

**GOVERNMENT OF INDIA
CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION
LOK SABHA**

UNSTARRED QUESTION NO:1370

ANSWERED ON:27.10.2008

FUTURES TRADING

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Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

(a) whether the Government proposes to rein in futures trading for lowering the rising prices of food items;

(b) if so, the details thereof; and

(c) if not, the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF AGRICULTURE AND THE MINISTER OF STATE IN THE MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION(SHRI TASLIMUDDIN)

(a) to (c): The primary role of the futures trading is price discovery and price risk management. The price discovery comes about through the aggregate perception of market players regarding different factors influencing production viz. weather, global outlook, planted area etc. These factors are different for different commodities. As far as the agricultural (including essential) commodities are concerned, there may be sudden expectations about the future which collectively determines the trend in future prices. Price discoveries in futures market help the producers, namely the agriculturists to plan their agricultural operations.

On the other hand, the prices in the spot market are determined by the interplay of forces of demand and supply (arrivals) on that particular day including monopoly power of a few traders. The producer armed with the knowledge of the futures, can avoid resorting to distress sale. He is also empowered to properly negotiate with the private trader regarding the prices having regard to the informed circumstances.

In the context of discussion regarding whether and to what extent futures trading in agricultural commodities influence the wholesale and retail prices of these commodities, the Government had set up an Expert Committee to study this aspect. The Expert Committee set up by the Government analyzed the daily, weekly and monthly data on price volatility (spot price). The analysis made by the Expert Committee led it to conclude as follows:

"Given these conflicting results from daily as against weekly and monthly data, no strong conclusion can be drawn on whether introduction of futures trade is associated with decrease or increase in spot price volatility".

The Expert Committee also analyzed annual growth rate in prices of sensitive commodities (food grains and sugar) in pre- future period and post future period and concluded that although inflation clearly increased post-futures in some sensitive commodities that have higher weight in consumer price indices, it is not possible to make any general claim that inflation accelerated more in commodities with futures trading.

Therefore, the Expert Committee could not establish a conclusive link between futures trading and rise in prices of the commodities. However, as a matter of abundant caution, the futures trading in eight commodities viz. urad, tur, rice, wheat, potato, chana, rubber and soy oil have been suspended. There is no proposal at present to suspend/ ban futures trading in additional commodities.