

# Is MSP a Viable Proposition in Marine Fisheries?

SHINOJ PARAPPURATHU, C RAMACHANDRAN

The Kerala government, in response to the demands of the fishing community in the state, introduced a minimum support price for fisherfolk's catch in April 2018. The viability of such a policy, against the present context of the marine fishery marketing in Kerala, has been analysed, and possible policy alternatives have been highlighted.

The system of minimum support price (MSP) for agricultural commodities<sup>1</sup> in India has stood the test of time and continues to be one of the successful price support mechanisms practised in the country.<sup>2</sup> Essentially, the MSP acts as a benchmark price below which the state promises to compensate the farmers either through direct procurement or through deficiency payments. Farmers' produce procured under the scheme are subsequently routed through the public distribution system (PDS) reaching the PDS beneficiaries at subsidised rates. Over and above providing an assured farm income for the tillers of the land, it has played a crucial role in stabilising market prices of essential agricultural commodities and maintaining a strong incentive for the farmers to adopt technologically superior farming practices (Chand 2003). Though criticised on account of creating serious imbalances in the crop-mix, fuelling inflationary pressures and eliciting inter-regional disparities due to implementation problems (Nayyar 1994; Bharadwaj 1997; Chand 2003; Roy 2018), the food policy centred on the MSP regime remains a strong safety net for the farming community. Inspired by this, there has been a long-standing demand from the fishing community in India to have a system of minimum landing price for the fish caught by the fisherfolk. The Government of Kerala's announcement in April 2018 to introduce MSP for fishers' catch (*New Indian Express* 2018) as a response to the fishers' demand, is among the first of its kind in the country, and one of the few<sup>3</sup> across the maritime countries. Taking cue from this, we undertake a critical appraisal of the proposal and analyse the various pros and cons of going ahead with the plan.

## The Case for MSP in Kerala

In this section, we present a few arguments that would be helpful in judging the suitability of MSP against the present

context of marine fishery marketing in Kerala:

**Demand–supply imbalance:** There have been a number of recent studies that highlight the imminent resource crisis in Indian fisheries, mainly attributed to overfishing, juvenile fishing and other destructive fishing practices (Devaraj and Vivekanandan 1999; Ramachandran 2004; Mohamed et al 2010). Kerala does not remain insulated from this secular process of resource depletion which is exemplified by the recent sardine stock decline that considerably affected the incomes of small-scale fishers who predominantly depend on pelagic resources (CMFRI 2017). More or less in tandem, the market demand for fish is increasing at a consistent rate thereby pushing up the market prices. The demand–supply gap is widening continuously despite growth in aquaculture production year after year. Kerala's annual requirement of fish is estimated at 7.5 lakh metric tonnes (MT), and the total fish landings are estimated at 7.2 lakh MT. About 1.49 lakh MT of high value fish are exported to foreign countries.

Thus, there is a deficit of about 2 lakh MT of fish, especially with respect to sardine and mackerel, which are currently imported from other states (GOK 2017). Given this scenario, coupled with the fact that Kerala is a money order-driven consumer economy, it is highly unlikely that fish prices would follow a stable or decreasing trend vis-à-vis its substitutes in the near future. However, there are instances when bumper catches in certain types of fish result in market glut thereby dampening prices in the short run. However, such incidents would be increasingly rare, short-spanned and limited to certain pockets, given the emerging scenarios of resource constraints and climate change-driven adverse weather settings. How successful would a policy instrument like MSP, which requires elaborate planning and commensurate field-level reinforcements, be against such outlooks where market demand outweighs the supply in foreseeable future?

**False signals to catalyse resource depletion?** India's marine fishery regulatory regime on its governance impact

The authors are grateful to A Gopalakrishnan, Director, Central Marine Fisheries Research Institute and R Narayanakumar, Head, Socioeconomic Evaluation and Technology Transfer Division, CMFRI for their guidance and support in preparing this article. The views expressed are personal.

Shinoj Parappurathu ([pshinoj@gmail.com](mailto:pshinoj@gmail.com)) and C Ramachandran ([ramchandranncnair@gmail.com](mailto:ramchandranncnair@gmail.com)) are with the Agricultural Research Service and are based at the Indian Council of Agricultural Research–Central Marine Fisheries Research Institute, Kochi.

is on quite shaky grounds. Apart from the seasonal fishing ban, a few input-specific controls and spatial controls, many of which exist only for namesake, fishing in India lacks serious regulations (Parappurathu and Ramachandran 2017). We do not have effective output-specific controls such as individual catch quota, collective catch quota or vessel catch limits as in the western waters to exercise strict control on the level of harvests. The recently introduced minimum legal size (MLS) regulation in Kerala has only been partially effective to check juvenile fishing so far. Given these, sufficient restraints need to be exercised before a market price support mechanism like MSP is introduced. Therefore, prior to introducing MSP, we need to find reliable answers for whether there would be high chances of transmitting false price signals that may further exacerbate resource position?

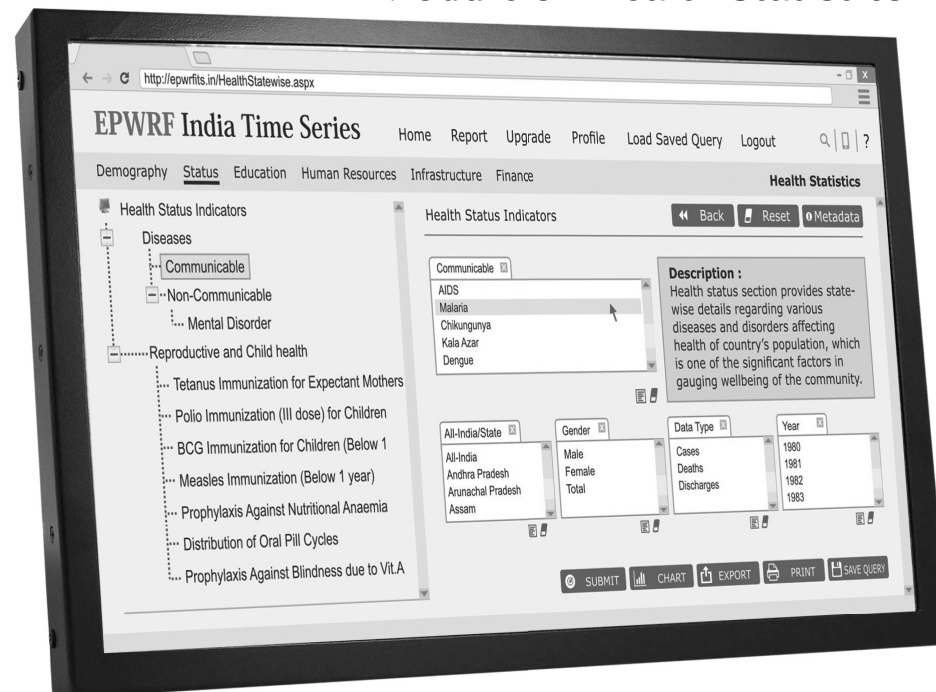
**Systemic rigidities in the value chain:** One of the primary arguments for MSP in the fisheries sector is that the share of

fisherfolk in consumer's rupee is low.<sup>4</sup> This has been said to be the result of excessive exploitation of fisherfolk by auctioneer middlemen who pocket a considerable part of the marketing margins. It is quite true that majority of the fisherfolk operating across the length and breadth of coastal Kerala maintain output-tying credit deals with auctioneer-middlemen for meeting their credit requirements. The cost of such loans is often huge, as the interest payments in the form of auction commission works out to be several multiples of the rates charged by the formal financial institutions. Over and above these, the lender-auctioneers indulge in several fraudulent malpractices that essentially lead to underpricing of the fish transacted. Unholy alliances between auctioneers and the wholesalers/traders are quite common such that the former fixes prices deliberately lower than market equilibrium price in order to secure undercover kickbacks. Mandatory auction allowance over and above the agreed upon quantity

of fish transacted is another malpractice that narrows the fisherfolk's share. A recent study<sup>5</sup> carried out at ICAR-CMFRI has also shown that the dependence of fisherfolk on informal credit is quite high in spite of the presence of cooperative agencies such as the Kerala State Cooperative Federation for Fisheries Development Limited (Matsyafed) which play an active role in enhancing credit delivery in the coastal belt. However, this is a systemic issue that cannot be addressed through a price support mechanism like MSP. What is actually needed to improve the fisherfolk's share in consumer's rupee is a mix of initiatives that enhance marketing efficiency of the fish value chains and a comprehensive set of measures that improve financial inclusion in the coastal belt.

**Practical problems in implementation:** There could be umpteen numbers of practical issues that need to be tackled once MSP is rolled out. To be effective, the government should be able to procure all

## EPWRF India Time Series Module on Health Statistics



### Features

**Presents All-India and state-wise annual data from 1980 onwards.**

**Structured in six major sections :**

- Demography
- Health Status
- Infrastructure
- Human Resources
- Health Education
- Health Finance

The EPWRF ITS has 18 modules covering a range of macro-economic, financial and social sector indicators on the Indian economy

**For more details, visit : [www.epwrfits.in](http://www.epwrfits.in)**

the quantity of fish that is offered by the fishers at MSP, that too uniformly across the coast. For achieving such a feat, the capacity of cold storage required would be enormous. Once an investment is made in this direction, it is to be ensured that such facilities do not remain idle. This indirectly means that procurement should take place on a regular basis. This also requires sufficient back-up in the form of regular offtakes which may involve huge subsidies. If a hitch happens in the system at some point of time, what would be done with such a highly perishable commodity like fish? Even in agriculture, the central government is able to procure only two cereals on a regular basis, rice and wheat, in spite of the fact that MSP is announced for 25 commodities. The prices received by farmers are below MSP in large number of markets, where it is not supported by effective procurement (Chand 2012). Further, an effective MSP regime would require a “costs and prices commission” or some similar body that recommends judicious prices on a regular basis considering an array of factors such as demand and supply situation, costs involved, subsidies incurred and so on. Is it possible to consider all these factors beforehand in marine fisheries that is multispecies, community-owned and highly dependent on imminent weather conditions? If not, how politically sensitive would the process of such announcement be, and hence, how judicious?

### Possible Alternatives

None of the arguments made above negate the fisherfolk’s legitimate claim for fair prices that enables them to earn a decent livelihood. However, considering the above factors, MSP would be a bad choice to achieve the said objectives. A better measure would be to announce a price stabilisation fund through which the state can undertake ad hoc initiatives to intervene in the market and realise price corrections from time to time. The market intervention scheme (MIS) administered by the central government in partnership with states, and presently in operation for perishable horticultural commodities, is another suitable alternative to MSP. Kerala can chart out a similar

scheme to handle price crashes in fishes in affected landing centres. Under this, the government, with the support from Matsyafed can undertake procurement activities on an ad hoc basis during instances when prices fall below certain pre-fixed percentage levels compared to ruling rates over the previous normal season. This also augurs well for mariculture-based production augmentation which is currently gaining traction. The advantage is that such mechanisms do not necessitate any permanent establishments. The cure would directly address the problem, that too at the right place, at the right time. Modalities may also be worked out to attach deficiency payment systems with the above proposed schemes with intermediation of the banking institutions so that leakages in entitlement distribution could be minimised.

Another pragmatic option is to provide the right of fixing landing price to fisher cooperatives in the respective landing centres on a daily basis depending on the demand–supply conditions, as is being practised in Japan and Norway. Necessary legislative support would be a prerequisite if this would be the case. Coupled with these, comprehensive packages are needed to enhance the efficiency of fish value chains through measures such as improving landing centre infrastructure, strengthening cold chains, reefer systems, retail chains and value addition through product diversification. Another important priority is to address the perennial problem of credit shortage in the marine fishery sector. The institutional lending systems should be strengthened, procedures simplified and flexibility augmented in credit contract conditionality to improve financial inclusion in the fishery economy. Hand-in-hand, the Matsyafed can systematically upscale its credit delivery activities, procurement mechanisms and retailing systems so that the fishing community themselves can become active partners in bringing about change.

### NOTES

- 1 MSP was first introduced in the mid-1960s and is presently announced for 25 commodities that mainly include cereals, pulses, oilseeds and other commodities such as copra and sugar cane.

- 2 Other price support mechanisms include open market operations for realising inter-year and intra-year price stability and market intervention scheme (MIS) mainly meant for perishable horticultural commodities.
- 3 In Norway, where tradable quota system is followed, a system of legally mandated minimum price for cod is practised (Pettersen 2016).
- 4 This ranges between 60% and 75% across marketing channels and fish types (Aswathy et al 2014).
- 5 Manuscript under review.

### REFERENCES

- Aswathy, Natarajan, Ramani Narayanakumar and N K Harshan (2014): “Marketing Costs, Margins and Efficiency of Domestic Marine Fish Marketing in Kerala,” *Indian Journal of Fisheries*, Vol 61, No 2, pp 97–102.
- Bharadwaj, Krishna (1997): “Agricultural Price Policy for Growth: The Emerging Contradictions,” *The State, Development, Planning and Liberalisation in India*, Terrence J Byres (ed), Delhi, New York: Oxford University Press.
- Chand, Ramesh (2003): “Minimum Support Prices: Changing Requirements,” *Economic & Political Weekly*, Vol 38, No 29, pp 3027–28.
- (2012): “Development Policies and Agricultural Markets,” *Economic & Political Weekly*, Vol 38, No 29, pp 3027–28.
- CMFRI (2017): “*Marine Fish Landings in India 2016*, CMFRI Booklet No 6/2017, ICAR-Central Marine Fisheries Research Institute, Kochi.
- Devaraj, M and E Vivekanandan (1999): “Marine Capture Fisheries of India: Challenges and Opportunities,” *Current Science*, Vol 76, No 3, pp 314–32.
- GoK (2017): “Thirteenth Five Year Plan, 2017–2022: Approach Paper,” State Planning Board, Thiruvananthapuram: Government of Kerala.
- Mohamed, K S, T V Sathianandan, P U Zacharia, P K Asokan, P K Krishnakumar, K P Abdurahiman, Veena Shettigar and R N Durgekar (2010): “Depleted and Collapsed Marine Fish Stocks along Southwest Coast of India: A Simple Criterion to Assess the Status,” *Coastal Fishery Resources of India; Conservation and Sustainable Utilization*, Society of Fisheries Technologists, Cochin, pp 67–76.
- Nayyar, Deepak (1994): “Industrial Development in India: Some Reflections on Growth and Stagnation,” *Industrial Growth and Stagnation: The Debate in India*, Deepak Nayyar (ed), Delhi: Oxford University Press.
- New Indian Express* (2018): “To End Exploitation, Kerala Government Plans Minimum Support Price for Fisher’s Catch,” 18 April, <http://www.newindianexpress.com/states/kerala/2018/apr/18/to-end-exploitation-kerala-government-plans-minimum-support-price-for-fishers-catch-1802939.html>.
- Parappurathu, Shinoj and C Ramachandran (2017): “Taming the Fishing Blues: Reforming the Marine Fisheries Regulatory Regime in India,” *Economic & Political Weekly*, Vol 52, No 45, pp 73–81.
- Pettersen, Ingrid Kristine (2016): “Prices in the Land of Cod: Analyzing the First-hand Market for Cod in Norway,” PhD thesis, University of Stavanger, Norway.
- Ramachandran, C (2004): “Teaching Not to Finish: A Constructivist Perspective on Reinventing a Responsible Marine Fisheries Extension System,” Central Marine Fisheries Research Institute, Kochi.
- Roy, Shantanu De (2018): “Will Increasing Minimum Support Price Cure Indian Agriculture?” *Economic & Political Weekly*, Vol 53, No 9.