Tomato-nomics: Issues with Current Tomato Prices in India

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Why in News?

- Various governments are trying to provide tomatoes at subsidised prices (of around Rs 80 a kg), even as market prices are now closer to Rs 200 a kg.
- But quite interestingly, the inflation rate in tomato prices is negative – suggesting that tomato prices are crashing.

What is Inflation, Hyperinflation and Deflation?

- **Inflation is a quantitative measure** of how quickly the price of goods in an economy is increasing.
    - Inflation is caused when goods and services are in **high demand/ low supplies**, thus creating a drop in availability.
- **Hyperinflations** occur when the increase in monthly prices exceeds 50% over some period of time.
- **Deflation:** Deflation occurs when too many goods are available or when there is not enough money circulating to purchase those goods. As a result, the price of goods and services drops.

How is Tomato Produced in India?

- Tomato production is **concentrated regionally in the States** of Andhra Pradesh, MP, Karnataka, Odisha, and Gujarat, **which account for close to 50% of total production.**
- There are two major crops of tomato annually – **kharif** (hits the market between March and August) and **rabi** (September).
- Tomato production peaked at **21.187 million tonnes (MT)** in 2019-20 and has been **declining since** (20.69MT in 2021-22 and 20.62MT in 2022-23).

Issues with Current Tomato Prices in India:

- In the first half of June 2023, the modal price (rates at which most trades take place) in retail markets was **₹20 per kg**. On the last day of the month, it peaked at **₹100 per kg.**
- However, **Tomato prices fell by a whopping 35% in June 2023** (as against the prices in June 2022).
- In fact, tomato prices have been **experiencing "deflation"** (the opposite of inflation) since November 2022.

Why is the Inflation Rate Negative?

- **Inflation rate is based on the value of an index**. For each commodity there is an index, which works like **a proxy of the market prices**.
- **Since market prices can vary** depending on where one looks, **it is always better to go with the value of a pre-decided index.**
- **Further, inflation rate is calculated on a year-on-year basis in India**. That means the June inflation rate of a commodity will look at the index value for June 2023 (for tomato – 191) and compare it with June 2022 (293).
    - **This doesn't clearly tell** what the prices were in June last year.
- The tomato price index was so high in June 2022 that despite the spike in prices in June 2023, **the inflation rate contracted**.

Does that Imply that there isn't a Tomato Price Issue in India?

- **India does have a problem** with tomato prices and what is worse is that it strikes consumers each year like clockwork.
- **Each year the government's response is the same:** This is a temporary problem (due to unseasonal rains) and that prices will come down when supply improves.
- However, **the RBI and the NABARD have expressed concerns** over this high seasonal price volatility of tomatoes and its impact on the overall Consumer Price Index (CPI).
- Also, a NABARD study notes that tomato is the most volatile out of **all the three TOP (tomato, onion, potato) agri-commodities.**

What is Fuelling the Price Rise?

- **Dip in overall tomato production this year:** Two key reasons being **extreme weather conditions and low commercial realisation of the crop for farmers**.
- **Pest attacks in tomato crops:** The heatwaves and high temperatures in April and May along with delayed monsoon showers in southern India and Maharashtra led to pest attacks.
- **Low prices (₹6 to ₹11 per kg) between Dec 2022 and Apr 2023:** A lot of farmers resorted to selling whatever crop they had at these prices while some abandoned their crops. This led to a crunch in supply.

What can be Done to Avoid such Spikes?

- **Boost India's ability to store its produce:** The ability to store excess produce will **not only help consumers** (during phases when supply slumps) **but also help farmers** earn more.
- **Improve value and supply chains:** Since tomato is highly **perishable**, an organised value chain involves producing, processing and market products and services in an effective and efficient manner.

- **Eliminating middlemen and encouraging FPOs:** To sell produce directly to the consumers, as well as amending rules of Agricultural Produce Market Committees to reduce commission and other fees.
- **Encouraging cultivation in poly houses and greenhouses:** It will improve tomato yields (from 25 tonnes per hectare □ global average of 37 t/ha) and can control pest attacks.

Q1) What is Operation Greens Scheme?

The Union Ministry of Food Processing Industries approved the operation greens scheme, along the line of “operation flood”. It aims for a sustainable supply of Tomato, Onion and Potato (TOP) crops across the country with a stable price throughout the year.

Q2) What is a polyhouse?

A polyhouse is a kind of greenhouse with a structure made up of galvanised iron structure with covering material of UV stabilized polyfilm. This structure utilizes the feature of controlled climatic conditions for the proper growth of the plants in different seasons.

Source: ExplainSpeaking | #Tomatonomics: Tomato prices are skyhigh and yet the inflation rate of its prices is negative. Why? | TH