

### 1.3.3 Instruments for Managing Change

Kerala's agriculture is in a phase of transition as a result of the impact of globalisation of economies and liberalisation of trade. As repeatedly emphasised in this Report, this will call for productivity, quality and value-addition revolutions. There is need for effective instruments for managing change, particularly in the following areas.

• Demographic Challenge	Attracting and retaining youth in farming
• Technological Challenge	Genetic Engineering, genetically modified organisms (GMOs) and Information Technology
• Ecological Challenge	Climate, Water, Soil, Biodiversity (Global Convention on Climate and Biodiversity)
• Economic Challenge	World Trade Agreement in Agriculture
• Ethical Challenge	Trade Related Intellectual Property Rights (TRIPS); FAO Treaty on Plant Genetic Resources
• Equity Challenge	Social and gender equity – Reaching the Unreached

## 1.4 Recommendations

We recommend the following steps for immediate consideration and appropriate action.

We have first listed a set of recommendations that have to do with strategies and demands that India must in its interest pursue in the post-Doha negotiations. This is followed by a set of Kerala-specific recommendations, categorised as (a) Immediate, (b) Short and Medium Term and (c) Long Term (institutional) change.

### 1.4.1 Post-Doha Issues relating to the Agreement on Agriculture (AOA)

#### 1.4.1.1 Domestic Support : Sustainable Livelihood Box

1. It is well known that OECD countries provide subsidies to the extent of one billion dollars per day to their farmers. The USA has further increased farm subsidies in its Farm Bill of 2002. Obviously, these subsidies are being adjusted against Blue box payments and Green box measures. Their subsidies do not seem to fall within the preview of Amber box measures, which alone are considered to be trade distorting.

2. In the current Geneva round of negotiations, it may be useful to propose the following two alternatives:

**First, all boxes may be abolished and the do's and don'ts with reference to trade distortion and unfair trade practices may be spelt out in clear and unambiguous terms.**

**Second, as an alternative negotiating principle, a fourth box relating to Sustainable Livelihoods (Livelihood Security Box) may be introduced, which will empower developing nations facing the challenge of providing livelihoods to the rural population to**

place restrictions on imports, where there is convincing evidence that such imports will erode job/livelihood opportunities in their countries. Since over 66% of the population of many developing countries including India depend upon agriculture (crop and animal husbandry, fisheries, forestry and agro-forestry and agro-processing) for their livelihoods, trade which leads to the destruction of rural jobs / livelihoods will further enhance poverty and hunger and will make the achievement of the UN Millennium goals in the areas of poverty reduction and hunger elimination, impossible. The result will be social disintegration because of a further increase in rich-poor divide. Globally, the continuation of the present situation where a few million farm families in industrialised countries, supported by heavy inputs of technology, capital and subsidy, compete with over a billion small farmers, having little access to technology, credit and adequate post-harvest infrastructure, will not help to make free trade an instrument of poverty eradication.

Trade **should not only be free but also fair** to the primary producers in predominantly agricultural developing countries. **The percentage of population dependant on agriculture for their livelihoods should be the major criterion for eligibility for using the provisions of the proposed Livelihood Security Box. The minimum could be 50% of the population.** The idea of a ‘development box’ has been suggested by a group of developing countries. Such a scheme would include measures that would provide market access for the crops produced by low income and resource poor farmers with higher levels of domestic support for these farmers in keeping with Article 6.2 of the AoA.

Third, domestic support to farmers is very high in OECD countries only because the subsidies fall in non-actionable areas. **We should avoid using the term “subsidy”** in relation to the very modest help being extended to millions of the small farm families. A range of domestic support measures like those relating to infrastructure development, and many other forms of public provisioning, are non-trade distorting and hence non-actionable. **‘Support for sustainable farming’, rather than ‘subsidy’, should be the terminology used to refer to the very modest help being extended to small producers, who are getting heavily indebted due to the unfavourable cost-risk-return structure of farming.** Policy makers in Government of India who deal with our interests in WTO should be sensitised in such issues, so that they do not refer to any and every help given to small farmers as “subsidy”.

#### **1.4.1.2 Market Access**

All non-tariff barriers coming in the way of access to the markets of industrialised countries should be reviewed and removed where logical. At the same time, assistance should be extended to developing countries to improve their capacity in the area of sanitary and phytosanitary measures as well as the adoption of *codex alimentarius* standards of food safety. Unrealistically high SPS standards are often used to create trade barriers against developing country exports. India and other developing countries must become a part of the process by which SPS standards are decided upon. At the same time we must evolve our own SPS standards in our country for our domestic products as well as imports.

#### **1.4.1.3 Trade-Related Intellectual Property Rights (TRIPS)**

The revised TRIPS should be compatible with the equity and ethics provisions of the Convention on Biological Diversity and the FAO Treaty on Plant Genetic Resources for Food and Agriculture. In particular, it should contain provisions for the compulsory licensing of rights in the case of inventions of great importance to food and health security, and for benefit sharing with the primary conservers of genetic resources and holders of

traditional knowledge. This will help to avoid fear and accusations of bio piracy and to promote mutually beneficial biopartnerships.

#### **1.4.1.4 Geographical Indication**

An objective system of including items in this list should be developed. Historical antiquity of product names, like “Malabar Pepper” should be an important criterion for eligibility to be included in such a list.

#### **1.4.1.5 Trade Security and Farmers’ Well being**

Youth will not be attracted to farming, if agriculture becomes a gamble in the market. Therefore providing assured and remunerative markets for the 500 million farming families in the world should be a major aim of the revised AOA. Sustainable farming systems and satisfied farming families alone can ensure food security for the nearly 8 billion children, women and men who will inhabit our planet by the year 2030.

#### **1.4.1.6 Multi-functionality of Agriculture**

Agriculture influences the livelihood security of about 2 billion persons globally. At the same time, it has profound influence on ecological security and cultural security. However, the concept of multifunctionality of agriculture, being advocated by developed countries should not be used to enhance subsidies and erect non-tariff trade barriers in the industrialised countries. **A Code of Conduct relating to the use of the principle of multifunctionality should be developed, if this principle is to find a place in the revised AOA.**

### **1.4.2 Kerala-specific Recommendations**

#### **1.4.0 The Setting**

##### **1.4.0.1 Kerala *vis-à-vis* Other States: Nature and Magnitude of WTA Impact on the Farm Economy**

Unlike the farm economies of other states in the country, especially that of the neighbouring states of Karnataka and Tamil Nadu who are competitors in the market for quite a few commodities (Tamil Nadu in coconut, rubber and tea; and Karnataka in coffee and cardamom), Kerala’s farm economy (covering livestock and fisheries, apart from crops) is acknowledged as the most vulnerable to WTO and AoA related concerns in the country because a high proportion of trade dependence of the commodities produced. Consequently when other states give greater emphasis on the promotion of newer export products capitalising on the opportunities provided by WTA in exports, Kerala has to give far greater attention on defending her gains by warding off the adverse impact and on mitigative or protecting measures.

#### **1.4.0.2 Government of India’s EXIM policies**

The EXIM policies have greater impact on the price regimes of the industrial raw material commodities. In fact long before the WTO regime came into existence, the market prices of the raw material commodities, for instance rubber, had been highly influenced by the EXIM policies pursued by the GOI from time to time, which alter the supply-demand balance. Import would depress the price regimes of the raw material commodities and in turn farmers' incomes. Before the advent of the WTO regime farmers and the State

Government could exercise some influence on the price regimes as the EXIM policies are shaped largely on the basis of prevailing national political environment. Traditionally the Government of India used to mediate between farmers and manufacturers on the price regime in times of market stress and the problems arising used to get mitigated, though not to the satisfaction of very contenting stakeholders. The decisions of the Government of India could be influenced by farmers and manufacturers as well, depending upon the extent of persuasion or pressure both the interest groups could bring in to bear upon the GOI. With the WTA regime coming into force, especially the removal of the quantitative restrictions on the import of agricultural commodities since April 2001, interventions would have to be within the provisions of the AoA agreed upon and accepted by the Government of India, and thereby whatever little restraint which the farmers and the State Government could exercise in the past is considerably eroded. The loss of this manoeuvrability is the single important implication of India's entry into WTO and signing AoA to the farm economy of Kerala as the two commodities, which are vulnerable to EXIM policies, namely, coconut, and rubber account for two thirds of the GDP arising from the agriculture sector.

#### **1.4.0.3 Lessons Learnt**

It is inevitable that opening up of India's agricultural sector to the world market will have implications on prices, incentive structures and various forms of protection. It is time that the country take stock of the experience and performance so that the nation can prepare adequately to meet the challenges ahead as well as cash in on the opportunities opened up. The concerns, which would have implications on sustainable agriculture and ensuring the livelihood security of the farmers, include factors that enhanced obligatory market access such as tariffication of non-tariff regulations, removal of technical barriers to trade, transparency in sanitary and phytosanitary regulations; minimising domestic support without eroding the livelihood security of the vulnerable groups; that promoted export competitiveness; IPR regime that safeguards the interests of the farmers and the conservers of biodiversity. It needs reiteration that if one goes by the short experience that the country hitherto gained, every measure should be taken to safeguard the livelihood security of the farmers, the vast majority of whom are resource-poor operating small and marginal holdings, and the rural poor. What is appropriate at this juncture of nation's history is that while being fully conscious of the various implications of the nation's participation in the WTO, prepare the nation to take advantage of the opportunities offered by the WTO and to meet the emerging challenges. The experience in Doha is an indication that well-informed and prepared participation with wider involvement would pay dividends. India succeeded in getting the review of its major concerns in the negotiation agenda and even in getting a breather to make national preparation for the new agenda of the Singapore Round.

#### **1.4.0.4 Kerala's Special Needs**

It has been argued in the beginning of this section of the report that among the farm economies of different states in the country, that of Kerala is the most vulnerable, and far more pervasive, to WTO and AoA related concerns because the high proportion of trade dependence of the commodities produced. The state hence has to give far greater attention on defending her gains while capitalising on the opportunities provided by WTA. Apart from this basic substratum, the very nature of the implications of provisions of AoA and WTO to the farm economy of the state is different (in some cases, contrasting) from the rest of the states in the country, resulting in divergence (even conflicting) in interest with that of the rest of the country (in the limited sense of the adverse impact on the livelihood

security of the dependant population) because of the specific and unique characteristics and features of the state's farm economy. They are:

- Being predominantly based on perennial tree crops (80% of the net cultivated land), flexibility in the cropping pattern to adjust with market conditions is limited, in fact practically nil in the short and medium term. Adjustment is slow and demands longer term and hence cost reduction rather than productivity increase when commodity prices are falling should be the strategy;
- High proportion of unproductive tree crop population due to over age and endemic disease infestation results in low productivity. This needs correction with substantial investment of longer duration for increasing productivity through replanting and rehabilitation;
- Over the period, cultivation is extended to agronomically less suitable areas partly due to irrational price regimes and partly prompted by state policies (which are often for increasing production to further the state's interest rather than the benefit of the farming community). This approach needs to be reviewed and rendered producer-friendly;
- Vast majority of the holdings are small and tiny (85% of the total of 54 lakh holdings is below half hectare, with an average size of 0.137 ha), hence of low risk bearing ability and highly vulnerable to income loss due to price decline and significant deprivation of livelihood opportunity, more so if such fall arises from imports;
- High degree of instability in price regime (in comparison with cereals and other foodgrains) on account of the export and raw material orientation of the commodities produced rather than food for subsistence;
- Endowed with a national market (of export or raw material), which is beset with oligopolistic tendencies, wherein a few buyers exercise control over the market. (In a sense centralisation of market is not necessarily through the physical command of the stock of commodities). Hence ability of the farmers to influence price regime is low (unlike foodgrains producers), unless there is a strong will on the part of the governments, particularly the Government of India;
- There are inherent conflicts between the interests of the farmers (seeking always a higher price) and that of the manufacturers who utilise the raw materials accessible at low price, and exporters who gain from international trade. Hence the inability to forge a consensus on price regimes;
- Most of the crops (coconut, rubber, black pepper, cardamom to mention the important ones) grown in Kerala are chosen to suit to its unique natural resource endowments, such as high rainfall, undulating topography and variations in altitude at short spatial distances. While these crops are of considerable significance to the economy of the state, they do not enjoy strategic advantage in the national context on food security (in contrast to cereals such as rice, wheat or commercial crops as cotton or sugarcane).

Fluctuations in production or price regime in Kerala's commodities are not capable of causing serious consequence to the national economy. Hence the adverse impact arising from fluctuations in production and price in these commodities are not capable of capturing national interest in a manner and dimension to receive mitigative measures at critical levels to alleviate the attendant hardships and economic erosion of the farmers (contrast with wheat-rice farmers of Punjab and Haryana and rice farmers of Andhra Pradesh);

- Surpluses in the market get accumulated over a period in the national market, largely due to increasing production from other states, in certain wherein commodities Kerala had once enjoyed exclusivity in productions. This has forced up on a new domestic trade paradigm with producers facing the brunt;
- Relatively low proportion of family labour participation in farming and resulting high wage labour component in the cost of production, render Kerala's agriculture costly and debilitate its competitiveness, despite favourable climatic conditions especially high rainfall. The entailing built in rigidities in the cost structure makes to it difficult to adjust at times of price fall.

#### **1.4.0.5 Framework of Recommendation**

Recommendations relate to two broad groups. **First**, those related to minimising/mitigating the adverse impact as they call for immediate action. **Second**, those help in converting challenges into opportunities and maximising the opportunities, especially the newer ones. The recommendations are made in concurrence with India's obligations arising from WTO, particularly from the five major domains, namely, Domestic Support, Market Access, Export Promotion, Sanitary and Phytosanitary Measures, and TRIPs as well as its commitments under the CBD. They are also seen from the point of the obligations of the principal stakeholders, namely, the farmers as individuals or communities, the Government of Kerala including their departments and agencies; the Government of India including their departments and agencies, principally the Commodity Boards/Authorities, and the WTO (with a view on the Cancun Ministerial). The last two categories may appear repetitive as they have been already covered in a generic sense but in this section only specific applications are referred to. The Commission wishes to impress upon all the stakeholders that each one of them have roles to play and obligations to fulfil, and actions to perform, like members of a symphony orchestra. The recommendations made by the Commission in its interim reports have also been incorporated in this section for cogency and completeness of the task but they are indicated at the relevant places and appropriately. The recommendations are presented in a three-tier format. First, those recommendations common to the agriculture sector, irrespective of commodities; second crop/commodity-specific interventions, including newer opportunities; and third infrastructure and institutional mechanisms to sustain in deference to the WTO concerns, so as to enable the state to be proactive in mitigating adverse impacts and to effectively, capitalise on opportunities.

### **Immediate**

#### **1.4.1 Constitution of a High Level Standing Committee on Agricultural Trade**

Change in the trade environment can be managed effectively if there is synergy and convergence in planning and action among all the principal stakeholders. They will have to function like members of a **Symphony Orchestra**. To create an Agricultural Trade

Policy Symphony in Kerala, we recommend creation of a symphony orchestra conductor with the constitution of a **Standing Committee on Agricultural Trade**, under the chairmanship of the Hon'ble Chief Minister, with the Hon'ble Minister for Agriculture and Coir serving as Co-Chair. All the principal stakeholders within the State like Farmers', Planters' and Labour Associations, Commodity Boards of the Government of India, Kerala Agricultural University, ICAR and CSIR, Consumer Association, Mass Media (printed, electronic and internet) and all the concerned Departments of the Government of Kerala should find a place in the Committee. In addition, the Ministries of Agriculture and Commerce of the GOI may be requested to nominate senior level officers dealing with WTO issues to serve as ex-officio Members. The following could be the principal terms of reference to this Committee.

- To bring about convergence and synergy among all on-going programmes supported by State and Central Governments and by bilateral and multilateral agencies with view to derive the maximum beneficial impact from the available resources, from the point of view of trade competitiveness.
- To monitor trends in home and external markets.
- To initiate proactive action, particularly to avoid / mitigate distress to farm and labour families.
- To take steps to shift to an era of precision farming in order to maximise factor productivity and minimise cost of cultivation.
- To promote trade and IPR literacy through the mass media.
- To provide policy oversight to the proposed Virtual University for Agricultural Trade and to reconstitute State Land Use Board.
- To suggest steps on an on-going basis to strengthen the livelihood security of small farm families and agricultural labour.

#### **1.4.2 Professional Support to the Standing Committee**

The Standing Committee will not be effective unless it has a permanent secretariat with top-level experts (Agronomist, Agricultural Economist, International Trade Economist, IPR and IT experts and Statistician) all at the minimum level of Professors in academic training and in professional experience. Induction could be on deputation or otherwise for a period of three to five years. Commission envisages this essential support as a highly professional input-oriented to advice the administration. The Member-Secretary could be either an eminent authority on agricultural trade or a senior member of the civil service knowledgeable in this field.

#### **1.4.3 Monitoring the Plantation Crops Sector**

1. The plantation crops (rubber, cardamom, coffee and tea) are very significant economically for they together cover one fifth of the net cultivated area of the state and contribute one third to state GDP of agriculture origin. They are also ecologically important as they are grown on the most ecologically sensitive foothills and slopes of the Western Ghats. Yet Government of Kerala in its development perceptions of the State's agriculture have not given adequate attention to this important sub sector of agriculture. State Plans do not incorporate development of plantation crops. Historically this development is mandated to the Commodity Boards administered by the GOI. The departments or agencies of the State (Agriculture or Kerala Agricultural University) are neither mandated nor professionally equipped to handle the development of these crops. Hence these crops suffer from at best benign neglect. Conventionally and legally the

growing of these crops is treated as an industry, although the growers include several small and marginal farmers. Given the large-scale operation, monocropping, and huge initial capital investment, wage labour employment and historic evolution from the colonial period, their management is more akin to industry than seasonal agriculture. They are also exempted from land ceiling law while other crops including coconut, pepper, cashew nut and arecanut, though are considered plantation crops, and are subjected to land ceiling laws. The only institution in the state concerned with plantation crops is the Plantation Labour Relations Committee under the Minister for Labour as the concern of the state on plantation crops is only labour welfare associated with its production, processing and trade.

2. On a number policy issues, apart from the present crisis with which this sector is undergoing, even the sustainable development of this sub sector is at stake due to lack of investment, environment destruction, inappropriate land use, employment, including infrastructure development. Further, in the context of the reforms many development and marketing functions performed by the Commodity Boards are being slowly dismantled leaving a vacuum. Considering the vital interest of the state in this sector, a system to monitor the concerns of the sustainable development of plantation crops, not only production and competitiveness, but also ecological, land use, taxation, international trade and other related issues, needs to be put in place and be institutionalised. The Department of Agriculture could be mandated to provide extension and development support, the Kerala Agricultural University on research and technology and at the government level a cell in the Secretariat or State Planning Board for policy and long term planning. As plantation crops are the most sensitive to WTO regime, the proposed Standing Committee is bound to get involved with plantation concerns. It would be appropriate if the monitoring of the plantation crop sub sector is also included in the mandate of the Standing Committee.

#### **1.4.4 Mitigative Measures**

##### **1.4.4.1 Mitigating Distress**

1. The Commission had recommended in its first interim report that the State should seek the assistance of the Government of India for initiating a **Food for Wage and Employment Stabilisation in Plantation Crops** programme under GOI's 'Sampoorn Gramin Rozgar Yojana'. Under such a programme, part of the wage will be paid in the form of rice to labour in plantations facing severe economic stress, to avoid retrenchment and closure. We are happy that the GOK has already taken steps in this direction.

2. Another immediate step is tax and excise duty exemptions to reduce the loss being incurred by plantations and farm families. Again, this is an area where we are pleased that the Government had already taken action.

##### **1.4.4.2 Ensuring Fair Share of Consumers' Price and Well-being of Farmers**

1. The Commission recognises that the bottom line for the well being of the farming family and Kerala's economy is marketability of produce at fair price. One possible support measure to mitigate the hardships arising from the price collapse is to design and put in position instruments and organisations that ensure farmers and growers get a fair share of consumers price

2. There are two outstanding success stories of recent times (correspond to the crisis period consequent to the fall in prices during last 3-4 years) in Kerala, wherein farmers' initiatives have succeeded in ensuring a fair share of the consumers' Rupee. The

Cooperative Society of the Coconut Farmers at Thiruvambaaty, Kozhikode District through direct participation in marketing, processing and utilisation of by-products have managed to maintain the price level prevailed before the price crash. The network of Rubber Producers Societies have similarly through direct marketing, processing of latex and engaging in export have succeeded in bringing better income to the member growers.

3. Another success story of group effort is the case of the Kerala Horticultural Development Project (KHDP), an EEC supported initiative for the promotion of vegetable production, which turned out to be a sustainable livelihood security opportunity for the resource-poor agricultural labour and marginal farmers. The participants are organised into autonomous self-managed groups in selected potential areas for vegetable production, and these groups were given timely and appropriate technical advice, easily accessible timely and cheap credit, assured quality input supply and support for infrastructure in marketing of produce, all as an integrated package. The most important factor for success has been fostering group action and ensuring full involvement of the participants in management in return for identifiable, visible and measurable increased income.

4. The state also have had nearly a quarter century of experience in group approach for increasing the production of major crops, especially paddy, coconut and pepper. Unfortunately, many of these institutions stopped functioning and the rest are languishing since the government support was withdrawn. Focusing largely on production but almost neglecting other dimensions such as processing and marketing without appropriate technological interventions, promotion of group action, such as integrated pest management and water management, systematic promotion of self-help, total involvement of the member participants in management could be attributed to as some of the reasons for the failure of these initiatives as the instruments of creating self employment and enhancing income, including a larger recovery of the market price.

5. The Commission recommends the acceptance of group action and initiatives as an integral part of the agricultural development strategy by learning from the successes with the experiences of the KHDP, Rubber Producers Societies, the isolated but successful experience of the Thiuruvambaaty and Perambra cooperative societies and failures of the group farming societies including marketing societies such as the KERAFED. The institutions, which have demonstrated exemplary performance, have succeeded in commanding member participation. Such activity-centered small organisations through networking can serve as an alternative to the present trading system. The experience of these organisations is to be evaluated and determined efforts should be made to bring the farmers and growers in the network of autonomous producer associations. Ensuring full participation, granting autonomy and ownership, and providing tactical resource support especially for infrastructure might provide a way forward.

#### **1.4.4.3 Continue Support for Export of Plantation Crop Products**

One of the major reasons for the unprecedented decline in price of Kerala's farm commodities such as rubber, coconut, etc. is the increased supply arising from production accumulated over time, which again is accentuated by imports under liberalised trade (a bitter consequence of removal of QRs). In the short run, it is not possible either to cut back on production or raise internal demand substantially. One temporary and quick yielding possible measure is to export these commodities by supporting the export efforts through compensating the differential between the internal and external (export) prices (similar to the wheat export model). Central support for transport assistance announced in the 2002-03 budget and institutionalised in the 2002-07 EXIM Policy (a WTO compatible

measure) should be extended to cover all crops including plantation crops and assistance extended to handling and packaging.

#### **1.4.4 Long Term Measures**

In the long run, Kerala's farm commodities have to be competitive both in the domestic market (in which other states are competing in commodities such as coconut, cardamom, coffee and tea) and international market (black pepper, cardamom, cashew and marine products) for achieving sustainable farm trade security and farm based economy. Competitiveness has to be acquired both price-wise and quality-wise. Price-wise competitiveness obviously depends upon the productivity per unit of land and cost-effectiveness through the efficient and economic use of resources, material and man power. Qualitative improvement is pervasive from production (free from residues of insecticide/fungicide/herbicide/fertiliser), harvesting, handling, and processing, including drying and all other post harvest operations, packaging and marketing, in and out. Apart from awareness creation, and capacity building at producer-processor-trader levels, institutions and infrastructure including communication system, storage, certification and monitoring, port handling, etc and systems and incentive mechanisms for rewarding quality maintenance should be put in place.

##### **1.4.4.1 Massive Rehabilitation and Replanting Programme for Tree Crops**

1. Reference has already been made that nearly four fifths of the cultivated land in Kerala is put under perennial crops which principally include coconut, rubber, cashew black pepper, cardamom, coffee and tea). Substantial proportion of the tree stand is over-aged and even crossed the productive phase. (The situation varies from crop to crop, possibly one quarter to one third of coconut, one third to one half of pepper, tea and coffee, one half to two thirds of cashew). It is only in rubber systematic replanting is done at a 30-year cycle, thanks to the replanting subsidy and other incentives granted to growers). Secondly, significant areas are endemically disease infected needing urgent replanting. One quarter of the area under coconut (mostly in the districts of Pathanamthitta, Aalappuzha, Kottayam and Ernakulam districts) is afflicted with root wilt disease. Similarly one fifth to one quarter of the area under pepper (in the highlands of Idukki and Wayanad districts) is getting devastated with quick wilt. Vast majority of the plantings under these crops (except rubber) are of traditional non-descript varieties of low productivity. Inter-planting in coconut gardens is unsystematic and haphazard resulting in wasteful use and under-utilisation of land. Pepper is predominantly an inter-crop among other crops (coconut) and miscellaneous trees. All these contribute to low productivity per unit area. In the long run productivity increases in the perennial crops of Kerala can primarily arise from replanting with high productive and disease tolerant varieties after replacing the unproductive and diseased trees/plants and optimal use of the land.

2. A massive programme for completing systematic replanting and rehabilitation of the perennial (tree) croplands in Kerala within a period 15 to 25 years has to be launched. The programme should be confined to the targeted crops but extend to utilising the full production potential of the land devoted to these crops, by utilising the land intensively with systematic intercropping with other compatible crops, integrating activities other than cropping, especially livestock rearing and conservation measures to protect the land from soil and water erosion, water harvesting for augmenting moisture supply and irrigation, wherever slopes and water sources permit. In addition to production, local value addition should be integral part of the package. The aim is not only to increase income from

enhanced productivity of the targeted crops but also to link production to on-farm or off-farm value, processing and product conversion with prescribed quality.

3. The resources required for such a programme can primarily be mobilised through institutional financing and pooling the various development programmes both under the state government and the Central government. Support extended under the watershed management programme could be pooled to support soil and water conservation measures. Food aid programme is another support source, which could be used to defray the loss while removing the old and diseased trees and to overcome the income deprivation during the gestation period. It is well recognised that the banking system in Kerala has a low credit: deposit ratio and one of the reasons attributed is the lack of viable projects. A massive programme for replanting and rehabilitation could be one of the most viable opportunities for the utilisation of institutional finance and for re-founding a competitive, sustainable and dynamic agricultural production system in Kerala.

#### **1.4.4.2 Kisan Credit Cards**

Easy access to timely and adequate credit is another means by which production can be increased by enabling the acquisition of necessary production inputs. Given the multiplicity of crops and land-use (integrating crops and livestock into the system), production activities in the farms are spread almost through out the year. So is income generation. Kerala's farming is more like small business enterprises, where expenditure incurred and incomes generated are spread out, saving initial gestation period in plantation crops. The generally practiced crop credit system of one or two time disbursement is inadequate to meet the credit needs (not only in quantum but timeliness and easy access) of Kerala's farms. Kisan credit card system is a most suitable credit mechanism for ensuring farmer-friendly credit access. Quite a few banks in the state have already introduced the system. With the extensive banking system in place (every panchayath in the state is covered by more than one bank, both commercial and cooperative), it should not be difficult to provide adequate reach. The widespread initiative in fostering group action and inducting the support of the extensive dispersal of extension networks together should enable the banking system to reduce the transaction cost of servicing farm credit in Kerala. The farmer groups, the banking system and the government should come into a consortium in providing the credit input for a productive and sustainable farming in Kerala.

#### **1.4.4.3 Crop Insurance**

Being dominated by perennial crops and endowed with relatively high rainfall, Kerala's agriculture is less vulnerable to production instabilities. But production loss is significant largely due to disease/pest incidence. So also income loss is substantial due to price fluctuations and quality deterioration because of the greater involvement in external trade. At present crop loss is compensated through a miniscule crop insurance programme run by the state government. The National Crop Insurance Scheme (NCIS) does not cover the speciality crops of Kerala. One of the reasons often quoted for this omission by the NCIS is the lack of adequate baseline yield data across sufficiently long period. It is a vicious circle. Without investment data cannot be generated. While critical use is not made out of data generated, efforts are not mounted to collect the data. Crop insurance is a critical relief measure to reduce the inherent risks in Kerala's farming. The Government of India should be persuaded to expand the coverage to include crops largely grown in Kerala. The state government should make special investment in data generation to satisfy the

requirement of the national crop insurance programme. Instead of frittering away the limited resources in pursuing the state sponsored insurance programme, which in any way reaches only a miniscule of the agricultural production, it will be more prudent to invest the limited resources in creating the necessary conditions for attracting the NCIS coverage on plantation crops. Only a national insurance programme will have the capability and wherewithal to reach out the state across all major crops.

#### **1.4.5 Market Access**

##### **1.4.5.1 Barriers to Trade: Tariff as well as and Non-tariff**

Both tariff and non-tariff barriers seriously limit access to the markets of industrialized countries. While tariff barriers will be subject to some discipline, non-tariff barriers especially the sanitary and phytosanitary measures for these measures are not only set to high levels by the importing developed countries, but also applied arbitrarily on the commodities from the developing countries. More frequently the high SPM set by some of the developed countries are far beyond the rationally admissible health requirements and hence outside the scope of developing countries to meet them. However, SPM has become a legally admissible non-trade barrier from the point of developing countries.

##### **1.4.5.2 Market Access Concerns to Kerala**

Market access concerns of Kerala are not only limited to the international markets but also extended to the Indian markets in respect of competing with agricultural raw materials from other countries under the *de minimis* import stipulation of the AoA and possible flow of commodities under liberalised trade. In order to overcome the disabilities arising from Market Access provisions under AoA, appropriate negotiated changes have to be brought in the implementation of AoA apart from appropriate governmental policies and programmes at national and state levels.

#### **1.4.6 Tariffication**

##### **1.4.6.1 Tariffication Code and EXIM policies of the Government of India**

1. In the short run, measures need to be taken to overcome the trade disabilities arising from the removal of QR and obligatory imports (*de minimis*). The implementation of WTO provisions has necessitated a need for restructuring of Kerala's agriculture. As nearly 80% of the land is put under perennial/tree crops, adjustment period required is longer and also demands high investment support. In order to readjust and reallocate resources and thereby ensure a level-playing field, Kerala's farmers need a breather anywhere between 5-10 years along with additional investment support. During this period, the safeguards provided under WTA in terms of imposition of tariff and such other measures should be invoked and made use of. This will give farmers reasonable time to acquire the necessary trade capabilities. Resources can get reallocated to enhance competitiveness.

2. The negotiations preceding the final Uruguay Round had not considered the wide changes occurring in the tariff rates. Low tariff rates for palm oil and soybean oil which have an adverse impact on coconut oil, and in turn the price of copra and coconuts is the case in point. By accepting the maximum bound tariff rate at 45% for soybean oil, it has become impossible to levy a higher rate for palm oil, which itself is competing with

coconut oil. Any increase in the tariff rate of palm oil alone would not help coconut oil trade, but would only cause a switch over from palm oil to soybean oil.

3. Also affecting Kerala's economy are the low bound rates and applied tariff rates for rubber (40% and 25%, respectively). Measures are to be taken at the national as well as WTO levels to develop a Tariffication Code, based on principles of equity and the livelihood security of small farm families. This is also connected to re-categorisation of rubber as an agricultural commodity.

#### **1.4.6.2 Re-categorisation of Agricultural Commodities/Crops**

1. Protection in the short run is provided through tariff on imports. The mechanism of bound rates established by WTO is used in imposing tariffs on imports by the member nations. Special protection is granted against the import of agricultural commodities by imposing tariff rates, which are relatively set at higher levels than on industrial raw materials. So categorisation of farm produces as agricultural produce or industrial produce/raw materials has critical relevance in using this permitted tariffication device to regulate domestic market and protect the domestic producers.

2. This classification in the case of rubber has created anomalous situation after the establishment of WTO. As natural rubber had been classified as processed product and being treated as industrial raw material, the maximum permissible tariff rate on this (the bound rate) 40 per cent. However, other farm produces classified as agricultural produce, although some of them may serve as industrial raw material as is the case of cotton or sugarcane, the bound tariff rate in India is 100 percent. This classification of commodities done by the Government of India during early GATT days warrants re-classification in the context of agricultural trade coming under WTO. Other similar cases are coir and jute. This has encouraged import of rubber, coir and jute when the differences between domestic price and international price cross certain limits. Such imports have rendered hundreds of thousands of people in the coastal of Kerala, most of them belonging to BPL and depending on employment connected to coir production, lose their only means of livelihood security. These human and economic problems of huge dimension can be solved in the short term, by re-classification of rubber and coir as agricultural products.

3. India is getting another opportunity to correct this anomaly. The Doha Ministerial Conference, which was expected to take up such issues, has postponed this consideration for another year. The third phase of the AoA (March 2002-March 2003) is on and the next review meeting by the Ministerial Conference is scheduled for at Cancun. The Commission urges the governments in the States and Centre to initiate steps to get reckoned all agricultural commodities used as raw materials for industry such as jute, rubber, coir etc. as agricultural. commodities on par with cotton. A very large number of small and marginal farmers are dependent upon these commodities for their livelihood and the present classification is unfavourable to them is an additional ground for this reclassification.

### **Short and Medium Term**

#### **1.4.7 Domestic Support Measures**

A range of measures on the trade and domestic production-support fronts need to be designed to offer income support to cultivators, especially the small and marginal. Such measures are needed not only as price relief and stabilisation measures, but also as

measures designed to support and increase production. This package of measures must include the following:

- Statutory MSP to be extended to field and plantation crops in Kerala. As has been recommended for the continuation of the MSP-based system of procurement of food grains by the Food Corporation of India by the High Level Committee on a Long Term Grain Policy for India headed by Prof Abhijit Sen, there is need for similar WTO compatible measures to safeguard the livelihood of small and marginal plantation crop farmers, during periods of non-remunerative market price.
- With respect to trade, there is scope to use variable tariffs to protect cultivators against sharp fluctuation in international prices and import surges. Similar measure has also been recommended in respect of food grains by the Abhijit Sen Committee.
- Re-imposing QRs is to be pursued in AoA negotiations within the framework of a Livelihood Security Box. Indeed, there is an argument that direct import control measures, like QR's on agricultural products, is pursuable by the developing countries under the existing framework of AoA in relation to food security and rural development.
- Introduction of a range of policy measures intended to improve production, which may contribute towards a sustainable income generation by farmers. These could include crop insurance, a range of imaginative rural credit services, new forms of providing agricultural extension services, facilities for marketing, storage and processing, and encouraging post-harvest processing, value addition and marketing cooperatives.
- Expert multi-disciplinary policy oriented research must be initiated on (a) the various forms of domestic support that are required to provide continuous buoyancy to Kerala's agriculture and agricultural trade, (b) the compatibility of such measures with WTO stipulations, and (c) crafting negotiating strategies which will strengthen national capability at periodic WTO negotiations.

#### **1.4.7.1 Direct Support to Production: Special Case for Kerala's Agriculture**

1. The largest quantum of domestic support extended to the farm sector in this country consists of subsidy on non-product specific inputs, especially fertilisers, farm energy, irrigation water, etc. The commodity specific support is fixation of MSP and governmental procurement at MSP. Both these supports are trade distorting and fall in the Amber box. While support on fertiliser and commodity procurement at MSP is largely borne by the Central Government, the support on farm energy, irrigation water, etc. is borne by the respective state governments.

2. There are some inherent weaknesses in the existing disbursement of domestic support to agriculture in the form of fertiliser subsidy and procurement price. They both accentuate inter-regional disparities. Although fertiliser subsidy is not commodity specific, the ability to avail this support is influenced by other factors, such as irrigability, crop choices (for instance major cereals or cash crops), etc. Rainfed areas, non-food grain

or non-cash crop producing regions in the country are restricted from making gain from this kind of support.

3. Procurement price support being commodity specific, this support goes to those areas where these commodities are produced with marketable surplus. Here again, irrigated states like Punjab and Haryana and parts of Uttar Pradesh (Western) and Andhra Pradesh (Coastal districts) make larger gains. Further even in these regions or states procurement price benefits only those who have marketable surplus while those who are subsistent farmers are not benefited although cost of production remains the same for all sections of the farming community (in contrast, input subsidy offers comparatively better equity). In Kerala, given its landscape, constraints are built-in to limit food grain cultivation in only less than one fifth of the land, which is relatively level. Here the fertiliser intake is low, largely due to low fertiliser use efficiency (due to poor water control). Hence Kerala's inherent limitations in benefiting from the support extended through fertiliser subsidy. As there is hardly any surplus in the cereal crop, which is rice, the state is unable to avail the benefit from MSP on grains as well. The only other commodity, which is brought under the price support, is coconut in the form of copra procurement under MSP, which is AoA non-compatible. In short, crops grown on four-fifths of the arable land (rubber, coconut, black pepper, cashew, cardamom, coffee and tea) in the state are not able to avail any or substantial part of the domestic support extended by the Central Government.

4. While continuance of domestic support for agriculture by the Central Government is imperative, there is need for restructuring the support system to ensure equity among all regions and states in the country; within the regions/states, and different socio-economic groups among the farming communities. Since Kerala's agriculture (not only that of Kerala but of many regions and states which are inherently constrained because of the resource endowments such as the mountainous/hilly states of the Sub-Himalayan region, north eastern states, states with large extents of rainfed areas in the country) is inherently incapable of absorbing the present form of domestic support, it needs restructuring to suit to the specific production pattern of state's agriculture (for that matter for similarly resource constrained areas).

5. Kerala's specific problem is the replanting and rehabilitation of a significant proportion of its perennial tree crops, which need major support. Apart from long term capital investment required, farmers participating in the massive replanting and rehabilitating programme need support to tide over the interim non-producing gestation period, varying from 5-10 years, and to compensate the loss of production due to removal of income yielding through less productive over-aged or diseased trees. There is a strong case for Kerala for this support, which needs to be pursued. The changing perceptions on support to agriculture in this country are persuasive enough to put a claim on such specific assistance required.

6. Historically support to agriculture was confined to infrastructure development such as public irrigation utilising surface water. Later support was extended to utilisation of ground water through tube-well irrigation under both public and private. Support to private land was extended to soil conservation in rainfed areas. In recent times further public support is extended to activities of land development other than soil conservation on private lands under the National Watershed Management programme, as well as the Waste Land Management Programme. The inherent principle is to extend support to agriculture through resource development, land as well as water, for improving the livelihood security of the farmers. The support to be sought for development of land under perennial crops is only another form of support for ensuring livelihood security for the dependent population

whose only means of survival is growing perennial tree crops, which their limited land is capable of.

### **1.4.8 Quality improvement**

#### **1.4.8.1 Improving the Competitiveness in Cost and Quality**

1. The strategy in overcoming the challenges of Market Access under AoA (for both competing with imports within the country and exports to other competing countries) proposed in the long run is to make products and commodities of Kerala competitive, both in price and quality. Competitiveness in price is achieved by reducing the cost of production which in turn by adopting cost effective production methods (not by improving productivity at any cost but at a cost that is competitive) by improving the efficiency of inputs such as material inputs, labour, management maintaining low inventory and infrastructure including credit.

2. Cost effectiveness has much to do as productivity enhancement in improving competitiveness. Long-term competitiveness can be brought by relevant and appropriate technologies especially for augmenting input efficiency. For generating production technologies additional investment is required. The present investment in technology generation has to be substantially improved while rationalizing research and technology programmes with focus as much on cost-effectiveness as on productivity increases.

3. Certification facilities (ISO 9002, ISO 14002 etc) are to be developed. Extension education on the need for hygienic production, support for marketing systems where differential pricing is introduced to reward quality production, support for infrastructure such as copra driers.

4. Investment support has to come for higher TSR levels in rubber, organic impurities in pepper, aflatoxin in coconut oil cakes, and such other quality aspects in the commodities, which have export potential. Similar attempts are called for in the case of animal products especially beef and marine products. Certification capability and facilities are to be developed. The experience of the MPEDA in bringing about quality and phytosanitary measures at the cost of the industry itself is an emulatable model.

#### **1.4.8.2 Facing the Challenge of Quality Standards**

The Commission recognises the urgent need for quality improvement both in the interest of domestic consumption and export. At the same time, the Commission also feels that setting of unrealistic standards in respect of agricultural commodities and marine products must be countered by effective participation in standard setting exercises of *Codex alimentarius*, IPPC, etc. Capacity building of technical personnel by Government of India and ensuring their participation in standard setting exercises in the multilateral bodies require immediate attention. The plant quarantine infrastructure of Government of India must be made more effective and stringent in enforcement along with comprehensive quality standards set for import of each commodity. Government of India should extend generous assistance to upgrade the existing quality grading and certification laboratories in the States to internationally acceptable evaluation standards and to establish new state-of-the-art quality laboratories with competence to provide internationally acceptable quality certification.

### 1.4.8.3 Incentives and Investments to Match Quality Improvement

Just by reciting quality as a 'mantra' would not be helpful. The past efforts (exhortation on quality improvement as in pepper for instance and rubber yet another one) have not succeeded in bringing about significant changes in quality of products sold by farmers. Because, in the market there is no premium (in the retail market especially where farmers take their produce for first disposal) for superior quality. The price offered is average. The only exception is fluid milk (even illiterate dairy farmers are quality conscious, at least with respect to fat content). Further, the quality specifications are subjective and arbitrary (colour for instance in rubber, moisture in pepper and ginger, oil content in coconut unlike fat content in milk not easily measurable). Often such standards are used arbitrarily to depress the price eligible to farmers. Unless concurrent mechanisms are put in place for rewarding quality production in terms of price, measurable specifications and market channels, education alone may not bring about the desired quality improvement. Government and institutional support (Commodity Boards, etc.) be extended in making infrastructure to facilitate disposal of quality products. In the initial stages, generous support by way of production subsidy and subsidised infrastructure, compensation for losses incurred, etc., should be extended to institutions undertaking marketing that rewards quality such as offering differential pricing to reward quality.

### 1.4.8.4 Value Addition

India's export share of spices is 55 per cent in terms of volume, which earns only 10 per cent of the trade value. Countries, such as Guatemala are just the opposite, because they export 99 per cent of production at lower prices. The emphasis should be both on volume and value, the latter improved through value addition. This will have spin off to farmers to augment their income from the same farm holding. Value addition is one of the key approaches for increasing the competitiveness

### 1.4.8.5 Agri-Export Zones

Kerala has already developed with support from the European Commission six Agricultural Wholesale Markets with excellent infrastructure. The success of these zones will depend upon the effectiveness of the backward (producers) and forward (consumers) linkages put in place. In order to develop these zones quickly, an over-all management agency, characterised by vision, efficiency and low transaction cost, needs to be established immediately. Also, **strategic alliances** will have to be struck with appropriate public and private sector agencies for ensuring the economic success of these zones. The National Dairy Development Board can help to develop one Agri-Export Zone, as partner. Hindustan Lever and the National Horticulture Development Board could be considered for association with two other Zones. The overall management could be entrusted, if considered appropriate, to a revitalised, reorganised and re-tooled State Small Farmers' Agri-business Consortium Society (SFAC). The Agri-Clinics and Agribusiness Centre programme of NABARD, Central SFAC and MANAGE could be taken advantage of for the purpose of attracting young entrepreneurs in the Agri-Export Zones. To discuss such issues and finalise the launching of the Zones, it is recommended that a one-day brainstorming session may be held soon, involving all the stakeholders. It would be beneficial to involve bilateral agencies, like the Netherlands Government.

## 1.4.9 Marketing

### 1.5.9.1 Supply Management the Key to Ensure Farmers' Income

1. The Commission recognises exploitation of the farmers by middlemen engaged in the market through various factors, which significantly cut into income of the farmers. While recognising this factor in depressing the income legitimately accrued to the farmers, the Commission consider it necessary to bring in some correctives in the generally prevailing perception on identifying and the role played by middlemen/ middle women (this is significant in retailing), especially given the nature of the agricultural commodities (coconut, rubber, pepper, coffee, tea, and cardamom) generally covered in this exercise and the marketing system got established over time for these commodities.

**Firstly** the marketing system is fairly well established with traders specialised in each of these commodities and not as 'mandi' for other crops and rest of the country.

**Secondly** the chain consists of traders/processors at the primary level (several with in a village/panchayath), traders/commission agents at wholesale/secondary market and commission agents at the terminal market who are not many and supply the commodities to the manufacturers if it is industrial raw material (coconut, rubber) and to exporters if export commodities (pepper, ginger, coffee, tea etc). The price is determined by the manufactures and exporters (depending upon the international market), who are very a few (that is significant factor in controlling the commodity physically and the price financially) operators in the terminal market. Further these commodities are ultimately channelised and centralised at limited locations, unlike foodgrains or other consumable commodities, which are dispersed in storage. Hence they exercise control (though not physically) over the trading of the commodities and hence the price. As far as the price is concerned, it is given to the actors down the line (the wholesalers, retailer and ultimately the farmers) rather than those actors dictating any decisive role. Some work done in pepper has shown that the price movements at all points in the chain run in parallel with the terminal market prices rather than fluctuations within. It is at this terminal market, therefore, interventions are required. By and large this network is extensive and hence relatively easily and quickly accessible, on account of the. extensive road network in Kerala. Hence, however, small quantity the produce it may be, it can be disposed of.

**Thirdly**, price variation for a given commodity is more pronounced between different periods rather than between markets (of the same level such as, primary and secondary) for the same period (day/week/month).

**Fourthly**, most of these commodities have comparatively longer shelf life so that these are less vulnerable to distress sale.

**Fifthly** there is some intermediate processing involved and some actors in the chain contribute in terms of value addition (very significantly conversion of copra from raw coconuts, coffee berry to beans, tea leaves for example).

**Sixthly** the farmers in the state are well versed with market information through the media (especially of the print media) and lack of information on market situation is not an exploitative deterrent as is made out to be. (The problem is basically that the inability to move the commodities from one market to another even if the price offered is better. An exception is with respect to marine products. Boat owners are able to move from one

landing to another depending upon the price quotations, so long as they are on the seas. But once landed on the shore they are as captive as the farmers).

#### **1.4.9.2 Supply Management through Participatory Buffer Stocking**

Given these characteristics of the markets, the generally prevailing perception is that the primary traders and processors are the exploiters and manipulators. However, corrective measures (most commonly elimination) taken at this level have not yielded resounding success. The services rendered by the intermediaries in value addition, such as transport and semi-processing, are ignored and efforts in replacing them have only resulted in greater loss. Further, those engaged in marketing and processing at the primary level are economically not much better off than the farmers (not referring to the small and marginal). The real problem (of price manipulation) lies with actors at the terminal markets (raw material dealers or exporters). Their decisions are in turn dependent upon the supply of commodities (internal production and imports). The critical factor in determining the price is the demand supply balance and interventions required to maintain the price level. They include supply management through buffer stocking and/or import/export regulations. Production controls have very little role (unless long term) in supply management as the crops are perennial and acreage adjustments are not possible in the short run. What is possible is reduction in production through regulating inputs and cultural management inputs (reduced number of interculturing, weeding, tapping, etc.). But such measures will entail more time for recovery resulting in loss in future. Given these peculiar characteristics inherent in the commodities and the marketing system, the Commission proposes to examine the possibility of a feasible supply management system so that the flow into the market is moderated (regulated) so that undue price fluctuations are avoided. Holding the stock for these commodities are feasible because of the longer shelf life (from six months and upwards). By building a network of warehousing at the levels of farmer associations, cooperative societies (primary and marketing), public warehousing corporations, together it should be possible to hold critical quantum of supply. But all these would be successful only if there is an understanding between the farmers, primary traders/processors, manufacturers/exporters and the government operating as a mediator that price stability is in the best interests of all concerned. The interests of all concerned need to be harmonised through mutual appreciation of each one's roles and contributions. The experience in holding paddy prices at reasonable levels in Kuttanad and Palakkad is illustrative of what farmers' organisations along with critical intervention (announcement of price support) by the government could do to ensure reasonable price during harvest even though the government hold only a small quantity of the harvested produce.

#### **1.4.9.3 Regulation of Public Markets for Ensuring Transparency in Transactions**

*Prima facie*, the establishment of institutions of farmers' markets established in Tamil Nadu (uzhavar chanthai), Karnataka (raithu market) and Andhra Pradesh (raithu bazaar) are unlikely to totally prevent the exploitation of farmers by middlemen/middle women. For other crops such as vegetables and fruits, which farmers grow, such markets might be helpful. The problem with marketing of the commodities (vegetables, fruits, etc.) is not the lack of market facilities as all such markets are owned (not managed) by people's own institutions (panchayaths and municipalities), but it is the inability of these institutions to enforce good management practices and regulations already on the statute.