AGRICULTURE PRICE POLICY ANALYSIS OF INDIA

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INTRODUCTION
Agriculture is described as the backbone of Indian economy.

Agriculture contributed about 17.32 percent to national GDP in 2016-17.

More than half of India’s workforce is employed in its agriculture sector.

Growth of other sectors and overall economy depends on performance of agriculture to a considerable extent.

Agriculture is a source of livelihood and food security for large majority of vast population of India.

Agriculture has special significance for low income, poor and vulnerable sections of rural society.

Because of these reasons agriculture is at the core of socio-economic development and progress of Indian society.
• Agriculture in India is in the hands of millions of peasant households, a bulk of which comprise tiny land holdings with preponderance of owner cultivation.

• There is hardly any direct government intervention in the production and investment decisions of the farmers but the government does influence the legal, material and economic environment in which farmers operate.

• One such instrument of intervention in the country is Agricultural Price Policy (APP).
• The agricultural price policy is basically aimed at intervening in agricultural produce markets to influence the level of fluctuations in prices and price-spread from farm gate to the retail level.

• India’s agricultural price policy includes three main types of administered prices: support, procurement, and issue price.
Agricultural Price Policies

- **Support Price**: In India, the choice has naturally fallen on guaranteed minimum price. Two sets of administered prices are fixed by the Government, viz.,

  i) **Minimum support prices** for major field crops in the country, which are annually fixed and are meant to be the floor levels below which the market prices would not be allowed to fall and,

  ii) **Procurement prices** in respect of Kharif and Rabi cereals at which the grain is to be domestically procured by public agencies for release through the public distribution system.

- **Issue Price**: It is a price at which the commodities are made available to the consumers at Fair Price Shops (FPS).
NEED FOR APP

- To ensure relation between prices of food-grains and agricultural goods
- To watch interests of producers and consumers
- To maintain relation between prices of crops
- To control seasonal fluctuations
- Integrate the price
- Stabilise the general price
- Increase in production
Figure 1: Evolution of Agricultural Price Policy in India

1950
- Public investments on irrigation development
- Land Reforms

1965-70
- Setting up of CACP and FCI
- Green Revolution

1972-76
- Land Ceiling and distribution of surplus land
- Integrated Rural Development Programme

1980-91
- Setting up of NABARD
- Economic Reforms

1995-1998
- Implementation of WTO
- TPDS

2000 onwards
- Doubling flow of institutional agricultural credit
- Encouraging agro-processing
- Expanding micro-irrigation
- National Agriculture Policy
OBJECTIVES

✓ To understand different instruments of Agriculture Price Policy (APP)
✓ To evaluate the efficiency of MSP regime
INSTRUMENTS OF APP

- Minimum Support Price
- Public Distribution System
- Zonal Restrictions
- Market Intervention Scheme (MIS)
The price support policy was initiated by the Government to provide protection to agricultural producers against any sharp drop in farm prices.

If there is a good harvest and market prices tend to dip, the government guarantees MSP or floor price to farmers, which covers not only the cost of production, but also ensures a reasonable profit margin for the producers.

MSP is announced each year and is fixed after taking into account the recommendations of the CACP (Commission for Agricultural Costs and Prices).
Normally, the procurement price is lower than the open market price and higher than MSP.

CACF takes into account all important factors viz.,:

• cost of production
• changes in input prices
• input/output price parity
• trends in market prices
• inter-crop price parity
• demand and supply situation
• parity between prices paid and prices received by farmers
- CACP recommends MSPs of **23 commodities**, which comprise **7 cereals**, **5 pulses**, **7 oilseeds** and **4 commercial crops**.

**Table 1: Commodities for which MSP is recommended**

<table>
<thead>
<tr>
<th>CEREALS</th>
<th>PULSES</th>
<th>OILSEEDS</th>
<th>COMMERCIAL CROPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paddy</td>
<td>Gram</td>
<td>Groundnut</td>
<td>Copra</td>
</tr>
<tr>
<td>Wheat</td>
<td>Tur</td>
<td>Rapeseed–Mustard</td>
<td>Sugarcane</td>
</tr>
<tr>
<td>Maize</td>
<td>Moong</td>
<td>Soyabean</td>
<td>Cotton</td>
</tr>
<tr>
<td>Sorghum</td>
<td>Urad</td>
<td>Seasmum</td>
<td>Raw jute</td>
</tr>
<tr>
<td>Pearl millet</td>
<td>Lentil</td>
<td>Sunflower</td>
<td></td>
</tr>
<tr>
<td>Barley</td>
<td></td>
<td>Safflower</td>
<td></td>
</tr>
<tr>
<td>Ragi</td>
<td></td>
<td>Nigerseed</td>
<td></td>
</tr>
</tbody>
</table>
CACP carries out state–specific analyses for the cost of production in respect of various commodities. This is done through consultations with the state governments.

In fixing the support prices, CACP relies on the cost concept, which covers all items of expenses of cultivation including the imputed value of input owned by farmers such as rental value of owned land and interest on fixed capital.

CACP utilizes C2 cost concept for working out MSP.
### Table 2: MSP of different commodities

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2010-11</th>
<th>2016-17</th>
<th>2017-18</th>
<th>%increase 2010-11 to 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recommended</td>
<td>Fixed</td>
<td>Recommended</td>
<td>Fixed</td>
</tr>
<tr>
<td>Paddy Common</td>
<td>1000</td>
<td>1000</td>
<td>1470</td>
<td>1470</td>
</tr>
<tr>
<td>Wheat</td>
<td>1120</td>
<td>1120</td>
<td>1625</td>
<td>1625</td>
</tr>
<tr>
<td>Maize</td>
<td>880</td>
<td>880</td>
<td>1365</td>
<td>1365</td>
</tr>
<tr>
<td>Tur (Arhar)</td>
<td>2800</td>
<td>3000</td>
<td>4625</td>
<td>5050</td>
</tr>
<tr>
<td>Gram</td>
<td>2100</td>
<td>2100</td>
<td>3800</td>
<td>4000</td>
</tr>
<tr>
<td>Groundnut</td>
<td>2300</td>
<td>2300</td>
<td>4120</td>
<td>4220</td>
</tr>
<tr>
<td>Cotton</td>
<td>3000</td>
<td>3000</td>
<td>4160</td>
<td>4160</td>
</tr>
<tr>
<td>Mustard</td>
<td>1850</td>
<td>1850</td>
<td>3600</td>
<td>3700</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>145</td>
<td>145</td>
<td>255</td>
<td>255</td>
</tr>
</tbody>
</table>
MSP ON MINOR FOREST PRODUCE (MFP)

- Govt. of India has introduced the scheme of “Mechanism for Marketing of Minor Forest Produce (MFP) through Minimum Support Price (MSP) and development of value chain”. The scheme is designed as a social safety net for improvement of livelihood of MFP gatherers by providing them fair price for the MFPs they collect.

The scheme has been started with following objectives:
- To provide fair price to the MFP gatherers for the produce collected by them and enhance their income level
- To ensure sustainable harvesting of MFPs.
- The MSP scheme seeks to establish a framework to ensure fair returns for the produce collected by tribals, assurance of buying at a particular price, primary processing, storage, transportation etc while ensuring sustainability of the resource base
• The commodities under this scheme are:
  (i) Tendu                      (vii) Chironjee
  (ii) Bamboo                   (viii) Wild Honey
  (iii) Mahuwa Seed             (ix) Myrobalan
  (iv) Sal Leaf                 (x) Tamarind
  (v) Sal Seed                  (xi) Gums (Gum Karaya)
  (vi) Lac                      (xii) Karanj

• This scheme has been implemented in States having areas under Fifth Schedule of the Indian constitution i.e. Andhra Pradesh, Chhattisgarh, Gujarat, Jharkhand. Madhya Pradesh, Maharashtra, Odisha, Rajasthan and Telangana.
COMMISSION FOR AGRICULTURAL COSTS AND PRICES (CACP)

- CACP is a decentralised agency of the Government of India. It is an attached office of the Ministry of Agriculture and Farmers Welfare, Government of India.

- The commission was established to maintain the recommend Minimum Support Prices (MSPs) to motivate cultivators and farmers to adopt the latest technology in order to optimise the use of resources and increase productivity.

Established: 1965 as Agricultural Prices Commission
Renamed in 1985 as CACP
Chairperson: Vijay Paul Sharma
Headquarters: New Delhi
“Public distribution system (PDS) is a government-sponsored chain of shops (fair price shops) entrusted with the work of distributing basic food and non-food commodities to the needy sections of the society at very cheap prices.”

It is an Indian food security system established by the Government of India under Ministry of Consumer Affairs, Food and Public Distribution and managed jointly with state governments in India.
Commodities distributed under PDS

PDS runs under joint responsibility of Centre & State Government

Centre (FCI)
- Nodal Agency for procurement

State Governments
- Operational responsibility

Nodal Agency for procurement
Centre (FCI)
- Operational responsibility
State Governments
Commodities distributed under PDS
PDS runs under joint responsibility of Centre & State Government

22
Food Corporation of India was set up on 14 January 1965 under the Food Corporation Act 1964 to implement the following objectives of the National Food Policy:

i. Effective price support operations for safeguarding the interests of the farmers

ii. Distribution of foodgrains throughout the country for PDS

iii. Maintaining satisfactory level of operational and buffer stocks of foodgrains to ensure National Food Security

iv. Regulate market price to provide foodgrains to consumers at a reliable price

It is one of the largest corporations in India operating through 5 Zonal offices and 24 Regional offices. Each year, Food Corporation of India purchases roughly 15 to 20 per cent of India's wheat output and 12 to 15 per cent of its rice output. The purchases are made from the farmers at the rates declared by the Govt. of India.
• There is no limit for procurement in terms of volume, any quantity can be procured by FCI (Food Corporation of India) provided the stock satisfies FAQ (Fair Average Quality) specifications with respect to FCI.

• The Food Corporation of India procures rice and wheat from farmers through many routes like paddy purchase centres/mill levy/custom milling and stores them in depots.

• FCI maintains many types of depots like food storage depots and buffer storage complexes and private equity godowns and also implemented latest storage methods of silo storage facilities which are located at Hapur in Uttar Pradesh and Elavur in Tamil Nadu.

• The stocks are transported throughout India and issued to the state government nominees at the rates declared by the Government of India for further distribution under the Public Distribution System (PDS) for the consumption of the ration card holders.

• The difference between the purchase price and sale price, along with internal costs, are reimbursed by the Union Government in the form of food subsidy.

• FCI by itself is not a decision-making authority; it does not decide anything about the MSP, imports or exports. It just implements the decisions made by the Ministry of Consumer Affairs, Food and Public Distribution and Ministry of Agriculture.
FCI food stock*

(in million tonne)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rice (in MT)</th>
<th>Wheat (in MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>30.7</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>44.3</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>15.8</td>
<td>38.6</td>
</tr>
<tr>
<td>2016</td>
<td>19.4**</td>
<td>30.1</td>
</tr>
</tbody>
</table>

*as on July 1 for each year,
**excluding 5.2 MT rice to received from millers

Source: FCI
Fig. 2: Levels of buffer stocks vs. norms for rice and wheat (million tonnes)

Saini and Kozicka (2014)
**Food for thought**

Shanta Kumar committee’s recommendations

- Let FCI focus on Uttar Pradesh, Bihar where procurement is weak and farmers resort to distress sale
- Roll out direct cash transfer to curb PDS grain diversion; start with big cities, grain-surplus states
- Get private players to create modern storage and transportation infrastructure
- Rationalise tax structure on grain procurement to promote private purchases

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (₹ crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>42,873</td>
</tr>
<tr>
<td>2010-11</td>
<td>56,394</td>
</tr>
<tr>
<td>2011-12</td>
<td>68,697</td>
</tr>
<tr>
<td>2012-13</td>
<td>80,563</td>
</tr>
<tr>
<td>2013-14</td>
<td>93,445</td>
</tr>
</tbody>
</table>
• Nafed is registered under the Multi State Co-operative Societies Act.
• It was setup with the objective of promoting Co-operative marketing of agricultural produce to benefit the farmers.
• Agricultural farmers are the main members of Nafed, who have the authority to say in the form of members of the General Body in the working of Nafed.
• NAFED is now one of the largest procurement as well as marketing agencies for agricultural products in India. With its headquarters in New Delhi, NAFED has four regional offices at Delhi, Mumbai, Chennai and Kolkata, apart from 28 zonal offices in state capitals and important cities.
• In 2008, it established, National Spot Exchange, a Commodities Exchange as a joint venture of Financial Technologies (India) Ltd. (FTIL).
The objectives of NAFED are:

- to organize, promote and develop marketing, processing and storage of agricultural, horticultural and forest produce,
- distribution of agricultural machinery, implements and other inputs,
- undertake inter-state import and export trade, wholesale or retail as the case may be and to act and assist for technical advice in agricultural production

NAFED may undertake one or more of the following activities.

- to facilitate, coordinate and promote the marketing and trading activities of the cooperative institutions, partners and associates in agricultural, other commodities, articles and goods
- to undertake or promote on its own or on behalf of its member Institutions or the Government or Government Organizations, Inter-State and international trade and commerce and undertake, wherever necessary, sale, purchase, import, export and distribution of agricultural commodities, horticultural and forest produce, other articles and goods from various sources for pursuing its business activities
- to undertake purchase, sale and supply of agricultural, marketing and processing requisites, such as manure, seeds, fertilizer, agricultural implements and machinery, packing machinery, construction requisites, processing machinery for agricultural commodities, forest produce, dairy, wool and other animal products;
NAFED helps in implementation of Price Support Scheme, PSF Scheme, Market Intervention Scheme of the Government of India.

NAFED helps farmers by procuring their produce like Foodgrains, Pulses, Oilseeds, Spices, Cotton, Tribal produce, Jute & Jute products, Eggs, Fresh Fruits & Vegetables through the established cooperative network all over the country with active involvement of marketing societies at mandi level.

NAFED also provides marketing assistance to the farmers by arranging disposal of their produce on consignment basis at terminal markets to enable them fetch best possible price for their produce.

NAFED at the behest of Govt. of India also serves the consumers' interests through supply of various essential items such as, Onions, Potatoes, Eggs etc. during scarce marketing situation or when the prices of such commodities rise abnormally.
Market Intervention Scheme (MIS)

- Market Intervention Scheme (MIS) is a price support mechanism implemented on the request of State Governments for procurement of perishable and horticultural commodities in the event of a fall in market prices.
- The Scheme is implemented when there is at least 10% increase in production or 10% decrease in the ruling rates over the previous normal year.
- Its objective is to protect the growers of these horticultural/agricultural commodities from making distress sale in the event of bumper crop during the peak arrival period when prices fall to very low level. Thus it provides remunerative prices to the farmers in case of glut in production and fall in prices.
• Proposal of MIS is approved on the specific request of State/Union Territory (UT) Government, if the State/UT Government is ready to bear 50% loss (25% in case of North-Eastern States), if any, incurred on its implementation.

• Further, the extent of total amount of loss shared is restricted to 25% of the total procurement value which includes cost of the commodity procured plus permitted overhead expenses.

• Under the Scheme, in accordance with MIS guidelines, a pre-determined quantity at a fixed Market Intervention Price (MIP) is procured by NAFED as the Central agency and the agencies designated by the state government for a fixed period or till the prices are stabilized above the MIP whichever is earlier.
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Apples</td>
<td>Galgal</td>
</tr>
<tr>
<td>Pineapple</td>
<td>Chicory</td>
</tr>
<tr>
<td>Mustard seed</td>
<td>Grapes</td>
</tr>
<tr>
<td>Kinnoo/Malta</td>
<td>Ginger</td>
</tr>
<tr>
<td>Red-chillies</td>
<td>Mushrooms</td>
</tr>
<tr>
<td>Castor seed</td>
<td>Onions</td>
</tr>
<tr>
<td>Garlic</td>
<td>Clove</td>
</tr>
<tr>
<td>Coriander seed</td>
<td>Potatoes</td>
</tr>
<tr>
<td>Copra</td>
<td>Black pepper</td>
</tr>
<tr>
<td>Oranges</td>
<td>Cabbage</td>
</tr>
<tr>
<td>Isabgol</td>
<td></td>
</tr>
<tr>
<td>Palm oil</td>
<td></td>
</tr>
</tbody>
</table>
- The MIS has been implemented in the States of Himachal Pradesh, Haryana, Punjab, Andhra Pradesh, Maharashtra, Karnataka, Rajasthan, Gujarat, Kerala, Jammu and Kashmir, Mizoram, Sikkim, Meghalaya, Tripura, Uttar Pradesh, West Bengal, Madhya Pradesh, Andaman and Nicobar islands, Lakshadweep etc.
Zonal Restrictions

• In condition of scarcity, a state can call for restrictions on the inter-state movement of food grains. In case of surplus and in the presence of an effective buffer stock of food grains, these restrictions may as and when warranted by the situation, be gradually relaxed.
Efficacy of MSP Regime
MSP is criticized generally for:

- Distorted Production
- Huge Stocks
- Inflation
- Backwardness in agriculture
FOOD FOR THOUGHT
The government hoards cereals...

Actual stock with government
Minimum buffer needed

(Figures in million tonnes)

... putting pressure on prices
Cereal inflation (in %)

Source: Ministry of Statistics; Ministry of Food
• The minimum support price mechanism may have spurred production of rice and wheat but it has had marginal to nil impact on the production of other crucial agricultural commodities like pulses and oilseeds, the deficit of which is met by expensive imports.

• The low utility of MSPs, has primarily to do with the virtual absence of the state procurement machinery for crops barring rice and wheat.

• MSP has incentivized farmers to over-produce certain crops, especially wheat and paddy, crowding out other less-water intensive crops like pulses.
Table 4: Awareness of Farmers on MSP of their crops

<table>
<thead>
<tr>
<th>Sr No.</th>
<th>States</th>
<th>Total Farmers</th>
<th>% of farmers aware of MSP</th>
<th>Declaration of MSP by Govt. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Before Sowing</td>
<td>After Sowing</td>
</tr>
<tr>
<td>1</td>
<td>AP</td>
<td>80</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Bihar</td>
<td>120</td>
<td>98</td>
<td>32</td>
</tr>
<tr>
<td>3</td>
<td>Gujarat</td>
<td>80</td>
<td>48</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Karnataka</td>
<td>80</td>
<td>85</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>MP</td>
<td>160</td>
<td>90</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Maharashtra</td>
<td>120</td>
<td>45</td>
<td>24</td>
</tr>
<tr>
<td>7</td>
<td>Odisha</td>
<td>120</td>
<td>68</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Punjab</td>
<td>80</td>
<td>100</td>
<td>29</td>
</tr>
<tr>
<td>9</td>
<td>Rajasthan</td>
<td>120</td>
<td>57</td>
<td>22</td>
</tr>
<tr>
<td>10</td>
<td>UP</td>
<td>138</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Uttrakhand</td>
<td>40</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Total</td>
<td>1238</td>
<td>81</td>
<td>10</td>
</tr>
</tbody>
</table>

As per the Report of the High Level Committee on Reorienting the Role and Restructuring of Food Corporation of India there are 90.2 million agricultural households in India. From this, during the period July to December 2012, only 18.67 million households reported selling paddy. Of this number only 13.5% sold to a procurement agency (i.e. either FCI or other state procurement agencies). This essentially means that only 2.52 million households sold paddy to the procurement agency. Of this who sold to a procurement agency only 27% of their sales were at the minimum support price.

After taking these factors into account, the number of direct beneficiaries from the minimum support price announced by the government and the procurement system set up to buy paddy and wheat, comes out to be even lower than 5.8% of the agricultural households.

As the Shanta Kumar Committee Report puts it: "The direct benefits of procurement operations in wheat and rice, with which FCI is primarily entrusted, goes to a miniscule of agricultural households in the country."
• Further, the procurement benefits large farmers in a few selected states like Punjab, Haryana, Andhra Pradesh and lately from Madhya Pradesh and Chhattisgarh.
• Large farmers are the luckiest of the lot-they have a ready made customer in the form of the government.
• What muddles the situation further is that in some states, the procurement agencies buy nearly 70-90% of the wheat and rice and literally crowd out the private sector.
• This crowding out leads to food prices going up. Food inflation hurts the poor the most. Half of the expenditure of an average Indian family is on food. In case of the poor it is 60% (NSSO 2011).
• Any price rise, particularly a rise in food prices which is what an increase in MSP leads to, hurts this section of the population the most.
Price Deficiency Payment System
Each farmer would have to register his or her crop and acreage sown with the nearest Agricultural Produce Marketing Committees (APMC) mandi. If the market price then falls below the floor price, the farmer would be entitled to a difference of around 10 per cent of the MSP-linked price that could be paid through direct benefit transfer into an Aadhar-linked bank account.

Farmer Fair Price or MRPs
FFP for all essential non MSP commodities which would be a cost plus price. All negotiations would begin at FFP for a FAQ grade product.
Conclusion
• APP is an important policy of the Union Government to safeguard the interests of producers and consumers. It determines floor price of major agricultural produces every year for protecting the farmers from the middlemen and fluctuating market conditions.

• But MSP has been highly favourable to rice and wheat production and has resulted in the shift of good quality land and resources to these crops, away from pulses, oilseeds, and coarse grains.
• Price support operations need to be extended to other crops like pulses and oilseeds to stimulate their production.

• There is a need to raise awareness levels on MSP among farmers and explaining them on how it works to their benefit. This could be made possible by organising awareness drives, initially pushing the government agencies to foray into the nonserviced villages to procure foodgrains directly from farmers rather than the farmers coming to the agencies.

• Farmers have no direct participation in the determination and selection of parameters which should form a part of calculation matrix for MSP. Since, it is not practically possible to hear the say of every farmer on MSP calculation process, the Government should encourage the larger farmer bodies and associations to take part on deciding the contributing factors for MSP. Other than this, there is a need to create a platform where farmers might be able to voice their concerns and suggestions.
References


“Do not measure agricultural progress merely in statistical terms, but mainstream the human dimension in all agricultural programmes and strategies, and use increase in farmers’ real income as the measure of progress.”

-M.S. Swaminathan