

## IV : PRICE POLICY FOR RABI CROPS OF 2005-06 SEASON

In formulating the price policy for rabi crops of 2005-06 season, the Commission has considered all the relevant factors, namely costs of production, demand-supply situation, trends in market prices (both domestic and international), inter-crop price parity, and rise in input prices. Besides, the need for sustainable use of land and water and impact of other policies on price policy as well as agricultural growth has also been kept in mind.

4.2 Considering the country as a whole, the weighted average  $A_2+F_L$  cost of production of wheat for 2005-06, as projected by the Commission, works out to Rs.363 per quintal, while the  $C_2$  cost of production is Rs.542. Thus, the existing Minimum Support Price of Rs.640 per quintal covers more than the average  $C_2$  cost. In fact, the present MSP of wheat turns out to be even higher than  $C_3$  cost which considers 10 per cent profit margin over  $C_2$  cost. Also at the disaggregated level, the existing MSP covers  $C_2$  costs in all the states, excepting Madhya Pradesh where  $C_2$  cost is higher than MSP by about Rs.10 per quintal which is generally taken care of by higher market prices due to relatively better quality of wheat in Madhya Pradesh. In the case of barley also, the projected  $C_2$  cost of Rs.521 per quintal is covered by the existing level of MSP, i.e. Rs.540 per quintal. The existing MSP of gram is substantially higher than both  $C_2$  and  $C_3$  costs. The weighted average  $C_2$  cost is Rs.1259 per quintal as against the MSP of Rs.1425 per quintal. At the disaggregated level also, the existing MSP of gram covers  $C_2$  costs in all the states. Similar is the case with masur (lentil), the existing MSP of which is higher than  $C_2$  costs in all the states. The weighted average  $C_2$  cost of masur for 2005-06 works out to Rs.1279 per quintal, as against the existing MSP of Rs.1525 per quintal. In the case of rapeseed and mustard, the existing MSP of Rs.1700 per quintal covers not only  $C_2$  costs, but also  $C_3$  costs in all the states. The existing MSP of safflower (i.e. Rs.1550 per quintal) covers the projected  $C_2$  cost. Thus, based on average, albeit absolute cost consideration, there is no scope for increase in the MSPs of any rabi crops.

4.3 During the past one year, there has been some upward movement in input prices and consequently the costs of production of all the crops under consideration, have gone up. Even if we consider the  $A_2+F_L$  cost, it increased by about 5.7 per cent in wheat, 4.7 per cent in barley, 6.5 per cent in gram, 8.6 per cent in lentil and 1.5 per cent in safflower. In the case of rapeseed & mustard, there has been a marginal decline in the  $A_2+F_L$  cost by about (-) 1.3 per cent. However, even after considering the increase in the costs of production in the past one year, the existing MSPs remain higher than the projected  $C_2$  costs in respect of all the rabi crops for which government fixes MSPs.

4.4 As regards the domestic supply situation, the gap between demand and supply of wheat has been shrinking over the years. As on April 1, 2005, the stock of wheat held by FCI was marginally higher than the buffer norm by about 0.1 million tonne, while that of rice was higher by about 1.1 million tonnes. In the marketing season of 2005 (upto June 7), the government procured nearly 14.76 million tones of wheat for public stock. In fact, the estimated stock of wheat as on July 1, 2005 is likely to hover around 15.5 million tonnes, which may not meet the revised buffer norm of 17.1 million tonnes, although it will marginally exceed the pre-revised norm of 14.8 million tonnes. Also the world wheat production in 2005 is estimated to be lower by about 15 million tonnes than the previous year, although it is well above the average of the past five years. The overall domestic production of pulses seems to match the demand, but there has been a surge in the import of pulses in recent years. Similarly, due to rising demand-supply gap, the country has been importing edible oil to the tune of 4 to 5 million tonnes annually in recent years. In order to encourage the farmers to produce more pulses and oilseeds through expansion of area as well as yield improvement, there may be a need to hike the minimum support prices of pulses and edible oilseeds, especially when the relative net returns from the cultivation of pulses and oilseeds continue to be lower than wheat and paddy. However, price factor in isolation cannot help improve the situation, unless this is accompanied by substantial breakthrough in technology and an appropriate exim policy. In fact, hike in the prices of these commodities, may be counter productive if it is not

sustained in the market and fails to augment the domestic production significantly.

4.5 The domestic wholesale prices of wheat and masur remained firm in the marketing season of 2005-06. But the prices of gram, rapeseed & mustard and safflower declined. In fact, the minimum support prices of gram, rapeseed & mustard and safflower could not be sustained in the market. The quotation of futures prices of wheat for July, 2005 in NCDEX was higher than MSP, while futures prices of rapeseed & mustard was also marginally higher than MSP fixed. Therefore, based on trends in domestic market prices as well as futures prices, marginally higher MSPs of wheat, barley and masur would sustain, while even the existing MSPs of gram, rapeseed & mustard and safflower would not. At the global level, the prices of wheat and barley would remain depressed, due to high level of stock and subdued import demand. Therefore, any hike in the MSPs of wheat and barley would be inconsistent with global market prices. Also wheat export from India has declined in recent years, under the impact of high MSP in the past and resultantly higher market prices and therefore, any hike in the MSP of wheat would further erode the export competitiveness of this commodity in international market. The international prices of safflower have shown a declining trend in recent years and there is no indication of price recovery in future. But international prices of gram and rapeseed & mustard may remain buoyant.

4.6 During the past two years, there has been a conscious effort to tilt the inter-crop price parity index in favour of pulses and oilseeds so as to encourage the farmers to increase the production of commodities in which the country is deficient and also to reduce the area under unsustainable rice-wheat cropping system. However, bumper production as well as higher import of pulses and edible oils in 2004-05 resulted in substantial decline in the market prices of these commodities, while the government failed to defend their MSPs in most places in the peak marketing season. The Commission is conscious of the fact that import of edible oils would continue to surge due to relatively lower import duties on edible oils and therefore, any further hike in the MSPs of pulses and oilseeds

would be counter-productive, unless the government raises the relevant import duty levels substantially. In the absence of harmony between alternative policy options, any further increase in the MSPs of pulses and edible oilseeds, will be meaningless.

4.7 However, in view of deceleration in the growth rate of farm business income in recent years, there is a need to encourage the farmers to adopt improved technology through marginal hike in the minimum support prices. Besides, keeping in view the rising capital requirements in agriculture and inadequacy of existing support system as well as the need for accelerating the pace of agricultural growth, there is some justification for marginal increase in the MSPs of rabi crops.

4.8 Thus, considering all the relevant factors, the Commission recommends that the minimum support prices for the fair average quality (FAQ) of various rabi crops of 2005-06 season be fixed at the following levels :

<b>Commodity</b>	<b>Rs/Quintal</b>
Wheat	650
Barley	550
Gram	1435
Masur (Lentil)	1535
Rapeseed/Mustard	1715
Safflower	1565

The Commission further recommends that:

- i) **the prices of other oilseeds belonging to the rapeseed/mustard group be fixed on the basis of their normal market price differentials with rapeseed/mustard;**
- ii) **there should be proper coordination and synergies between the activities undertaken under various agri-export zones and those under National Horticulture Mission so that returns from each rupee invested by the government get maximized. Also there should be special efforts to enlist the participation of small and marginal**

**farmers in economic activities taken up under both agri-export zones and National Horticulture Mission through formation of Producer Co-operatives, self-help groups etc.;** (Para 1.2)

- iii) **government should develop an effective system of market intervention on adequate scale to defend the minimum support prices of oilseeds and pulses which in turn will encourage the farmers to switch over from unsustainable rice wheat cropping system to pulses and oilseeds, especially in areas where rice cultivation has caused depletion of ground water;** (Para1.5)
- iv) **NAFED should improve its managerial efficiency in procurement operation at all levels and also make appropriate arrangement for processing of procured pulses and oilseeds and supply these products to consumers through both its own outlets and fair price shops;** (Para 1.6)
- v) **supplies of foodgrains under TPDS and various welfare schemes should be properly coordinated and monitored not only for minimization of financial loss to the government but also for improving the food and nutritional status of the real poor;** (Para 1.8)
- vi) **government, should strengthen the price support operations for barley and should formulate specific programme for integration of this crop with the value chain and export;** (Para 2.25)
- vii) **government should provide all support and facilitation for enhancing production and market integration of masur. An exclusive masur export promotion programme should also be taken up at the earliest for harnessing the emerging market opportunities abroad; and**  
(Para 2.43)

- viii) **government should review its import policy on edible oils and increase import duty on crude and refined palm oil/palmolein significantly so as to keep the domestic prices of oilseeds well above the MSP.** (Para 2.54)

**( T. HAQUE )**

**( K. PONNUKANNU )**  
*(On Medical Leave)*

**( M.S. GREWAL )**

**(RAJIV MEHTA)**

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