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GM TECHNOLOGY

Fiasco in the name of the farmer

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The Centre should fully roll-back recent moves at controlling prices and royalties for Bt cotton seeds

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A farmer inspecting his cotton plantation in Paiya village in Gujarat. *Javed Raja*

KUDOS TO the person high up in the corridors of power, whose timely intervention has saved Prime Minister Narendra Modi from a potential embarrassment during his forthcoming US visit!

The issue at stake is a May 18 gazette notification of the Ministry of Agriculture and Farmers Welfare on genetically modified (GM) cotton seeds. An earlier order allowed the ministry to fix the maximum retail price (MRP) of GM cotton seeds incorporating US multinational Monsanto's proprietary Bollgard-II technology at Rs 800 per packet, along with a trait fee (royalty) of Rs 49. The notification, however, went a step further by prescribing a royalty of not more than 10 per cent of the MRP of seeds for even any new commercialised GM trait, and to be reduced annually by 10 per cent after five years. Besides, any trait, both existing and new, would have to be compulsorily licensed to all seed firms asking for it, within 30 days.

The anticipated implementation of the notification triggered a spate of accusations and defenses. On the one side were the seed multinationals, specifically Mahyco Monsanto Biotech India Private Ltd (MMB) that has commercialised Bollgard Bt cotton technology in India since 2002. On the other were a few of the 50-odd domestic seed companies that had licensed this technology from MMB and did not want to pay the trait fees, which they claimed to be very high.

In light of the widespread backlash from economic, academic, and political quarters, the May 18 notification has thankfully been rescinded for now. The agriculture ministry has left the notification open for discussion for 90 days, following which its future will be determined. Clearly, had the notification still been in place, Modi would surely have had to face a harsh business and media during his visit to the US.

The Centre has invoked the Essential Commodities Act, 1955 (ECA) for control of both seed prices as well as trait fees for licensing of technology, which are basically private contracts. In a recent article, Montek Singh Ahluwalia, former vice-chairman of the erstwhile Planning Commission, had pointed out that any notification of this kind should have gone through the Protection of Plant Varieties and Farmers' Rights Act of 2001, rather than the ECA. This would have also been in line with the current government's National Intellectual Property Rights (IPR) Policy, which incidentally was issued hardly a week before the notification.

Instead of delving deeper into IPR issues, what I would like is to question the economic basis of applying the ECA. The ECA is normally invoked to check the prices of essential foodstuffs, when these spike abnormally within a short period. Such spikes could result from acute scarcity caused by natural calamities, war, or collusion by certain market participants (hoarders!).

But in the present case, none of these seem to have happened. There has neither been any sudden jump in cotton seed prices nor supply shortages. So, what can be the defense for the Centre's move? One of it could be on grounds of the farmer's inability to pay higher for cotton seeds. So then, the question is what would be extent of fall in seed prices from the now-shelved notification and the earlier (March 9) order?

In Maharashtra, which is the largest market for Bt cotton seeds, the MRP would come down from Rs 830 to Rs 800/packet, i.e. a decline of only 3.6 per cent. It is somewhat larger, at 14 per cent, in Andhra Pradesh and Telangana, where the existing MRPs of Rs 930 will be capped at Rs 800/packet. Either way, the moderation in prices isn't so much to justify the government's resort to such extreme action. The real story, though, unfolds when one looks at the second component, i.e. trait fee. Under the order, this would go down from the current Rs 186.95 to Rs 49 per packet, a steep 74 per cent cut.

The real drift of the battle is less over providing cheaper seeds and more about reduction of royalty payments for licensees. Both the March 9 order and the rescinded notification aim at transferring benefits away from the innovator to the domestic licensees. It is a blatant "theft" of somebody's rightful earnings from massive financial and time investments on development of new technology.

What if MMBL does not agree to the new conditions, and decides to withdraw even Bollgard-II technology from India? Would domestic licensees give up selling hybrids incorporating this event? If that happens, the cotton revolution that the country has witnessed over the last decade will sink within the next 3-5 years. India may, then, even turn a major cotton importer.

Alternatively, if the licensees continue to sell Bt seeds based on Bollgard-II, India's credibility in IPR enforcement would be at stake. In both cases, there will be no incentive for Monsanto for introducing its next-generation technology; the same applies to other innovator plant biotech companies, too. Over time, the prospect of even sustaining the current cotton revolution becomes difficult.

My estimates suggest that India gained roughly $55 billion over the period from 2002 to 2015 in terms of exports of raw cotton, additional yarn shipments, and savings in potential imports — which would have been necessitated in a business-as-usual scenario and had Bt cotton not been introduced. At the farmer level, the estimated returns over 'A2' or actual paid-out costs at 2014-15 prices for five major states — Gujarat, Maharashtra, Andhra, MP, and Punjab — averaged only Rs 12,946 per hectare for the triennium ending (TE) 2001-02, just before Bt was introduced. But this rose to Rs 45,438 per hectare for the TE 2012-13.

The above 3.5-fold increase in profits alone explains why more than 95 per cent of India's cotton area is today under Bt, representing the fastest spread of the technology anywhere in the world. This revolution would obviously have not happened if seed prices were really high. In fact, seed costs, which were just 6.14 per cent of farmers' total revenues in TE 2001-02, came down further to 4.78 percent in TE 2012-13.

The May 18 notification is clearly short-sighted and anti-farmer. Wisdom lies in burying it once and for all, while encouraging the best seed technologies to flow into India under competitive conditions via private contracts. The government can buy the technology from the innovator, if it wants to supply seeds to farmers at low prices. In an article written for this page, Pravesh Sharma, former managing director of the Small Farmers' Agribusiness Consortium, has drawn parallels with the Defense sector where the government negotiates purchase of technologies through a one-time payment *(http://bit.ly/1shBqxd)*.

A still bolder move would be to aim at taking over companies like Monsanto. If ChemChina can acquire Syngenta at $44 billion, and Bayer has already bid for Monsanto at $62 billion, can any arm of the Indian government (ICAR??) bid higher and thereafter sell seeds, be it of Bollgard-II or III, at any price it wants? Only PMO has the answer.

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