

MSP = Minimum Support Price

Intro

This concept of MSP in India was started in 1965.

(Recom. \rightarrow L.K. Jha Committee)

The MSP is a price to be offered by the Govt. at which

f.

farmers can sell their produce
to the govt. procurement agencies.
Thus the MSP provides
protection against market risk.

Presently, the MSP is announced for 22 crops.

Apart from this, the FRP (Fair & Remunerative Price) is announced for sugarcane.

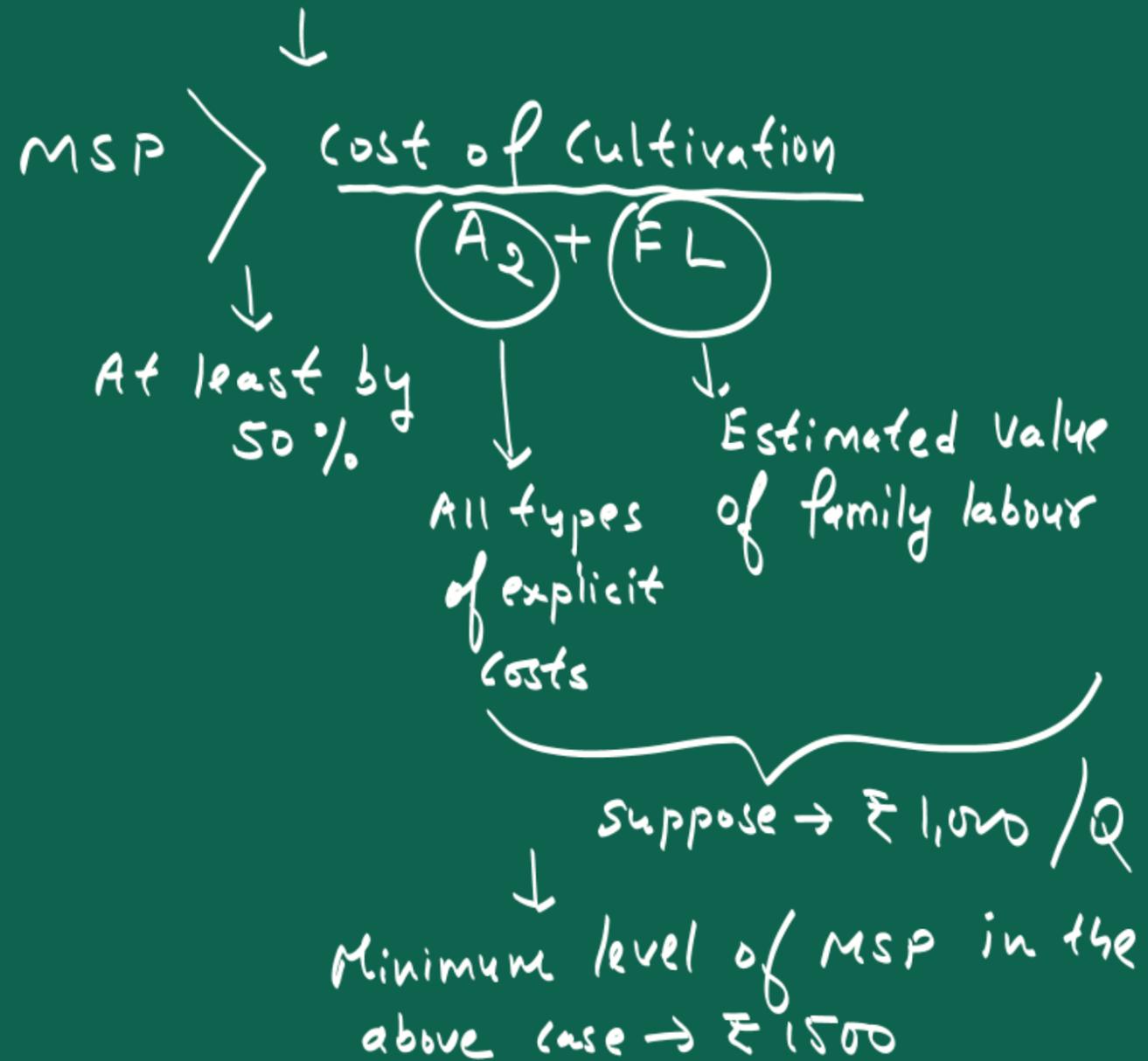
Commission
on
Agricultural
Costs
&
Prices

Both the MSP & the FRP
are recommended by the
CACP but the final decision
is taken by the CCEA.

Cabinet Committee on Eco
Affairs

Union Budget 2018-19

& the MSP



Cash Transfer & MSP

The Ramesh Chand committee once suggested that the subsidy to be given through the higher MSP may be given in the form of cash transfer.

Under it, the MSP is announced but farmers are to sell their agricultural produce in the open market.

If, the market price is lower than the MSP, then, farmers are to be compensated through cash transfer in their bank accounts.

MSP



₹ 1500/Q



₹ 500/Q

Market Price
₹ 1,000/Q

× Total
sale

It is to be noted that this system is being followed in PDPS (Price Deficiency Payment Scheme) which is a sub-scheme of PM-AASHA, an umbrella scheme of the GOI launched in 2018.

The BBY (Bhavantar Bhugtan Yojna) of MP state is also based on this model.

The Dalwai Committee also suggested about this but it talks about the following two issues -

(i) In the absence of procurement by the govt. agencies, the market prices of the concerned agro-commodities will progressively fall leading to higher subsidy bill for the govt.

(ii) Traders & farmers hand in glove with each other to maximise their benefit.

Positive Impacts of MSP

(i)

Provides



Protection against



Market Risk

(ii)

Capacity



To bring



farmers out



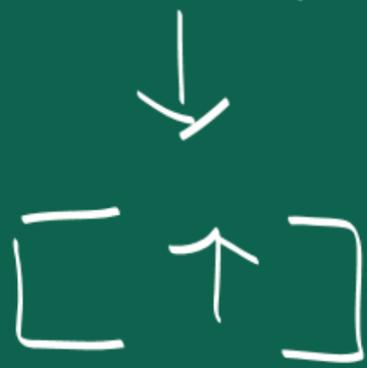
from low income trap.

(iii) the income & resource poor farmers can be helped.

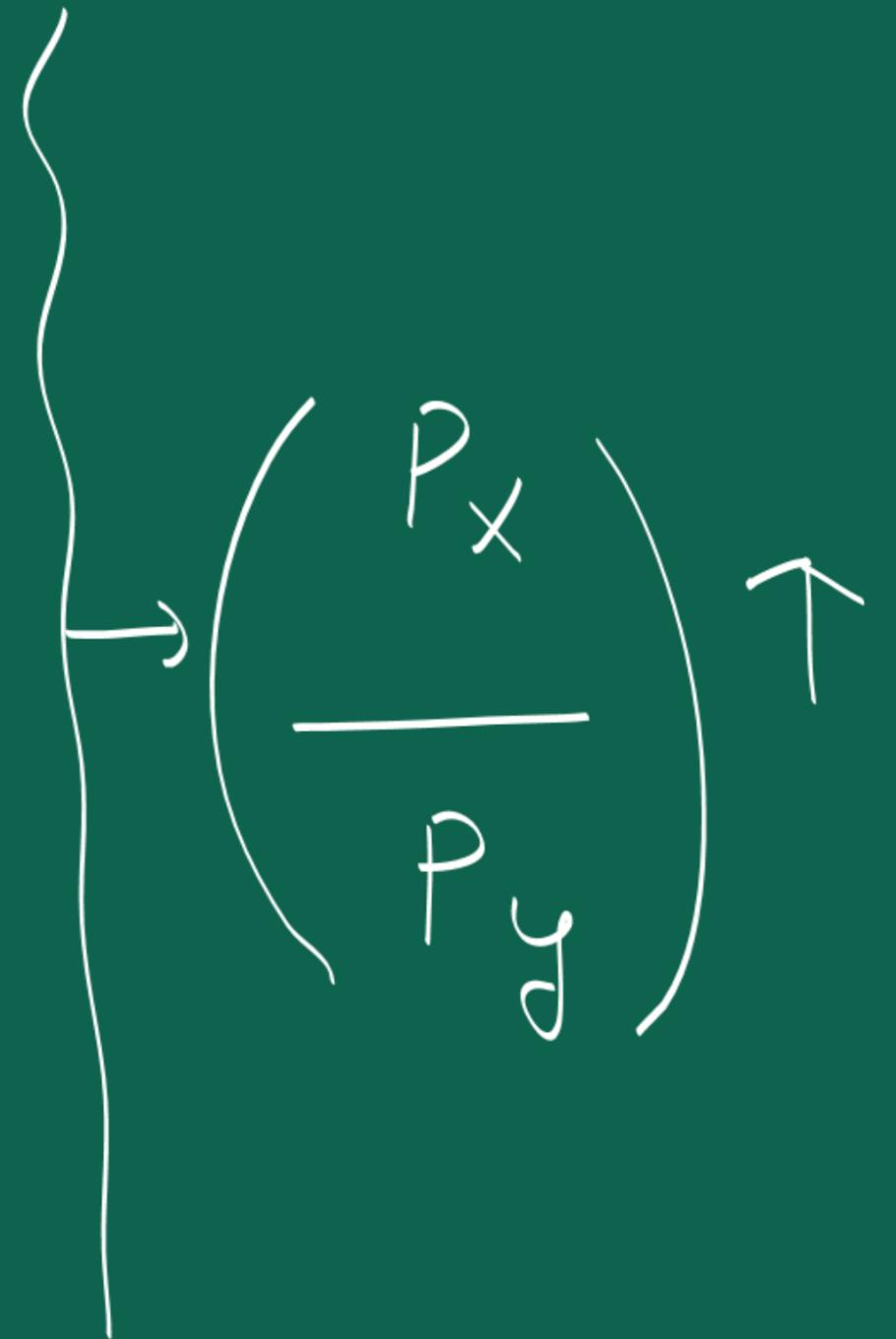


can work as a tool of social justice.

(iv) The relative price
of agricultural goods
in terms of other goods.



↓
↑ Agri. Productivity



(v) The MSP played an important role in —



self-sufficiency
(foodgrains)

Negative Impacts

(i) distortion



Cropping
pattern



Against



Coarse cereals, Pulses etc.

(ii)

Promoted



Inequalities



Regional

Individual



Punjab, Haryana,
W. UP etc



big farmers

v/s

small farmers

v/s

other regions

(iii) Farmers could not
get adequate benefit.

↓
lack of awareness

(only 6% farmers
are aware about
MSP)

↓
Ref.: The Shanta Kumar
Comm.

- (iv) The procurement centres have not been opened adequately.
- (v) Grass-root issues -
- (a) procurement centres got located at great distance from farmers.
 - (b) lack of timely payment.
 - (c) Almost nil use of electronic weighing machines.
 - (d) procurement centres not opening in a regular way.
 - (e) more emphasis on land records.
etc.

Agricultural Subsidies, WTO & India

The AoA (Agreement on Agriculture) provides a framework of rules regarding agricultural subsidies etc.

According to the AoA, the level of agricultural subsidies promoting domestic production and impacting international trade should not exceed 5% (of agricultural GDP) in the developed countries and 10% (of

agricultural GDP) in developing countries like India.

In 2013, India enacted the NFSA in which it provided food security as a legal guarantee to around 67% of the population.

India considered the limit of 10% as a barrier in the achievement of this goal.

Therefore, with the support of G-33, India raised this issue in the Bali Ministerial Meet (2013).

India & other countries were allowed to cross this limit of 10% under the Peace clause or Due-restraint until a permanent solution is found out.

up to now, there is no permanent solution.

The USA etc. countries

Say that India does not timely notify about such subsidies and frequently invokes the Peace-
Clause.

↓
Proposals by India -

- (i) Subsidy given through higher MSP should be given the status of green box.

(ii) Subsidy given to income & resource-poor farmers at the time of purchasing foodgrains should be included in the AMS.

(iii) The base-year of ERP, 1986-88 should be changed by the WTO

External Reference Price

Note - The developed countries are having a kind of rigid stand regarding the above proposals.