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The Story behind the Farmer's Fear of Losing MSP under New Farm Laws in India

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Abstract

According to the farm bills the farmers have the freedom to sell their products wherever, and to whomever, they interested; which ultimately help them to rectify the restrictive trade and marketing policies followed so far. All producers work on the signals that prices convey and, to the extent the ECA (Essential Commodities Act) interferes with price-signalling, it hurts investment decisions. The passing of farm bills in both the houses of Parliament has led to a major controversy in the country. The government claims that it is a historic step taken in the interest of farmers, giving them freedom to sell their produce anywhere and to whomsoever they want in the country. But the opposition parties say it is a 'black day' as it will destroy the existing system of minimum support price (MSP) and APMC (Agricultural Produce Market Committee) markets, and leave the farmers at the mercy of big corporations.

Introduction

The three farm bills such as The Farmers Produce Trade and Commerce (Promotion and Facilitation) Bill 2020 (FPTC), which breaks the monopolistic powers of APMC markets. The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill 2020 (FAPAFS) allows contract farming, and The Essential Commodities (Amendment) Bill 2020 (ECA 2020) removes stocking limits on traders for a large number of commodities, with some caveats still in place. These above bills provide an economic foundation for a wider option and freedom to farmers to sell their goods and buyers to buy and store, which ultimately develop a competition in agricultural marketing. This will result into build up a competent value chains in agriculture by dropping marketing price, better price discovery and improving price realisation for farmers and yet reducing the price paid by consumers. Rather than this it is also promote private investment in storage and thus wastage reduction and also help to contain the seasonal price volatility. To create an example TOP (tomatoes, onions and potatoes) scheme of Rs. 500 crores were released by Late Arun Jaitley to even out their prices through processing and storage. The Ministry of Food Processing was authorised with its implementation. But the drawback of this scheme was not even 5% of the released money has been spent. So now it's no wonder, the Centre is back to prohibiting export of onions for fear of rise in prices. At this point this sound opposite to the indication of the government desires to give through the farm Bills that farmers have the independent right to sell their produce. It seems government has put his two feet in two different part of the bike, such as one foot on the accelerator to liberalise agri-markets, while the other is on the brake (ban on onion exports); this dents the Centre's integrity. All this is to highlight that NABARD has a lot of heavy lifting to do, lest it fails the country in realising the full potential of these legal changes. NABARD must get its act together, take professional advice and work with implementing agencies in the private sector, including various foundations that are already working with farmers. The payoff will be very high. It will make Indian agriculture globally competitive and benefit farmers and consumers alike.

What is Minimum Support Price (MSP) and do All Farmers Get to Sell at MSP?

To boost up agricultural production a stable price environment is very much essential. The minimum support price (MSP) is the price for agricultural product set by the Government of India to purchase directly from the farmer. A central government body, Commission for Agricultural Costs & Prices (CACP), recommends MSP for 23 commodities. MSP set up by considering on the basis of seven important parameters out of which cost of production is the most important. It gives a guarantee on food security and stores enough food stocks in the public distribution system. Food Corporation of India (FCI) purchases the commodities at MSP after the harvest of crop produce for use in the Public Distribution System. In case of paddy and wheat, MSP and procurement are effective where as in Barely 12% of paddy growers, for example, benefit from procurement at MSP. All these efforts are successful due to state government's influences on the grain are procured which will be more benefit for the farmers. Ultimately the bill for the procurement is picked up by the Centre. In Punjab, MSP give the benefits to the 95% of paddy growers where as in UP only 3.6% of farmers benefit from MSP. In March 2017, Centre told the LokSabha that India has 6,630 APMCs (Agricultural Produce Marketing Committees). On an average, one APMC covers a geographical area of 496 sq. km. typically; its only stocks brought to APMCs and other designated purchase centres that are procured at MSP. In the case of paddy, the average market price of paddy remained below MSP for the last five seasons. In the case of wheat, there was a lot more convergence of market price and MSP. CACP data however shows that where MSP works, like Punjab, market price is usually in line with it. Where procurement at MSP is limited, like UP and West Bengal, the market price on most days is below MSP. Where the procurement system works well, it seems to favour all farmers as the market price and MSP largely converge. Wheat procurement at MSP is limited in states like UP and West Bengal, where market price is mostly below MSP.

Method of Determination of Minimum Support Price (MSP)

Due to the discrepancy in the supply, lack of market integration and information asymmetry the price of agricultural commodities is inherently not fixed. Sometimes a higher production of commodity in any year results in a sharp decrease in the price of that produce during that year which in turn will have a poor impact on the future supply as farmers withdraw from sowing that crop in the next/ following years. This leads a major price increase for consumers from next year onwards and ultimately makes instability of price on market environment. Therefore, to overcome this drawback of marketing system Government set MSP for major agricultural products each year. MSP is a tool which provides confident to the farmers, prior to the sowing season, that a reasonable amount of price is preset to their upcoming produce to cheer more investment and production of agricultural commodities. According to the recommendation of the Commission for Agricultural Costs and Prices (CACP) MSP is fixed for a commodity. This statutory body submits different reports separately recommending prices for both the Kharif and Rabi seasons. By keeping the view on the overall demand and supply situation Central Government makes the final decision Government declares minimum support prices (MSPs) for 22 selected crops and fair and remunerative price (FRP) for sugarcane. The mandated crops are 14 crops of the *kharif* season, 6 *rabi* crops and two other commercial crops. In addition, the MSPs of toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/ mustard and copra, respectively. The details of MSPs for mandated *kharif* crops for marketing season 2020-21 in comparison to marketing season 2019-20 is indexed in Table 1.

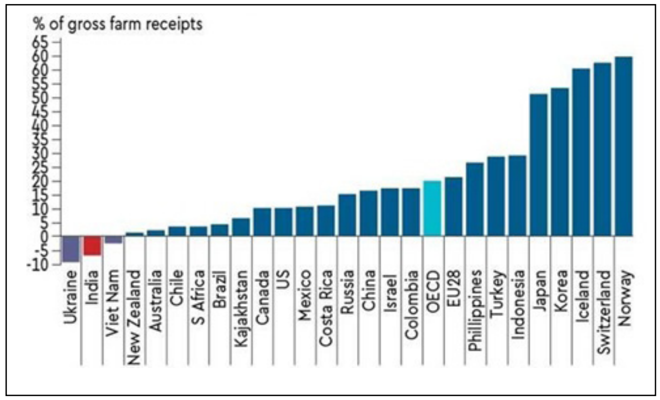
What are the New Central Farm Laws and why is there So Much Opposition?

It's a package to helps contract farming and provides for setting up new agricultural markets under central legislation as competition to APMCs by diluting necessary commodities regulations. The new farm law launched by agriculture minister Narendra Singh Tomar, dilutes fundamental commodities regulations, benefits contract farming and provide a new outlook towards agricultural markets. The last part of the law, which goes under the name Farmers' Produce Trade and Commerce (Promotion & Facilitation) Act, is the most indigestible one that has triggered concern. It develops an entirely new market space with basically no entry barriers for traders. But more significantly, it does not offer for taxes or levies on transactions. To go back to the MSP system, it works well where states have made the effort. They usually levy taxes on the procurement that may be used to make available infrastructure. State like Punjab

Commodity	MSP (Rs. per quintal) – 2019-20	MSP (Rs. per quintal) – 2020-21
Common Paddy	1,815.00	1,868.00
Grade A Paddy	1,835.00	1,888.00
Hybrid Jowar	2,550.00	2,620.00
MaldandiJowar	2,570.00	2,640.00
Bajra	2,000.00	2,150.00
Ragi	3,150.00	3,295.00
Maize	1,760.00	1,850.00
Arhar	5,800.00	6,000.00
Moong	7,050.00	7,196.00
Urad	5,700.00	6,000.00
Groundnut	5,090.00	5,275.00
Sunflower Seed	5,650.00	5,885.00
Yellow Soybean	3,710.00	3,880.00
Sesamum	6,485.00	6,855.00
Niger seed	5,940.00	6,695.00
Medium Staple Cotton	5,255.00	5,515.00
Long Staple Cotton	5,550.00	5,825.00

and Haryana, levy a standalone rural improvement fee of 3% and 2% respectively. The terror comes from the possibility that if there are two markets buying the same commodities but only one of them levies a tax, trade will unavoidably shift to the one without a tax. The opposition party was ruling the charge. But its own policy of 2019 says, "Congress will call off the Agricultural Produce Market Committee Act and make trade in agricultural produce-including exports and inter-state trade- free from all restrictions". And further, "We will set up farmers' markets with sufficient infrastructure and support in large villages and small towns to enable the farmer to bring his/her produce and freely market the same" This is in so much contrast to China and other OECD counties that heavily subsidise their agriculture (Figure 1). So, freedom to sell is the beginning of correcting this massive distortion.

But the opposition has now diverted its goal-post. It is asking for MSP to be made legal, meaning any private player buying below MSP can be punished. That will curse disaster in the markets and private trade will reject buying. The government does not have the wherewithal to buy all the 23 commodities for which MSP is declared. MSP cannot be assuring even for wheat and paddy throughout India. The truth is that, since the MSP regime came into existence in 1965, with the birth of Agricultural Prices Commission and Food Corporation of India, the NSSO report says that only 6% of farmers have gaining the advantages MSP. Rest of the farming community (94%) has been facing unsatisfactory markets. It is time to "get agri-markets right". And these farm Bills are ladder in that direction. Some states fear losing revenue from mandi fee, cess, etc. The Centre can promise them some compensation for, say, three-to-five years, subject to reforms in APMC markets.



(Source – OECD-ICRIER (2018) – Review of Agricultural Policies in India)

Figure 1: Producer Support Estimates (PSEs)

Conclusion

The MSP system in states works economically in a good manner where they have ready the attempt to execute it. The fear develops to be that states without enough tax revenue or resources may be reluctant to carry on the existing MSP system going. For other products rather than field crops such as fruits and vegetables, most states had earlier separate the legal monopoly APMCs originally had. By 2019, 17 states had removed fruits and vegetables' monopoly from APMCs and 19 had provisioned contract farming into their respective APMC Acts. The collateral dent of the current system is extensively recognized, including by the farmers. The lack of enthusiasm to shift out to a less resource rigorous cereal like maize is because the prices are not remunerative. CACP admits farmers in Punjab and Haryana don't have an incentive to switch. Farmers do not shift to crops like maize as prices are not competitive. The attraction of the current MSP system for farmers is best brought out by the trends in Madhya Pradesh, the up-and-coming star in the procurement system. In MP, the state government carries out procurement of wheat and paddy. This year, MP surpassed Punjab in wheat procurement, topping the list. More importantly, in just two years, wheat procurement at MSP in the state has increased from 46% of total production to 70% of production. Other states have connected the bandwagon. In 2018-19, 9.7 million farmers benefitted from paddy procurement at MSP, an increase of 34.2% in a year. Most of the new beneficiaries were from states such as Chhattisgarh, Telangana, UP and West Bengal.

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