



Minimum Support Price for Crops

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Why in News

One of the major demands of protesting farmers has been that the government guarantee in writing the Minimum Support Price system, which assures them of a fixed price for their crops, **1.5 times of the cost of production.**

Farmer Unions are protesting against the newly enacted three farm laws and the Electricity Amendment Bill 2020.

Key Points

- **Minimum Support Price:**
 - MSP is a “**minimum price**” for any crop that the government considers as remunerative for farmers and hence deserving of “support”.
 - It is **also the price** that government agencies pay whenever they procure the particular crop.
 - The **Union Budget for 2018-19** had announced that MSP would be kept at levels of **1.5 the cost of production.**

- **MSP is given for the following crops:**

- The **Commission for Agricultural Costs & Prices (CACP)** recommends MSPs for **22 mandated crops** and **fair and remunerative price (FRP)** for **sugarcane**.

CACP is an attached office of the **Ministry of Agriculture and Farmers Welfare**, Government of India.

- It came into existence in **January 1965**.
- It is an advisory body whose recommendations are **not binding on the Government**.
- The mandated crops include **14 crops of the kharif season, 6 rabi crops** and **2 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 **list of crops** are as follows:
 - **Cereals (7):** Paddy, wheat, barley, jowar, bajra, maize and ragi,
 - **Pulses (5):** Gram, arhar/tur, moong, urad and lentil,
 - **Oilseeds (8):** Groundnut, rapeseed/mustard, toria, soyabean, sunflower seed, sesamum, safflower seed and niger seed,
 - **Raw cotton, Raw jute, Copra, De-husked coconut,** and
 - **Sugarcane** (Fair and remunerative price).
- The CACP **considered various factors** while recommending the MSP for a commodity, including **cost of cultivation**.

It also took into account the **supply and demand situation** for the commodity, **market price trends** (domestic and global) and **parity vis-à-vis other crops**, and **implications for consumers** (inflation), **environment** (soil and water use) and **terms of trade between agriculture and non-agriculture sectors**.

- **Changes made by the 2018-19 budget:**

- Budget for 2018-19 announced that **MSPs would henceforth be fixed at 1.5 times of the production costs for crops as a “predetermined principle”**.
- CACP’s job is now only to estimate production costs for a season and recommend the MSPs by applying the 1.5-times formula.

- **Mechanism of arriving at Production Cost:**

- The CACP **does not do any field-based** cost estimates itself.
- It makes **projections** using **state-wise, crop-specific production cost** estimates provided by the **Directorate of Economics & Statistics in the Agriculture Ministry**.
 - The latter are, however, generally available with a **three-year lag**.
- The CACP projects **three kinds of production cost for every crop**, both at state and all-India average levels.
 - **‘A2’**
 - Covers all paid-out costs directly incurred by the farmer in cash and kind on seeds, fertilisers, pesticides, hired labour, leased-in land, fuel, irrigation, etc.
 - **‘A2+FL’**
 - Includes A2 plus an **imputed value of unpaid family labour**.
 - **‘C2’**
 - It is a more comprehensive cost that factors in **rentals and interest forgone on owned land and fixed capital assets**, on top of A2+FL.
- **Issues with the Pricing:**
 - In the 2018-19 Budget Speech, the government **did not specify the cost** on which the **1.5-times formula was to be computed**.
 - The CACP’s **‘Price Policy for Kharif Crops: The Marketing Season 2018-19’ report** stated that its MSP recommendation was based on **1.5 times the A2+FL costs**.
 - Farm activists demand that the 1.5-times MSP formula originally recommended by the **National Commission for Farmers headed by agricultural scientist M S Swaminathan** should be applied on the **C2 costs**.
 - **Government’s Stand:**
 - CACP considers all costs in a comprehensive manner which is based on the methodology recommended by **Expert Committees from time to time**.
 - CACP considers both **A2+FL and C2** costs while recommending MSP.
 - CACP reckons only **A2+FL cost for return**. However, C2 costs are used by CACP primarily as **benchmark reference costs**.

Source:IE