

Paddy Glut and Farmer Distress in Andhra Pradesh

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The artificial glut in paddy in Andhra Pradesh after the 2011 rabi was created by millers who cut down their purchases after an excellent harvest. This caused severe distress to farmers, a majority of whom sold their produce at less than the minimum support price. A record procurement of the rabi crop by state agencies could not mitigate the crisis, which has become an annual phenomenon. The lopsided policy of the Food Corporation of India in Andhra Pradesh of procuring rice instead of paddy is the root cause of the problem.

The bumper harvest of paddy in Andhra Pradesh 2010-11 brought the farmers trouble rather than benefit. It began with no miller turning up at mandis until end-April to lift the paddy, causing prices to plunge. Anxious farmers hit the streets with dharnas across districts, symbolically burnt paddy on roads in protest, and in some districts threatened to hold a “crop holiday” in the next season. The unprecedented arrival of paddy at the mandis threw the under-prepared state government into a tizzy. The state government was forced to review and revise its procurement operations, yet the tardy procurement exposed its weaknesses in meeting the challenge. The increased procurement did not repair the damage completely. There is, in fact, a deeper malady in the policy in the state that is responsible for the situation. This calls for a serious debate on the efficacy of the government procurement policy and price support strategy.

Bumper Harvest

In 2010, Andhra Pradesh received an unprecedented average rainfall of 1,330 mm, 30% in excess over the normal. As a result, there was a record yield of 40 quintals per acre on an average. To top this, due to low relative prices of maize and sugar cane in the past two years, there was a 5% increase of the area under paddy cultivation in the kharif season and a 10.8% increase in rabi (under paddy). This led to an all time record rabi production of 70 lakh tonnes in 2010-11, a 30% rise over

the previous year (Table 1). The year 2010-11 was not the first one with a bumper crop. In 2008-09, the output was even higher, suggesting an upward drift in production. While this should welcome from the point of view of food security for the people, this has not been good news for the farmers. This is because the millers have depressed prices below the minimum support price (MSP). The majority of farmers who sold their crop to millers on an average suffered a loss of around Rs 5,000-8,000 per acre when compared to what the MSP would have enabled them to garner. The moot question is why does this crisis happen when we have built a safeguard called state procurement.

Before addressing the larger questions, let us understand the nature of paddy production and the market. The physiognomy of paddy is that the kharif crop grown during June-November is a long duration crop of six months. The superior varieties (such as Sona Masuri, Vijay Masuri, BPT, etc) are produced during kharif and go into top end consumption. Millers usually compete to buy most of this crop and the market price tends to be above the MSP. The Andhra Pradesh State Civil Supplies Corporation (APSCSC) does not procure any paddy in

Table 1: Area, Production and Yield of Rice in Andhra

Years	Area (Lakh ha)		Production (Lakh Tonnes)		Yield (Quintal per Acre)	
	Kharif	Rabi	Kharif	Rabi	Kharif	Rabi
2000-01	30.04	12.39	82.34	42.24	27.41	34.01
2001-02	24.26	13.99	65.01	48.89	26.79	34.96
2002-03	21.09	7.13	50.54	22.73	23.97	31.89
2003-04	21.09	8.66	58.42	31.11	27.72	35.94
2004-05	22.15	8.71	63.93	32.08	28.86	36.83
2005-06	25.26	14.56	63.77	53.27	25.24	36.59
2006-07	26.41	13.37	69.49	49.23	26.31	36.81
2007-08	25.78	14.06	81.91	51.33	31.78	36.50
2008-09	28.03	15.87	83.80	58.61	29.89	37.00
2009-10	20.63	13.78	59.56	48.82	28.87	35.43
2010-11*	29.22	17.59	75.07	70.15	25.69	39.88

*Advance Estimates.

Source: Directorate of Economics and Statistics, Government of Andhra Pradesh.

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this season since no farmer is willing to sell it to the government at the MSP. The centrally-run Food Corporation of India (FCI) procures only levy rice (compulsory acquisition at a stated price) from the millers during this period for the public distribution system (PDS) and buffer food stocks for the nation. On the contrary, most paddy varieties produced during the rabi season are short duration varieties, also called table varieties. These are dwarf varieties and are seen as inferior. Moreover, because of dry heat conditions during rabi, around 40% of the varieties can only be parboiled, as they tend to lose moisture, become brittle and unsuitable for normal raw milling as the grain tends to break. These are mainly consumed in Kerala, south Tamil Nadu and parts of eastern India. Almost all the paddy grown in Telangana and a good amount in coastal Andhra during rabi is for parboiled rice. The parboiling mills in Andhra is number less than half of all the rice mills. The supply characteristics of inferior and parboiled varieties along with this peculiar demand structure creates a need for procurement agencies to intervene to ensure the farmer at least the MSP. Thus, the rabi crop is usually procured by the APSCSC and the FCI.

Farmers' Woes

Farmers face a dilemma in both the routes of sale. The first problem is that if they go to the miller and try to sell the produce they do not get the MSP even though by a government order the miller is not supposed to offer a price below this level. During the 2011 rabi harvest, the miller managed to pay only Rs 850-930 per quintal while the MSP for 2010-11 was Rs 1,030 per quintal (common variety). After accounting for the transport cost and the commission to the agent, the actual price that the farmer received was even lower by Rs 100 per quintal. The second problem is that if he turns to the mandi for government procurement where he at least gets the MSP, he has to wait for seven to nine days at the gates of the mandi, guarding his stock. At the mandi, there is a virtual scramble for tokens, for gunny bags and it is literally a battlefield to get the stock weighed, measured, stacked and come out with a receipt. Those who do not have the

resources will dispose of the produce at the mill on a spot payment and any dispute on quality is settled instantaneously. Thus the inordinate delay at the mandis not only causes hardship to the farmers but also discourages many of them from selling to the government and thus benefitting from the MSP.

The problem in Andhra Pradesh has worsened ever since mechanised harvesting almost completely took over crop cutting in the state in the last three years. As a result, in a typical village having 240 acres of paddy cultivation, the entire output can be harvested within 24 hours. An average yield of 45 bags any in a good season will yield about 1,08,000 bags or 75,600 quintals per village to a sub-tahsil mandi at one go, whereas the mandi can handle only 5,000 quintals a day because of infrastructural constraints with the *hamali* (portage), *kata* (measurement), yard space and warehousing. Since one mandi exists for every mandal with 60 villages on the average, this clearly means there are not enough mandis to handle the crop. Although hundreds of village procurement centres are opened and managed by the women self-help groups (SHGs) under the India Kranthi Paddhakam (IKP), during the last rabi season a good portion of the produce could not reach government procurement simply due to delays.

Procurement Blues

The APSCSC, which is the main procurement agency for the state government, prepares the kharif and rabi plans for procurement based on the advance estimates of production given by the directorate of economics and statistics. The prevailing practice is that millers are expected to lift the lion's share and procurement agencies lift paddy only if the market price falls below the MSP. In Andhra Pradesh, which has been a grain deficit state for a long time, the procurement target has traditionally been fixed at a low level and the millers usually lift most of the output. If the millers refuse to lift stocks, the only way to control the situation is to crack down on them for storing excess stocks. If they pay below the MSP, the control measure is not to issue the certificates of MSP purchase that they need when mills sell their rice to FCI. However, the catch is that

if the stick is applied too frequently, the millers gang up and suspend purchases altogether or use their political clout, to prevent state action. So government officials have to manage a tightrope walk. When it comes to the overall volume of procurement, the government normally lifts only 10% to 15% of paddy in the state, leaving the field open for millers. Of the government purchase, as a convention the FCI lifts 30% of the target and the remaining 70% is taken by the APSCSC. Over the last two decades, the rabi crop has steadily expanded as bore well irrigation rapidly grew in the state. However, procurement targets did not keep pace. The huge rabi arrivals this year caught the APSCSC napping. In 2009-10 they procured a mere 3.06 lakh tonnes (from a crop of 48.88 lakh tonnes) in rabi and the record maximum of nine lakh tonnes was purchased in 2008-09 from a crop of 58.61 lakh tonnes, which itself was the highest in the decade. This year they planned to purchase 7.5 lakh tonnes, but the target kept having to be raised as the size of the crop became evident. To make matters worse, millers were refusing to lift the paddy. The government was finally made to procure 18 lakh tonnes, an all time record. The lack of godown storage was so apparent that the APSCSC filled up every possible space including primary school buildings.

The problems in procurement are multi-fold. Now that two-thirds of the arrivals come in the first two to three weeks of May due to harvester technology, there is a virtual scramble to find space, transport, labour, and so on. For instance, procurement operations were suspended for a week due to the shortage of gunny bags, which were finally purchased from jute mills in Kolkata. Hamalis too pose a problem, as their unions do not allow additional use of outside labour for fear that these would reduce their share of income. Besides this, because APSCSC immediately transports the procured rice to the rice mills for custom milling, the location of the mills and milling capacity too place constraints on the pace of procurement as transport vehicles get stranded unloading the stocks.

At the end of the day, one cannot but put the blame on the APSCSC for poor economic intelligence and planning. Moreover,

its operation in the state is not too big when compared to what its counterparts in other paddy-growing states. For example, according to FCI data, for the year 2008-09, which is a good year for the country as well as the state, the state departments in Chhattisgarh procured 22.07 lakh tonnes of paddy, in Orissa 17.93 lakhs tonnes, in Uttar Pradesh 23.97 lakh tonnes, in Haryana 22.07 lakh tonnes and in Punjab 118.79 lakh tonnes of paddy. Poor procurement and poor planning reflect a lack of interest on the part of the state government to protect the farmer.

FCI's Role

The FCI has procured six lakh tonnes of paddy this year in the rabi season against a target of two lakh tonnes based on the initial rabi plan supplied by the state government. FCI sources mention a peculiar logistical problem that led to inadequate godown space during rabi. The problem is that the FCI has no breathing time after it completes its kharif operation during February-March, since the rabi crop arrives just two months later in May leaving very little time to empty the godowns. The FCI, therefore, throws the blame on the state government for not supplying reliable information about the rabi plan, and the last minute revision in the procurement target poses difficulty in moving out its kharif stocks. Since this has become a recurring phenomenon, the FCI's frustration over poor planning by the state government is understandable.

The FCI's position is that the paddy procurement is not its focus in Andhra, and it only steps in if there is a need created by a

bumper harvest. It states that its main business is to procure rice (which only benefits the miller). This stated objective is central to the lopsidedness of the procurement policy that results in the denial of MSP to the farmers. To illustrate the point, the FCI purchased 84 lakh tonnes of rice in 2008-09 from millers in the state which was more than 50% of the rice output, while both FCI and APSCSC put together purchased merely five to nine lakh tonnes of paddy from the farmers. Millers are simply selling their stock to FCI, instead of to the local market, in order to keep the wholesale and retail prices as high as possible. It must be noted that in no other state, is the procurement is so lopsided – in every state the lions share is procured by the government and a relatively smaller share of rice is procured from millers (Table 2). In Andhra, the miller lobby has clearly captured the procurement policy.

Levy Policy and Miller Lobby

Millers make a handsome profit after doing custom milling for procurement agencies. Apart from the milling charges that cover their running costs, they get their profit from the bran and husk. Moreover, for the paddy they buy in the open market at less than the MSP during the bumper harvest, they get a huge margin. This year they purchased a common variety paddy at Rs 1,200 per quintal, incurred a milling cost and tax (usually evaded) of Rs 100, and then they sold it to FCI at a levy price of Rs 1,730, earning a margin of 35%. For fine varieties they get even larger margins. Millers purchase even discoloured paddy (which the APSCSC cannot purchase) at a discounted price.

Gone are those days when the state had to struggle to procure rice from millers by imposing a levy and millers used to dodge the officials. That was when the market prices used to be higher than the levy price paid by the FCI. As the production improved in the last 20 years, the market price relatively stagnated and the levy price was raised to match the market price. Then the FCI procurement became a major "market" for the millers of Punjab and Andhra. The new rice levy of 100% with 25% being parboiled, was the boon bestowed on them, giving a lucrative, stable and captive market. Andhra Pradesh

has over 5,000 rice mills and the economic power of the miller lobby is strong enough to influence policy at all levels. The celebrated beneficiary of the procurement policy of the state is therefore undoubtedly the miller. The irony is that a policy which cannot help the farmer cover his cost of production, is minting super-normal profits for the middlemen!

Conclusions

There are at least three things that emerge from this analysis. First, henceforth the state government should not resort to arbitrary procurement methods. They should do sufficient homework on gathering market intelligence about the size of the crop and proper people and material planning. Second, planning should also include a better infrastructure planning to meet procurement challenges in the future. If needed, new godowns should be built. Third, the most important thing of all is to revamp the procurement policy, make paddy procurement and not rice central to FCI policy. Not only are today's paddy markets completely controlled by the miller cartel, the latter captures the procurement policy as well.

It is clear that unless paddy is procured, the farmer is not going to benefit. This lopsided policy actually lies at the root of the crisis. There are several reasons why this situation has emerged. Nearly all the political parties receive election funding from the miller lobby in the state and they remain silent spectators. The present glut is only artificially caused by market manipulation. In the presence of asymmetric information, market signals can be misleading. Traders in the country are already pressing for permitting export of rice. This can only enrich the millers and not the farmer or the consumer. One can debate the need to restructure the incentive for food crops to correct consumption distortions, without being trapped by the neo-liberal ideas of market efficiency.

Table 2: Production and Purchase of Paddy in Andhra

Period	Production (Lakh Tonnes) (a)	Purchase by (Lakh tonnes)		
		FCI (b)	APSCSC (c)	Private Trader (d)
2000-01	187	0.55	3.63	182.68
2001-02	171	0.74	2.29	167
2002-03	110	0.04	0.06	109
2003-04	136	0.99	2.51	132
2004-05	145	0.06	0.12	144
2005-06	177	1.92	2.66	172
2006-07	178	1.08	6.07	170
2007-08	201	0.58	4.99	195
2008-09	215	1.94	9.66	204
2009-10	163	1.48	3.04	158
2010-11	212*	6.05*	19.98	187

*Advance Estimates as on 12 June 2011.

Column (a) is estimated from rice figures by applying the fact of 1.515 (one quintal paddy yields about 66 kg of rice).

Source: APSCSC and FCI.

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