

Modi government's Vodafone moment

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The UPA government could never live down its retrospective tax amendment. It became emblematic of an administration that could no longer assure investors of due process and the sanctity of law. Almost everybody associated with the UPA concedes it was a mistake. But has the lesson been learnt?

Last month, the Central government decided it would reduce the prices of Bt cottonseed. It also slashed the technology licence fee (or royalties) paid by the seed companies to the technology provider, Mahyco Monsanto (MM). In effect, the government expropriated about 74 per cent of the profits of MM and distributed it to domestic seed companies and farmers.

This is done for the sake of the poor farmers, the government order says. Everything is right about that goal. But then why does the government fix royalty payments? These are, after all, the domains of private contracts between MM and the seed companies that licensed the Bt gene. If a government can invalidate private contracts at will, how will business work?

Bt cotton is a cotton variety genetically modified to incorporate a gene toxic to certain pests. Since its release in 2002, Bt cotton varieties have diffused rapidly and now account for almost all of India's cotton area and production. After years of stagnation, productivity jumped up sharply. India now figures among the world's largest cotton producers and exporters.

MM is the principal provider of the Bt gene to our seed companies. This is not because they control some scarce natural resource. Neither is it because other companies are prohibited from releasing Bt genes. Other Bt genes were commercialised but failed to achieve significant success. Some others were also researched but could not be commercialised due to entry barriers.

The two principal obstacles have been high regulatory costs and seed price controls (first promulgated in several states in 2007). The comparative advantage of MM lies partly in its superior technological resources and partly in its size that enables it to cope with expensive and time-consuming regulation. Our biggest research entity is our public sector. They too developed Bt cotton varieties. But this was enveloped in a scientific scandal when it was found the gene was based on the Monsanto construct and not indigenously developed.

If India were serious about competition, it would have carved out a vigorous role for the public sector as China has done. If the political commitment had been strong, our scientists would have delivered the goods. The endless biosafety tests have indefinitely delayed the release of public-sector technologies (such as GM mustard) and discouraged the entry of small but innovative firms.

If the idea is that no amount of biosafety tests is enough, we have to live with the monopoly of the occasional product that actually gets through the regulatory process.

According to reports, the committee that recommended the slash in royalty did so because the technology was no longer effective. This is also the reason cited by other reports about why the government may revoke the patent on MM's Bt gene. The contradictions are disturbing.

A failing technology shrinks in adoption either because farmers abandon it or because government restricts it. Reducing prices and removing patent protection are quick ways of accelerating adoption. It is strange that a supposedly ineffective technology should receive so much policy support for maximising diffusion. The contradictions deepen when it is seen that the government order reduces not just seed prices but also royalties. Indeed, the sharp reduction in royalties is such as to leave the margins of domestic seed companies intact.

Whatever the reported flaws, Bt cotton seeds are in heavy demand. A ban is simply not feasible. Hence the curious illogic: The technology is not working, therefore, expropriate MM and so allow all others to freely exploit the Bt gene. It is understandable we should seek to reduce the cost of seeds and technologies dispossessing an unpopular multinational. The political allure notwithstanding, such a path carries risks — including to the farmers.

All biological technologies (including medicines) have finite lives. For now, we can get by with copying MM's Bt gene. What happens when its pest resistance breaks down? Do the seed companies have a technology that can take care of it? Or should we go back to the old ways of spraying expensive chemicals? Strategies have to walk on many legs. Cutting off one is not sustainable.

However, the concerns are not for cotton farmers alone. The arbitrary exercise of government power in overriding longstanding private contracts would be worrying to not just MM but to all prospective investors, diminishing the Make in India brand. We can only hope this will not serve to remind the US presidential campaign of how the world targets one of their stellar companies.

The starting point of a thoughtful response has to acknowledge the popularity of such technologies and consider how the markets can be kept competitive by encouraging other innovators, including those in the public sector. Anti-competitive practices could have been referred to the Competition Commission of India. The simplest policy is for the government to purchase proven technologies and sell them to seed companies and growers at low prices.

The NDA government has preferred to continue the legacy of the UPA administration and various state governments. The not-so-secret sauce is to: One, maintain costly and unpredictable regulatory structures; two, reduce entry and competition; and three, acknowledge the stupendous demand for the commercialised product by squeezing the monopolist incumbent. With the latest order, though, the government tragically seeks to construct its own Vodafone moment.