सत्यमेव जयते

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D.O. No.

कृषि लागत और मूल्य आयोग
COMMISSION FOR
AGRICULTURAL COSTS AND PRICES
भारत सरकार
GOVERNMENT OF INDIA

कृषि भवन, नई दिल्ली - 110001
Krishi Bhawan, New Delhi 200

D.O.No. 1-1/2012-P&O-CACP

November 14, 2012

Dear Shri Ashish Bahuguna,

In pursuance of your D.O.No 6-6/2012/FES-ES dated November 14, 2012 regarding examining the MSP of wheat for the marketing season 2013-14 in the light of prevalent input costs, the Commission has considered the matter in great detail as asked by CCEA. Accordingly, I am enclosing the desired note in this regard.

With regards,

Yours sincerely,

(Ashok Gulati)

Encl: as above

Shri Ashish Bahuguna
Secretary (A&C)
Department of Agriculture and Cooperation
Krishi Bhawan, New Delhi-110001

Plz file.
15/11
EO(US)

Examining the MSP of Wheat recommended by CACP for the marketing season 2013-14 in view of the prevalent input costs

1. As per the communication received from Secretary (A&C), Ministry of Agriculture, vide its letter D.O.No. 6-6/2012-FES-ES dated November 14, 2012, the Cabinet Committee on Economic Affairs (CCEA) have, while considering the proposed Price Policy for Rabi Crops, asked CACP to 'examine their recommendation, keeping in view the prevalent input costs' with regard to MSP of wheat.

2. The Commission had recommended freezing MSP of wheat at Rs 1285/qtl (plus 10 percent bonus only in case exports of wheat are banned) for the marketing season 2013-14. In recommending MSP of wheat and other rabi crops, the Commission had prepared a composite variable input index based on the actual latest cost data available for that crop from DES (in this case 2010-11), and then projected those costs for the marketing season 2013-14 by incorporating the latest price data on various inputs as well as projecting those prices. So, the likely increase in the costs of wheat and other rabi crops is already inherent in the cost thus projected. However, there has been more than expected increase in the diesel prices, which impinges on irrigation cost and cost of machine labour. Accordingly, the Commission has now factored in the increase in the price of diesel and re-estimated the costs of production of wheat. As per CACP's detailed calculations for all major wheat growing states, and weighted at all India level, the projected cost of production and marketing of wheat goes up by Rs 29.41/quintal due to recent diesel price hike. This raises the overall projected cost (C2, including its marketing etc.) from Rs 1098.5/qtl to Rs 1128/qtl and cost (A2+FL) from Rs 687/qtl to Rs 716/qtl for wheat to be harvested and marketed in 2013-14 season. The existing recommended MSP of Rs 1285/qtl, thus, fully covers the cost C2 and gives a margin of about 14 percent over the revised comprehensive cost, which includes the imputed values of rent on owned land, interest on owned capital and also valuation of family labor. The existing MSP gives a margin of almost 80 percent over cost A2+FL, which is paid out cost plus the valuation of family labour. Further, the existing MSP will still cover the cost of more than 90 percent of wheat production in the country.
3. Thus even after incorporating the recent hike in diesel prices, the Commission finds no cogent case for recommending any increase in MSP of wheat. **It is also worth keeping in mind that last**

year the MSP of wheat was raised by 15 percent, making a major move towards 'getting the prices right'. It may be appreciated that the Commission is called upon to submit its report on price policy for rabi crops for the marketing season 2013-14 by July 2012. Therefore, it takes into account latest prevalent costs and projects them for 2013-14 marketing season. Therefore any abnormal increase in the price of an input during the interim period (between the time when the report is submitted and when it is considered by CCEA) is bound to affect the cost of all rabi crops, not just of wheat.

4. However, the Commission would like to focus on another factor that has changed significantly since the submission of the Rabi Report, which has implications for domestic wheat market; and that is the international price environment for wheat. When the report was submitted, world price of wheat was hovering around US $ 250/tonne. Given the various expenses (including taxation and levies) in moving wheat from mandi to port, at an MSP level of Rs 1285/qtl, Indian wheat could not have been exported profitably as its export parity prices were higher. So, there was all likelihood that increasing production will lead to accumulating stocks with the government. Lately, however, the world price of wheat has gone well beyond US $300/tonne, making Indian wheat exports economically viable. This sudden surge in global prices of wheat (and many other agri-commodities) is caused primarily by one of the worst droughts in US in recent history. However, for India, it offers a window of opportunity to clear its excessive stocks of wheat, save on the large carrying costs of storage, contribute to the cooling of international commodity prices, and share a part of that with the farmers whose wheat really it is.How long this window of opportunity of high global prices will remain open is not very certain. So the Government agencies will have to act fast, if they want to benefit from high global wheat prices.
5. It may be noted that the basic reason behind the Commission's recommendation for freezing MSP of wheat was huge imbalance in supply and demand of wheat, leading to accumulation of stocks well beyond the buffer stock norms. This situation had emerged primarily from a ban on exports of wheat for four long years (2007 to 2011). Even after opening up of exports in October 2011, the wheat stocks with government agencies (43 million tonnes as on October 1, 2012) continue to be more than three times the buffer stocking norm of 14 million tonnes. This is costing the country enormously, and also putting inflationary pressures in the system. Wheat prices have gone up in domestic markets by almost 20 percent in the last three months alone, because of these huge stocks with the government that has left very little surplus in markets. In

terms of storage and interest cost alone, the cost of carrying wheat for a year with government agencies is about Rs 240/qtl.

6. It is worth reiterating that the Commission's basic mandate is to develop an incentive environment for farmers to raise productivity and production broadly in line with demand and supply of those commodities, keeping in mind the cost of production, domestic and international price scenario, and its impact on consumers and rest of the economy. Any pricing policy that does not give due importance to demand and supply balance is likely to lead to large inefficiency in the system. In this context, it is important to note that the production of wheat and rice (in fact all foodgrains) achieved in 2011-12 has already equaled the likely demand of these by the terminal year of the 12th Plan (2016-17). So any extra production will have to be either exported or will add to already large stocks, putting further pressures on limited storage capacity, raising the costs without much purpose. On the other hand, in 2011-12, country imported edible oils worth Rs 46,262 crores and pulses worth Rs 8767 crores, giving a clear signal that, at the margin, we need to diversify from cereals to oilseeds and pulses so long as we remain internationally competitive in these on import parity basis.
7. The Commission feels that with a little pro-active stance of the government, almost 15 million tonnes of wheat from existing stocks can be liquidated, with almost half of it in domestic market and the other half for exports. If the government can do that before the start of the next procurement season in April 2013, it will save a huge lot on storage and interest costs alone (about Rs 3600 crores from one year storage). Part of this saving can be shared with farmers as a bonus. **The Commission therefore recommends that a bonus of maximum Rs 40/qtl may be announced by the Government, while keeping the MSP frozen at Rs 1285/qtl. But this should be contingent on liquidating about 15 million tonnes of wheat stocks in domestic and international markets by April, 2013. The Commission would also like to reiterate the dire need for diversification, and therefore any bonus in excess of Rs 40/qtl being recommended now may not send necessary signals to farmers to diversify.** Since this bonus of Rs 40/qtl would be uniform all over India, states may be advised not to announce any extra bonus as it would distort the all India wheat market.
8. For the 2013-14 marketing season, the Commission had earlier recommended that the government should review its open ended procurement policy, especially in states with high taxation and levies (Punjab imposes 14.5% and Haryana imposes 11.5%) and those which announce state level bonus (Madhya Pradesh and Rajasthan announced Rs 100/qtl as bonus on

top of MSP). High taxation on basic staples as well as state level bonus on MSP, both distort the markets, drive away private sector participation in wholesale wheat trade, leading to almost state take-over of the wheat trade in those states. This is not in public interest in the long run, as it creates public monopoly, which can be as bad as private monopoly. The Commission also recommends that the Central Government should let the state governments know well in advance that it will not follow an open ended procurement policies in states that have taxation and levies exceeding say 5%, and states that give extra bonus on top of Central MSP/bonus. **The Commission recommends that the Central Government should limit its purchases to 75% of last year's purchases from these states that have taxation and statutory levies exceeding 5 percent and that announce extra bonus on top of central government MSP/bonus. This is a necessary step to bring about rationality in pricing and also in 'getting the markets right'.** These measures, the Commission feels, would help in containing domestic food inflation, lowering fiscal stress, while also minimising the possibility of grains rotting in insufficient scientific storage capacity without serving any purpose.