

PROBLEMS AND PROSPECTS OF INDIA'S FLORICULTURE TRADE: A STUDY ON CUT ROSE UNITS

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ABSTRACT

The 100% EOUs on cut-rose in India suffered huge financial loss during the 1990s. Almost after 25 years since commercialization of the EOUs on cut roses, India is struggling even to-day to make its presence felt in the world flower market. The Government of India has extended many incentives to this industry to make it successful. Most important of those was the export oriented unit (EOU) status that was accorded to many of the units in this trade. Even then commercial viability of such units could not be established.

The objective of this study is to analyse the policy environment within which such units had to operate.

Keywords: Cut rose, export-oriented, subsidy, inverse subsidy, kinked supply curve

Introduction

The Export Oriented Unit (EOU) scheme was introduced in the year 1980. It was introduced as a complementary scheme to the Free Trade Zones/ Export Processing Zone (EPZ) Scheme introduced earlier, which had not attracted many units.

The Trade Policy announced on 13-8-1991 included a new package for 100% EOU units. As a result, along with the removal of the industrial licensing requirement for larger segment of industry, a route of automatic approval was introduced for the EOU's falling within a defined parameter. Such proposals were to be cleared within 2 weeks.

As a precursor of the opening of Indian economy the Government of India announced New Seed Policy in 1988. Floriculture got a big boost and was termed as a 'sunrise' industry during the liberalisation of economy by the Govt. of India during the early 1990s.

In tune with the international trade of flowers many cut rose production units came up in the following years. All such units targeted the seemingly lucrative international, mainly European markets. Many of these units were dedicated Export Oriented Units (EOUs).

The euphoria of the first half of 1990s suddenly waned in the second half of 1990s as the commercial operationalisation of the units neared (a gap of time between the implementation of the project and its official announcement of commencement of commercial production was allowed in the policy). All such units faced with heavy loss but could not stop exporting as that was obligatory under the law. Moreover, the newly introduced varieties of roses (which had no established market in the domestic arena) hardly had any takers in the domestic market at a price level where the EOUs may recover their cost of production. The portion of the produce which such units were permitted to sell in the domestic market (DTA) could not be sold at a profit earning price either.

The amount of loss per flower was almost the same in the export market and in the domestic market. At Rs. 2 per stem in the domestic market a grower was incurring a loss of Rs. 2 against a production cost of little over Rs. 4 whereas at Rs. 7 per stem in the international market a grower was incurring a loss of Rs. 2 against a cost of little over Rs. 9 per stem [PROBLEMS AND PROSPECTS OF INDIA'S FLORICULTURE TRADE: A STUDY ON CUT ROSE UNITS, Dibyendu Chakraborty and Jagatpati Tah, Plant Archives, ISSN 0972-5210, Vol. 7 No. 2, 2007, PP-931-934]

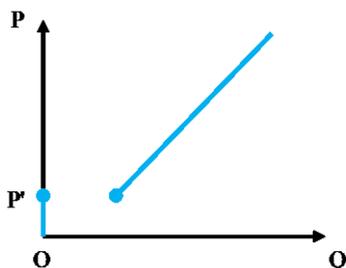
This study critically evaluates the economical framework of 100% EOU scheme propagated by the Govt. of India during the 1990s.

Discussion

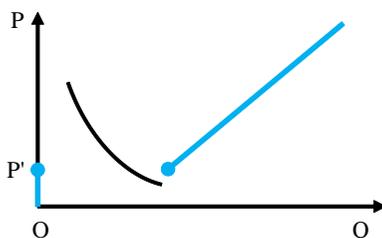
In a 100% EOU of cut rose units in India, however, firms were suppliers to a handful of larger auction houses and / or firms i.e. demanders in the international market. The referred handful of firms in the international market was effectively oligopolies in relation to the supplier 100% EOU firms in India.

From all over the world a huge number of firms provide supply to these oligopolistic organisations thus creating the right condition to classify the market as oligopsonistic market. The individual supplier firms are price takers.

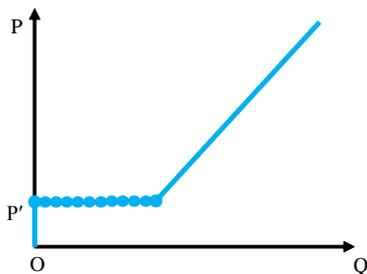
Price taking firms, in the 100% EOU category in India, with certain fixed cost element and marginal cost rising at a constant rate shall face a market supply curve as follows. Below the price P' the firm is not in the market.



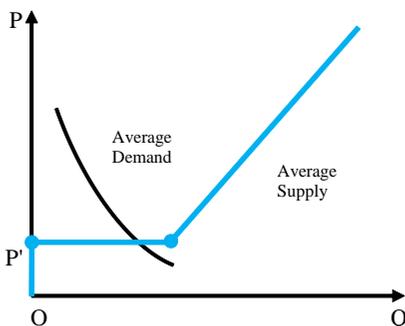
Discontinuity in supply function denotes that there is no equilibrium achieved by the individual firm and the supply curve has a kink.



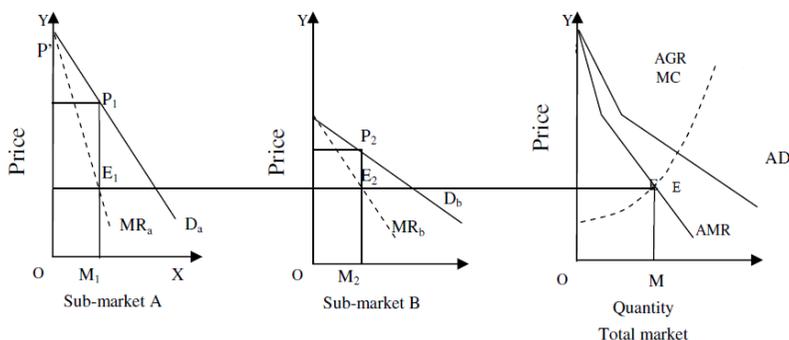
The presence of large number of firms in the market fills up the gap shown above. This is achieved through the process of aggregation.



The equilibrium becomes well defined between demand and supply.



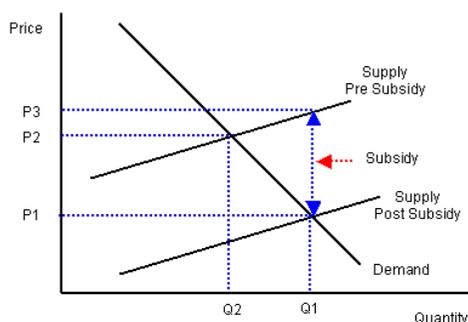
A firm operating in two different markets discovers its price through the interaction of Aggregate Marginal Revenue and Aggregate Marginal Cost curves of the two sub markets.



Price discoveries and quantity allocations in two different markets are determined by the market mechanism and transition from one to the other becomes smooth without any gap.

Unlike the above, in the case of 100% EOUs of cut roses in India, though the price discoveries in the domestic and export markets were dependent on market mechanism, the quantity allocations were strictly dictated by the stipulation of the EXIM Policy of the Govt. of India for the 100% EOUs having opted for certain exemptions under the scheme.

Such a 100% EOU was not allowed to sell more than 50%, lawfully, of its produce in the domestic market. Standard calculation of viability of such projects was done on the basis of assumption of export at around 90% of the total produce leaving only 5-10% of the produce for the domestic market. Quality of produce varied in the case of these 100% EOUs and the higher was the volume of exports the lower became the overall quality level. It has been reported that the Indian 100% EOUs on cut roses hardly realised Rs. 7/- per stem on an average in the export market [PROBLEMS AND PROSPECTS OF INDIA'S FLORICULTURE TRADE: A STUDY ON CUT ROSE UNITS, Dibyendu Chakraborty and Jagatpati Tah, Plant Archives, ISSN 0972-5210, Vol. 7 No. 2, 2007, PP-931-934]. Financial viability of these firms gone almost bad with this price level (even with 90% export sales). The situation worsened much more when production per square meter did not match the projected production level. Even then these units remained unable to stop exporting. Subsidy increases supply and pushes price lower.



Beneficiary of this higher volume of business derived through the mechanism of subsidy allowed to such units were the consumers of overseas economies. Overseas consumers did not get benefitted price wise as the supplied quality standards of roses were available from different sources worldwide. Real benefit had been accrued to the service providers along the supply chain, majority of which were overseas entities.

Conclusion

In the face of losing money with every cut-rose stem exported, the EOUs were impelled to continue to export under the policy guidelines. This results in capital erosion. Effectively this resulted in forced financing the operations of the overseas carrying, handling, and commission organisations etc. Financial incentives provided by the state had been used to fund businesses overseas when it was known before the shipments that the consignments were going to fetch much less money than the costs involved in them. This phenomenon is proposed to be termed as "inverse subsidy". That is effectively using the subsidy provided to the organisations in the exporting country to increase the business volume thus, increasing the earnings of the organisations in the importing country.

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