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MINIMUM SUPPORT PRICE FOR AGRICULTURAL PRODUCE

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MINIMUM SUPPORT PRICE FOR AGRICULTURAL PRODUCE

Introduction

The prices of agricultural commodities are inherently unstable, primarily due to the variation in their supply, lack of market integration and information asymmetry. A very good harvest in any year results in a sharp fall in the price of that commodity during that year which in turn has an adverse impact on the future supply as farmers withdraw from sowing that crop in the next / following years. This then causes paucity of supply next year and the subsequent major price increase for consumers. To counter this, Minimum Support Price (MSP) for major agricultural products is fixed by the Union Government each year. The MSP is a tool which guarantees the farmers, prior to the sowing season, that a fair amount of price is fixed for their upcoming crop to encourage higher investment and production of agricultural commodities.

Determination of Minimum Support Price (MSP)

To protect the interests of the farmers/producers against any sharp decline in agricultural prices, the Government has been following the agricultural price support system since 1965. The price support system is expected to help the farmers after the harvesting period which is associated with high probability of the agricultural prices crashing due to surplus stock in the market. A Government guaranteed MSP to farmers is expected to cover the cost of production together with certain profit margin to them. The MSP is fixed and announced every year by the Central Government on the recommendations of the *Commission for Agricultural Cost and Prices (CACP)*¹. In addition to the MSP announced by the Central Government, the State Governments also declare a bonus, over and above the

¹ The Commission for Agricultural Costs and Prices (CACP) is an attached office of the Ministry of Agriculture and Farmers' Welfare which came into existence in 1965. Its mandate is to recommend Minimum Support Price to incentivise the cultivators to adopt modern technology and raise productivity and overall green production in line with emerging demand pattern in the country. (CACP home page)

already declared MSP so as to promote agriculture practices in their respective States. The quantum of this bonus varies from State-to-State and from crop-to-crop. The CACP recommends MSP for twenty-five agricultural crops every year which *inter-alia* includes paddy, wheat, cotton, oilseeds, jute, pulses. (See **Annexure-I**)

Role of the Commission for Agricultural Cost and Prices

The Commission for Agricultural Cost and Prices (CACP) earlier known as Agricultural Price Commission, came into existence in 1985. At present, the CACP comprises of a Chairman, a Member Secretary, one Member (Official) and two Members (non-official) representing the farming community.

In formulating the recommendation for the level of the MSP and other non-price measures, the Commission takes into account many factors like the cost of production, changes in input-price, crop price parity, trends in market price, demand and supply, effect on cost of living, international price situation, etc.

The CACP recommendation for the MSP is based A2+FL cost which include all paid out costs such as cost of hired human/animal/machine labour, rent paid on land, expense on various inputs including seeds, fertilisers, irrigation, etc. It also includes imputed value of wages of family labour and depreciation of farm machinery and building.

The CACP submits its recommendations to the Government in the form of Price Policy Reports every year, separately for five groups of commodities including Kharif crops, Rabi crops, Sugarcane, Raw Jute and Copra. Before preparing aforesaid five pricing policy Reports, the Commission draws a comprehensive questionnaire, and sends it to all the State Governments and concerned National organizations and the Ministries to seek their views. Subsequently, separate meetings are also held with farmers from different States, State Governments, organizations like the Food Corporation of India (FCI), National Agricultural Cooperative Marketing Federation of India (NAFED), Cotton Corporation of

India (CCI), Jute Corporation of India (JCI), trader's organizations, processing organizations, and key Ministries. The Commission then finalizes its recommendations/reports based on all these inputs, which are then submitted to the Central Government. The Cabinet Committee on Economic Affairs (CCEA) of the Union Government takes a final decision on the level of the MSPs and other recommendations made by the CACP.

Implementation of Minimum Support Price System

The MSP for all the crops under the ambit of the MSP regime is announced before their sowing season. This makes it possible for the farmers to have an idea about the extent of price insurance cover provided by the Government. Besides, the announcement of the MSP, the Government organises procurement operations of these agricultural commodities through various public and cooperative agencies. The Food Corporation of India (FCI) is a nodal Central agency along with other State agencies which undertake the procurement of wheat and paddy. Coarse grains are procured by the State Governments' agencies for central pool while procurement of oilseeds, pulses, cotton etc., is done by the NAFED, Small Farmers Agribusiness Consortiums (SFAC), Cotton Commission of India (CCI) and other agencies under Price Support Scheme (PSS). For sugarcane, MSP has been assigned a statutory status and termed as Fair and Remunerative Price (FRP). There is a statutory binding on the sugar factories to pay the FRP declared by the Government each year.

MSP and its Challenges

The objective of making farming profitable cannot be achieved through the procurement based Minimum Support Price Policy because it is neither possible nor desirable for the Government to buy each and every commodity in the markets across the country. Some of the challenges faced by the existing MSP policy are as follows:

- I. While calculating the Minimum Support Price, the CACP considers both C2 cost and A2+FL cost. C2 cost includes notional value of imputed rental value of owned land and interest on owned capital in addition to the A2+FL cost. But the gain on MSP is reckoned only with respect to A2+FL cost which means the C2 cost is not considered while calculating the net gain to farmers. For instance, MSP announced for Kharif 2017-18 shows that if the C2 cost is used as benchmark, the return for paddy crop is only 4.4 per cent while for crops like jowar, ragi, moong and for some other crops it is negative. Similarly, MSP announced for Rabi Crop 2018 is also showing a gain of less than 50 per cent (**See Annexure- II & III**)
- II. The MSP computed by the CACP, is based on an average cost taken for the whole of the country while there is a substantial regional variation in the production cost of different crops.
- III. The successful implementation of the MSP scheme can be achieved only if the targeted population is aware of most of the aspects of the scheme like prevailing MSP, time of their announcement, the process of procurement, facilities provided by the Government and payment mechanism.
- IV. Public procurement at MSP is disproportionately focussed on wheat and rice and sometimes even at the expense of other crops such as pulses and oilseeds. This results in buffer stocks of paddy and wheat above the required norms, along with frequent price spikes in pulses and edible oils.
- V. It is also claimed that States with higher wheat and rice production such as Punjab and Haryana get the most benefit by MSP regime while the other States with less production lag behind under this Scheme.
- VI. The difference between the international and the domestic price of crops may influence the export and availability of crops for domestic consumption. When international prices are much higher, farmers prefer to export, thereby resulting in lower procurement by the Government agencies which leads to scarcity of

foodgrains. Similarly, if the MSP exceeds international prices, it can lead to decline in export as more farmers will sell their produce for government procurement.

Initiatives on New Procurement Mechanism

The Central government is working on a new procurement mechanism that will focus on all crops that comes under the ambit of MSP, unlike the existing practice where wheat and paddy get the most attention. The Government proposes to strengthen the procurement mechanism to ensure that the farmers do not suffer from market inefficiencies as is commonly reflected in the prices ruling lower than the notified MSP for many commodities. Several new initiatives are under consideration and the Central Government has entrusted Niti Aayog with the responsibility to finalise the same in consultation with the States. Niti Aayog has discussed the following three concepts as that will address the shortcomings of the existing schemes of procurement under MSP and offer a robust alternative system.

- I. **Market Assurance Scheme (MAS):** Market Assurance Scheme will be a scheme for procurement of pulses, oilseeds and coarse grains produced in the respective States. Under this scheme, it is proposed that the States/Union Territories (UTs) will make procurement for notified crops, except rice and wheat at MSP through State Level Agencies directly from the farmers. The MSP value of the procured crops under MAS will be transferred directly to the bank account of beneficiary farmers. The entire decision for the procurement upto the level of disposal will be taken by the concerned States/UTs. The Central Governments will compensate the losses upto 40 per cent of the MSP values of procured commodities for States and upto 50 per cent for Himalayan and North Eastern States.
- II. **Price Deficiency Procurement Scheme (PDPS):** Under this scheme, if the sale price is below the average wholesale price for the selected commodities at the end of every month in the States/UTs, the farmers may be compensated to the difference between MSP and the actual price that is subject to a ceiling which may not exceed 25 per

cent of the MSP. The compensation amount will be directly credited to the farmer's account. The losses incurred on the implementation of this scheme will be shared between the Central and State Governments. Madhya Pradesh is already implementing "Bhavantar Yojana" on the line of PDPS on a pilot basis.

- III. **Private Procurement and Stockist Scheme:** Under this scheme, private entities will be invited to participate in the procurement of crops through a transparent process. The Government will provide some tax incentives and a commission to the private entities involved in the procurement process as it will reduce the financial implications for the Government. It will also reduce the government's liability for storage and post procurement management and disposal.

Conclusion

The Minimum Support Price is a key policy of the Union Government to determine floor price of major agricultural commodities so that the farmers are protected from middlemen and the fluctuating market conditions so as to provide them an assured market in addition to a minimum assured return. However, there are plenty of hurdles in the implementation of the MSP scheme, like the low procurement of crops other than wheat and paddy, delay in the announcement of the MSP, lack of proper awareness about the MSP among farmers, heavy transportation cost, lack of storage facilities, etc. A proper implementation of the proposed concept of the Market Assurance Scheme and the Price Deficiency Procurement Scheme, which will decentralise the process of procurement of coarse grains, oilseeds and pulses, etc. may prove beneficial to the farmers who suffer by losing their investments in the case of falling price in the market dominated by the middlemen.

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Annexure-I

Minimum Support Prices Recommended by CACP and Fixed by Government (Crop Year)

Commodity	2009-10		2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18	
	Reco	Fixed	Reco	Fixed	Reco	Fixed	Reco	Fixed	Reco	Reco	Reco	Fixed	Reco	Fixed	Reco	Fixed	Reco	Fixed
Paddy Common #	950	1000¥	1000	1000	1080	1080	1250	1250	1310	1310	1360	1360	1410	1410	1470	1470	1550	1550
Paddy (F)/Grade'A'	980	1030¥	1030	1030	1110	1110		1280	1345	1345	1400	1400	1450	1450	1510	1510	1590	1590
Jowar-Hybrid	840	840	880	880	980	980	1500	1500	1500	1500	1530	1530	1570	1570	1625	1625	1700	1700
Jowar-Maldandi	860	860	900	900	1000	1000		1520	1520		1550	1550	1590	1590	1650	1650	1725	1725
Bajra	840	840	880	880	980	980	1175	1175	1175	1250	1250	1250	1275	1275	1330	1330	1425	1425
Ragi	915	915	965	965	1050	1050	1500	1500	1500	1500	1550	1550	1650	1650	1725	1725	1900	1900
Maize	840	840	880	880	980	980	1175	1175	1310	1310	1310	1310	1325	1325	1365	1365	1425	1425
Tur (Arhar)	2300	2300	2800	3000*	3100	3200*	4000#	3850	3850	4300	4350	4350	4425	4625₹	4625	₹ 5050	5250	5450€
Moong	2760	2760	3170	3170*	3400	3500*	4500#	4400	4500	4500	4600	4600	4650	4850₹	4800	5225₹	5375	5575€
Urad	2520	2520	2900	2900*	3300	3300*	4300	4300	4300	4300	4350	4350	4425	4625₹	4575	5000₹	5200	5400€
Groundnut	2100	2100	2300	2300	2700	2700	3700	3700	4000	4000	4000	4000	4030	4030	4120	4220₹	4250	4450€
Sunflower Seed	2215	2215	2350	2350	2800	2800	3700	3700	3700	3700	3750	3750	3800	3800	3850	3950₹	4000	4100₹
Soyabean Black	1350	1350	1400	1400	1650	1650	2200	2200	2500	2500	2500	2500		-	2675	2775₹	2850	3050€
Soyabean Yellow	1390	1390	1440	1440	1690	1690	2240		2560	2560	2560	2560	2600	2600	2675	₹ 2775		
Sesamum	2850	2850	2900	2900	3400	3400	4200	4200	4500	4500	4600	4600	4700	4700	4800	5000₹	5200	5300₹
Nigerseed	2405	2405	2450	2450	2900	2900	3500	3500	3500	3500	3600	3600	3650	3650	3725	₹ 3825	3950	4050₹
Medium Staple Cotton ^	2500	2500	2500	2500	2800	2800	3600	3600	3700	3700	3750	3750	3800	3800	3860	3860	4020	4020

Long Staple Cotton ^^	3000	3000	3000	3000	3300	3300	3900	3900	4000	4000	4050	4050	4100	4100	4160	4160	4320	4320
RABI																		
Wheat	1100	1100	1120	1120&	1285	1285	1285£	1350	1400	1400	1450	1450	1525	1525	1625	1625	1735	1735
Barley	750	750	780	780	980	980	980	980	1100	1100	1150	1150	1225	1225	1325	1325	1410	1410
Gram	1760	1760	2100	2100	2800	2800	3000	3000	3100	3100	3175	3175	3425	3425£	3800	4000μ	4250	4400⊕
Lentil (Masur)	1870	1870	2250	2250	2800	2800	2900	2900	2950	2950	3075	3075	3325	3325£	3800	3950 μ μ	4150	4250§
Rapeseed/ mustard	1830	1830	1850	1850	2500	2500	3000	3000	3050	3050	3100	3100	3350	3350	3600	3700⊕	3900	4000§
Safflower	1680	1680	1800	1800	2500	2500	2800	2800	3000	3000	3050	3050	3300	3300	3600	3700⊕	4000	4100§
OTHER COMMERCIAL CROPS																		
Jute (TD5)	1575	1575	1675	1675	2200	2200	2300	2300	2400	2400	2700	2700	3200	3200 >	3500	3500	3700	3700
Sugarcane	139.12	139.12	145	145	170	170	210	210	220	220	230	230	230	230	255	255		
Copra (Milling)	4450	4450	4525	4525	5100	5100	5100	5250	5250	5250	5550	5550	5950	5950	6500	6500	7500	7500
Copra (Ball)	4700	4700	4775	4775	5350	5350	5350	5500	5500	5500	5830	5830	6240	6240	6785	6785	7750	7750

⊕ : Including bonus of Rs. 100 per quintal.

μ: Including bonus of Rs. 200 per quintal. μμ: Including bonus of Rs. 150 per quintal.

£: Additional bonus Rs, 75 per quintal.

⊕: Included bonus Rs. 425 per Quintal, ⊕: Included bonus Rs. 100 per Quintal, ⊕: Included bonus Rs.200 per Quintal

§: Included Bonus Rs. 200 per quintal

>: MSP of TDN3 (equivalent to TD5 of old grading) grade of raw jute for 2016-17 season.

§: Included bonus of Rs 100 per quintal

Source: Website of CACP

Annexure-II

MSPs Recommended for Kharif Marketing Season (KMS) 2017-18

Crops	Projected Costs for Crop Season 2017-18		Recommended MSP for KMS	Gross Margin over (A ₂ +FL) w.r.t. recommended MSP (percent)	Gross Margin over (C ₂) w.r.t. recommended MSP (percent)
	A ₂ +FL	C ₂			
	(` / qtl)				
Paddy Common	1117	1484	1550 (5.44)	38.76	4.44
Paddy Grade A	-	-	1590 (5.30)	-	
Jowar- Hybrid	1556	2089	1700 (4.62)	9.25	-22.88
Jowar- Maldandi	-	-	1725 (4.55)	-	
Bajra	949	1278	1425 (7.14)	50.16	11.50
Ragi	1861	2351	1900 (10.14)	2.10	-19.18
Maize	1044	1396	1425 (4.40)	36.49	2.07
Arhar (Tur)	3318	4612	5250 (13.51)	58.23	13.83
Moong	4286	5700	5375 (11.98)	25.41	-5.70
Urad	3265	4517	5200 (13.66)	59.26	15.12
Groundnut	3159	4089	4250 (3.16)	34.54	3.93
Sunflower Seed*	3481	4526	4000 (3.90)	14.91	-11.62
Soyabean (Yellow)	2121	2921	2850 (6.54)	34.37	-2.38
Sesamum	4067	5706	5200 (8.33)	27.86	-9.35
Nigerseed	3912	5108	3950 (6.04)	0.97	-22.67
Cotton (Medium Staple)	3276	4376	4020 (4.15)	22.71	-8.13
Cotton (Long Staple)	-	-	4320 (3.85)	-	

Note: Figures in parenthesis represent the percentage difference in MSP over the previous year.

Additional bonus of ` 200 @ Additional bonus of `

425 * Additional bonus of ` 100

*Corresponding to oil content of 35 percent

Source: CACP Price Policy Report for KHARIF, 2017-18

Annexure-III

MSPs Recommended for Rabi Marketing Season (RMS)2018-19

Crops	Projected costs for Crop		Recommended MSP for Gross Margin (A2+FL) recommended (percent)	over Margin over w.r.t. recommended MSP (percent)	over (C2) w.r.t. MSP	
	Season 2018-19					RMS 2018-19
	A2+FL	C2				
Wheat	817	1256	1735(6.8) [6.8]	112.36	38.13	
Barley	845	1190	1410 (6.4) [6.4]	66.86	18.48	
Gram	2461	3526	4250 (6.3) [11.8]	72.69	20.53	
Lentil	2366	3727	4150 (501) [9.2]	75.40	11.34	
R&M	2123	3086	3900* (5.4) [8.3]	83.70	26.33	
Safflower	3125	3979	4000 (8.1) [11.1]	28.00	0.52	

*Note: *Corresponding to oil content of 35 percent*

MSPs of 2016-17 and 2017-18 are inclusive of bonus

Figures in parenthesis () represent increase in MSP (including bonus) over the previous year

Figures in parenthesis [] represent increase in MSP (excluding bonus) over the previous year

Source: CACP Price Policy Report for RABI, 2018-19