

Operation Flood III**European Community's aid conditional**

From Malcolm Subhan

BRUSSELS  
**T**HE supply of skimmed milk powder (SMP) and butteroil from the European Community to Operation Flood will continue. The European Commission has come out in favour of it and both the EC Council of Ministers and European Parliament are expected to go along with the Commission's decision. Of course Dr. Kurien may not want Community aid, because of the conditions attached to it this time; in which case those who want supplies of Community SMP and butteroil stopped may yet carry the day.

The European Commission's report to the Council and Parliament, setting out the reasons for its decision, clearly was drafted with one eye on the critics. But it bluntly rejects the charge that Community shipments, which are provided under its food aid programme, have had a harmful effect on domestic milk production. The report notes that EC dairy commodities have served two main purposes: (1) to meet the shortfall during the lean season and (2) maintain continuity in supplies of liquid milk to the consumer while domestic production catches up with demand.

The Commission does not agree with those who maintain that domestic supply has caught up with demand, to the point where gluts have appeared and cooperatives have been forced to declare milk holidays. The fact that some cooperatives have been unable to collect all the milk produced by their members is evidence, in the Commission's view, of inadequacies as regards infrastructure and marketing, rather than of a permanent surplus. It expects a continued rise in demand for both liquid milk and milk products.

The Commission also rejects the criticism that only rich farmers have benefited from Operation Flood. It points out that the objective of expanding the supply of good quality milk has brought large numbers of small farmers into the cooperatives. The number of farm families enrolled in cooperatives has risen from one million to 4.7 million in the last 10 years, according to figures contained in the report.

The Commission does not envisage a monopoly position for Operation Flood; it welcomes the fact that milk is marketed through several competing systems, including traditional vendors. But the growth of the cooperative sector is providing farmers, especially small ones, an alternative outlet for their production. At the same time traditional vendors are being forced to raise their own price to producers, even while being compelled to limit price increases to their customers.

Support for Flood III is justified on the grounds that Flood II did not meet all its initial objectives. Further investment is needed for basically three purposes: (1) to process and market the expected increase in production from existing cooperatives; (2) give additional support to these cooperatives and (3) diversify and expand research. Operation Flood also needs to be expanded to include more farmers and new milksheds.

Flood III is seen as a means both of completing the aims of Flood II and consolidating its substantial achievements. In the Commission's words: "It will contribute towards balanced economic and social development of India's agriculture and complete efforts to improve its dairy production."

In a concession to Operation Flood's critics the European Commission also expects Flood III to correct certain imbalances. Points which in its view require improvement relate mainly to marketing and pricing policy. The report argues that because milk distribution has traditionally operated under conditions of shortage, the cooperatives have paid insufficient attention to marketing. As a result, there is plenty of scope for increasing sales through more efficient marketing methods, especially now that the potential for growth in supplies from in-city milch cows and farmers living near the metropolitan centres is largely exhausted.

As for pricing policy, the Commission wants the principle of fixing stable consumer prices maintained. It opposes subsidies, unless the state budgets specifically provide for them. The Commission also wants accounting and monitoring to be rationalised and improved. To this end, it favours the progressive transformation of the NDDDB's overall, long-term programme into a series of individual projects, so that their rates of return can be more easily controlled.

The European Commission is reasonably satisfied, however, that the NDDDB has already taken these points into account when preparing Flood III. It nevertheless would like to see the counterpart funds generated from the sale of its shipments of SMP and butteroil used to support farmers directly as much as possible. This should not be difficult, unless for administrative reasons, given that some 21 per cent of the estimated cost of Flood III will be spent on providing support to farmers and cooperatives and another 10 per cent on veterinary services and animal husbandry. The EC's share of the total estimated cost of \$650 million has been put at around 25%.

The European Commission has told both the European Parliament

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and the EC Council of Ministers that it finds the quantities requested by India — 75,000 tonnes of SMP and 25,000 tonnes of butteroil, to be shipped over a 7-year period — to be reasonable. On an annual basis they would come to only 10 to 15 per cent of the total quantities of dairy products provided by the EC in recent years under its food aid programme. The Community should be able, in other words, to meet not only the demand from India but also from China and Sri Lanka, two countries which are close to launching Flood-type operations, using SMP and butteroil provided by the EC.

The Community has reserved the right, however, to replace dairy products with financial aid, should the level of milk production in India justify it. This can be seen as a fresh concession to critics of Operation Flood. The EC's food aid regulation

provides for food aid to be replaced with its cash equivalent, however, where aid in kind could have a harmful effect on domestic production. India nevertheless would prefer to receive SMP and butteroil rather than ECUs, as the former generate more rupees.

Under the EC's food aid regulation the decision whether or not to provide the aid requested by a developing country is taken by the European Commission. Both the European Parliament and the Council of Ministers must give their opinion, however. A negative opinion by either would obviously place the Commission in a difficult position. While the Council — i.e. the member states — are expected to support the Commission on Flood III, opposition has already surfaced in the European Parliament, so far among some German and Dutch Euro-MPs.

concerned, during the fiscal 1987, the IFC approved foreign exchange loans and equity investment amounting to US \$ 98.65 million equivalent to India which was substantially higher than that in the previous year.

The four major Indian projects approved during the year were: Hindustan Motors, Gujarat Narmada Valley Fertilisers, Titan Watches and Indian Rayon. In addition, the IFC made a further investment of \$ 390,000 in the Housing Development Finance Corporation Ltd.

## IFC earns record net income in fiscal 1987

**T**HE International Finance Corporation (IFC), Washington, an affiliate of the World Bank, posted a record net income of \$ 53.8 million during the fiscal 1987 (July 1, 1986 — June 30, 1987) as against \$ 25.4 million in 1986. The increase was mainly attributed to higher capital gains from the sale of mature equity investments and partly from the earnings from liquid assets and fee income that made a higher contribution to earnings than last year.

During the fiscal 1987, IFC approved 92 new investments as against 85 new investments in 1986. The total cost of these projects was projected at \$ 4,343 million (\$ 3,588 million in 1986). The amount of gross investment was, however, lower at \$ 920 million compared with \$ 1,156 million in 1986. These investment were in 41 developing countries.

IFC's portfolio now consists of

loan and equity investments in 404 companies in 77 developing countries. IFC's total borrowing for the year amounted to \$ 441 million. Out of this, the World Bank provided \$ 200 million, while the balance \$ 241 million was borrowed through five private placements in the international markets.

According to Mr. Sir William Ryrie, Executive Vice President of IFC, "the main aim for the next few years will be to expand IFC's investment so as to make a growing contribution to economic development and to do so in a manner that will also strengthen the Corporation finances". He further said "an improvement in our financial position will allow IFC to sustain and improve the services it provides where they are most needed — in those parts of the world where the risks of investment are greatest."

So far as India and the IFC are

## National committee on tea research constituted

The Union Government has constituted a 10-member National Committee on Tea Research to effect coordination among various agencies engaged in tea research and make an assessment of the long-term requirements of funds and facilities for tea research. The other terms of reference of the Committee are to oversee and evaluate research in tea undertaken by different agencies and give necessary guidance and direction to their work and to review the applications of research findings to the tea plantations as well as the introduction of innovative technologies in tea production.

The Committee has been set up as a follow-up of the announcement made by the Finance and Commerce Minister, Mr Narayan Datt Tiwari, at the end of the first Tea Productivity and Development Conference held in Calcutta on August 22. The Conference had recommended that tea production could be raised substantially by intensifying research and through the large-scale application of the results of such research. It had also stressed the need for diversifying tea research and for ensuring that research activities are adequately endowed.

The Secretariat of the Committee will be located in the office of the Tea Board in Calcutta.

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