The Redundance of “Minimum Export Price”

What is the issue?

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- The Commerce Ministry is working on a policy for promoting export of agriculture commodities.
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- It looks keen to do away with restrictions such as “Minimum Export Price (MEP)” for most of the export goods, except certain sensitive items.
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How does MEP work?

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- MEP involves “fixing a floor price” below which an exporter shall not sell the product to an overseas customer.
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- Usually imposed on commodities such as “onion and basmati rice”, it hopes to restrict export volumes, curtail domestic prices and enhanc forex earnings.
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- While the government stipulates a MEP from time to time, in market parleys it is largely seen as an outdated concept as it gets easily circumvented.
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- The system is duped easily by invoicing at or above MEP for the record but actually pricing and selling the good at prevailing market price.
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- Depending on the pre-agreed arrangements, the price differential is later adjusted through future transactions or quality claims.
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- With exporters having mastered this route, MEP has become an ineffective instrument to restrict commodity export or contain domestic price rise.

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What is the alternative?

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- Rather than MEP, imposing an export duty could be an effective alternative, which will augment exchequer revenue and eliminate circumvention.
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- But it is the Finance Ministry, and not the Commerce Ministry, that will take the decision to impose or vary the rate of duty.
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- For such action, the Finance Ministry will have to consider all sensitivities relating to export of essential and politically touchy commodities like onion.
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- Also, it has to closely track market developments so as to be proactive in making ciritical decisions.
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What is the larger picture?

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- For promoting export of agri-commodities, the country should produce ‘genuine export surplus’.
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- Barring a limited number of commodities such as basmati rice and cotton, there are not many commodities that are in real surplus here.
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- Hence, Agri export form India has often primarily been a play on currency, where a weaker rupee helps boost exports.
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- Hence, the Commerce Ministry’s new agri-export push should not be a standalone policy that merely tinkers with certain procedural aspects.
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- Rather, it must be all encompassing and provide a holistic solutions from farm to ship to enjoy sustained success.
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Source: BusinessLine

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