

Topic 5

ANU

How to fix Agricultural Pricing issues

MSP has been raised often and supposedly partly for political reasons = during UPA, tenure and this is major contribution to food inflation

* Farmers complaint that their Production costs still not adequately recovered.

* Problem of Setting Agricultural Prices?

- Cultivation costs vary widely from one region to another they are usually higher in states such as Punjab Haryana and A.P due to higher wages, land value and input use
- Therefore a uniform MSP across the country leaves farmers in the surplus generating intensive farming areas dissatisfied.
- So Market here play meaningful role in price determination

→ MSP and procurement Prices plays an important role

MSP - growers can call on to avert distress sales. while govt procurement prices should be at market determined prices. Such a mechanism will spur farmers into responding to demand-supply driven price signals. Together with lifting curbs on international trade (this will help to solve India's agricultural pricing problem)

→ In India recent food inflation is largely due to an inadequate supply response to increasing demand, it affects poor disproportionately and adversely impacts the achievement of removal of poverty

Minimum Support Price - ^{rationalize} Main incentives behind determination of MSP include 1 -

- (i) The need to provide incentive to the farmer for adopting improved technology and for developing a production pattern broadly in the light of national requirements.
- (ii) The need to ensure rational utilisation of land, water and other production resources
- (iii) The likely effect of on the price policy, on the rest of economy particularly on the cost of living, level of wages
- (iv) The terms of trade b/w agricultural sector and non-agricultural sector

• National food security Bill guarantees supplementary nutrition services through anganwadis for all children under 6, midday meals for school children and very importantly maternity entitlement for all pregnant women. There is proposed transition from per household to per capita entitlements under the PDS, the identification of eligible households and the provision for cash transfer among others.

- the current version of NFSA 75% of rural population will be entitled to a monthly quota of 5 kg of grain from the PDS. Each BPL families get 35 kg / Month. The main argument for per-capita entitlement is equity - that larger families will get their fair share.
- Per capita entitlement prevents cheating by families pretending to be separate households to enhance their entitlements.

Agricultural Prices and Markets

- Food and agricultural commodity prices in India are determined by domestic demand and supply factors influenced by domestic price policy.
- India meets the bulk of its large food demand through domestic production, barring few commodities like edible oil and pulses.
- The govt of India intervenes in the agricultural markets to achieve certain developmental objectives. The main reason of intervention is food security and price stability.
- The govt intervenes in domestic market in various forms such as food grain procurement and distribution, price support, input subsidies, marketing legislations.
- The interventions attempted to bring in regulation of various agricultural activities to protect the interest of producers and consumers.

Procurement and distribution - The govt of India's food grain policy aims at achieving reasonable price support and procurement system to increase farm income and making available to food consumers at reasonable price.

- Food corporation of India and designated agency of state govt procure paddy and wheat from farmers at MSP

Wheat and Paddy processed there are used to meet the demand for PDS, buffer stocks and other welfare measures. FCI's operations are intended to build buffer stocks to meet any exigency, open market access sales to stabilise the domestic price and to meet the food security requirement.

The geographical distribution of markets was skewed towards large states. Larger the states size of area, more the number of markets. States like AP, Bihar, Maharashtra, M.P, U.P and West Bengal had share of more than 50% of total number of markets.

During initial periods of operations the regulated markets helped to mitigate the difficulties faced by the agriculturist producers in disposing their produce, they helped to provide access to the markets and increase income of the farmers. But over a period of time, these regulated markets failed to serve the interests of the farmers in a reasonable manner.

Drawbacks/Obstacles of APMC Act are:-

- 1) The restrictive legal provisions like delineation of market area do not promote a competitive market structure. Farmers do not have options to sell his produce at any other place/agency than regulated market.
- 2) The powers vested with market committees to issue and suspend/cancel the licenses granted to traders have resulted in ethical practice of arbitrage and favoritism. The basic functions of regulations, correct weighting and proper sale had not been given much importance.
- 3) The regulated markets are mostly located in towns and remained out of reach of farmers living in backward areas.
- 4) Market infrastructure is important for performing various marketing operations efficiently. The facilities available in the market are not adequate. Cold storage facilities exist only in 9% of markets and grading facilities in less than one third of the markets.
- 5) Farmers are represented in the market committees of regulated markets, but their voice is rarely effective and lack control over certain marketing functions.

Price support

- Lowest price support policy provides guarantee against sharp fall in commodity prices and helps ensure reasonable income to farmers. Presently, govt sets MSP for 25 commodities.
- The MSP of various commodities has increased rapidly during recent years. However the operation of MSP system has been controversial as it draws criticism from different quarters of policy makers and academics for its basis of calculations and relevance in present context.
 - The MSP especially for food grains are being effectively implemented in few surplus states like Punjab, Haryana, UP and A.P and only a small segment of farmers in the country are benefitted.

Reforms in Agriculture Market

- To protect the farmers interests and to ensure adequate availability of food grains for official procurement from the unfair practices of private grain traders, a large number of restrictions were imposed by the central and state govt. However excessive regulations of domestic marketing had resulted in increased marketing costs, risk and uncertainty, which impacted the performance of agriculture sector. Excessive regulations dampen growth through suppressing competition in the market. India has achieved food security at the national level through its interventionist policies in inputs and output markets. However it is not sustainable to continue with controlled markets for long time.
- The govt of India initiated agricultural market reforms since 2000. These included improving the performance of commodity markets, reforms in APMC Act, reforms in price policy, rationalisation of input subsidies, increasing public investment, operation of futures trading and encouraging participation of private sector.
- The trade policy reforms progressed during 1990s to facilitate greater integration of agriculture sector with global market. Quantitative restrictions on imports of agriculture commodities were removed in April 2001. The avg import tariffs were also reduced considerably over time. Agricultural export commitment policies were liberalised in 1994. It included relaxation of

in export quotas, abolition of minimum export prices and increased availability of credit.

To boost agricultural exports, "Vishesh Krishi UPA Yojana" was introduced in EXIM policy 2002-07 with special incentives. However the govt often tempers with export policies to make available commodity supplies to stabilise the price level in the domestic market.

* Direct Marketing through farmers market

State govt encouraged new channels of marketing so as to reduce involvement of intermediaries middlemen between farmers and consumers. Under direct marketing farmers sell their produce directly to the consumers. It was developed mainly to deal with perishable commodities like vegetables, fruits and flowers. The physical infrastructure is provided by the State govt, i.e. Apni mandi in Punjab and Haryana. Bythi Bozaris in A.P.

Co-operative Marketing - Co-operatives have been successful in processing of sugar, paddy, milk and cotton. There are oilseeds co-operative units which act as marketing outlets and input delivery system for oilseeds growers. The performance of oilseeds co-operative processing unit is dismal. Private processors dominate and function well when compared to co-operative sectors, which suffered due to lack of working capital to purchase seeds to utilise their capacity.

Contract marketing - Another channel of linking farmers directly with consumers and agro-processing is through contract farming. Several domestic and ^{multi} international firms have entered into agreement with farmers to produce agricultural commodities of desired quality with assurance of procurement at pre-announced prices. Contract farming helps farmers to reduce price risk, remove input supply bottlenecks, technology constraints and access to viable procurement options. Contract farming is also seen as medium for diversification of cropping system in the country.

• The emergence of supermarkets has added new dimensions

to agricultural marketing systems in India. These super-markets chain purchase large volumes of agricultural produce either directly from individual farmers, wholesalers or through specialised suppliers. The medium and large farmers have mostly benefited from the operations of Supermarkets chain.

* Self-sufficiency in food grains :-

→ self-sufficiency was one of the important objectives of Indian Planning. Level of agricultural production was low in the early years of planning. Also the growth rate in food grain production was low. In order to meet the demand for food India had to depend on imports of food grains from abroad. Thus India was not self-sufficient in food grains at that time. The severe drought in 1965, 1965 forced India to seek food aid from foreign countries on massive scale.

* Realisation of food self-sufficiency :- During the mid-1960s India adopted the green revolution technology, which led to remarkable growth in agricultural production.

→ India achieved self-sufficiency in food grains during the mid 1970s.

→ Great Bengal famine in 1943 :- During the British rule it was a common phenomenon.

→ Since independence there has not been any incidence of large scale famine, there is however widespread prevalence of malnutrition every year, also starvation death taking place.

* Despite high growth and self-sufficiency in food production over the years, a significant portion of our population still lacks food security.

Food Security

Food security basically means that people have physical and economic access to food grains. As far as physical access to food grains is concerned it can be achieved by augmenting production. However this alone is not self-sufficient. Food security requires that people also have economic access to food. They have enough purchasing power so that they can purchase the required amount of food.

→ In India only 5 states have a surplus food production while other states are food deficit states.

→ In order to maintain food security, there should be