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Chocolate Wars – Reforming Regulatory Practice in India Part I

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http://www.indiaincorporated.com/policy-exchange/item/3991-chocolate-wars-reforming-regulatory-practice-in-india-part-i.html

The award of the 2014 Nobel Prize for Economics to Jean Tirole renews interest in regulation of firms and markets power.

This has a bearing on the practice of independent regulation India where the independent regulator model is based on top-down reform policy and entry of private players, unlike Organisation for Economic Co-operation and Development (OECD) countries where the independent regulator evolved with municipal practice.

The credo of "Make in India" requires regulators, among others, to meet criteria of efficiency, transparency and accountability – standards on which many of them would fall short. Reform in regulatory practice and investment in increasing capacity and changing mind-sets is critical. Not doing so would undermine our quest for competitive advantage.

As a case in point, let us look at India's large and expanding food product sector, especially in urban locations and middle and upper middle class income classes. India in 2014 is projected to be a 2.04 trillion dollar economy (nearly USD 10 trillion PPP) at a time when the world economy is in recession.

Even at 4.5 per cent rate of growth, we add a Dubai, Hong Kong or Singapore to the GDP every year. We are among the most attractive markets for goods and services globally, despite the proverbial stinginess of the Indian consumer and dirges of "policy paralysis"!

This combines with the fact that India since the early 1990s is home to the fastest and largest hypermarket revolution in the world (IFPRI 2010). Even Tier 4 towns have witnessed the mushrooming of supermarkets and shopping malls with glass and steel superstructures and increased footfalls in glitzy surroundings.

Running on generators and mostly devoid of good road access, these icons are re-shaping aspirations and consumer practices–neither illiteracy nor lack of civic amenities have stood in the way.

The Indian sweet tooth is proverbial - being the diabetes capital goes with the territory. India is a world leader in sugarcane production and consumption of sweetmeats, with consumer preferences increasingly moving towards chocolate and cocoa products that are easy to package, distribute, store and sell.

In store shelves in urban markets, we see increased presence of various chocolate brands, cocoa products and confectionary items – estimated at 18 per cent of supermarket sales. The reason for the increase in sales lies not only in changes in consumer preference but also a major change in cooking practices of the Indian middle class kitchen.

There is an increased recourse to international cooking mediums and condiments, not only in domestic cooking but also in hotels and restaurants. Combined with the increase in cooking shows, dedicated cooking channels and commercials in print and TV – the Indian food sector is increasingly global – not only in production but also in consumption and advertising. The growth and diversification of demand also requires to be supported by stronger safety standards and better labelling and packaging practice–and there in hangs a tale.

The public visibility of regulatory practice is especially germane when it comes to the food items consumed by the affluent income group (never mind the poor storage and safety of rice and wheat sold through the PDS). India has taken specific policy steps to address health risks by ensuring food safety standards are rigorous.

The policy measures in the food product sector are in contrast with the litany of complaints from food product importers, confined not only to the chocolate and cocoa product sectors but items such as olive oil, pickles, sausages, corn, fruit preserves, liquor and other glorious sights of our supermarket and kitchen shelves.

Arcana of the Codex Alimentarius are being debated in courts, customs offices and consumer columns. From the everyday profit and loss concerns of individual companies, it seems to have become a common cause for fast-food brands, restaurateurs and hoteliers whose customers are major spenders on imported food and beverages.

The mutual finger-pointing also shows that perhaps both the regulator and the “industry” are right about each other. The limitations of the regulator are matched by the lack of capacity among the private sector players who do not invest in human capital to understand public policy in India. Instead they rely mainly on lawyers and lobbyists and switching between litigation and “prayer and petition” tactics. Neither is there a commitment to invest in Research and development (R&D) (a pre-condition for “make in India”) nor any focus on serious Corporate Social Responsibility (CSR).

Clearly the promise of reform and independent regulation is in collision with the reality. It is moot therefore to reflect on the institution of the regulator in general and highlight areas for reform in the design, staffing and functioning of the regulator as also improvement in the market strategies of the private sector to be more fact and rule-based–this would be of interest for public policy analysts and advocates, interalia.

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