extended to wheat in the coming rabi season, said the company.

No doubt, on December 15, 2005, Sharad Pawar rejected the suggestion that the FCI should be scrapped. As a noted journalist once said, "Believe nothing until it is officially denied." ✍✍✍

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