

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

UNSTARRED QUESTION NO:1902
ANSWERED ON:09.03.2010
FUTURES TRADING
Tandon Shri Lal Ji

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

- (a) whether futures trading has also been identified as one of the major factors behind the unprecedented price rise of foodgrains in the country;
- (b) if so, whether the Government is considering to exclude agriculture from the ambit of futures trading in order to contain the rising prices of foodgrains;
- (c) if so, the details thereof;
- (d) whether the Government has received any suggestions from eminent economists and other social organisations in this regard; and
- (e) if so, the details thereof and reaction of the Government thereto?

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 (PROF. K. V. THOMAS)

(a) to (c): No Madam. The forward trading in commodities is a mechanism for price discovery and price risk management and not a mechanism to check price rise. The actual prices of the commodity are governed by physical demand and supply factors. The futures market only gives price signals for future periods of time based on the projections about the likely supply and demand situation at those points of time. This helps various stakeholders in various commodities, viz., farmers, producers, processors, exporters etc. to plan their production, marketing as well as to use futures markets to mitigate their price risks.

Government had set up a committee under the Chairmanship of Planning Commission Member Prof. Abhijit Sen to examine whether futures market was responsible for rise in the prices of essential commodities. The Committee submitted its report in April 2008. The Committee did not find futures market responsible for the increase of the prices of essential commodities. A study by the Indian Institute of management, Bangalore on Wheat, Rice, Tur, and Urad (around the same time) also did not find any influence of futures trading on the price rise in such commodities. The increasing convergence seen in the physical and futures prices of the commodities in the recent past is indicative of the fact that the futures prices have, by and large, been a correct barometer of the expected prices at a future point of time.

In view of the facts above, the Government is not in favour of imposing any ban on futures trading in any commodity. However, Forward Market Commission, the Regulator, takes decision, from time to time, about suspension of futures trading in specific commodity for specific period as a regulatory measure to meet emergent situation.

(d) and (e): The Abhijit Sen Committee, (an Expert Committee appointed by the Government of India under the Chairmanship of Planning Commission Member Prof. Abhijit Sen to examine whether futures markets was responsible for rise in the prices of essential commodities) (report submitted in April 2008) did not find futures market responsible for the increase of the prices of essential commodities. Another study by the Indian Institute of management, Bangalore on Wheat, Rice, Tur, and Urad (around the same time) also did not find any influence of futures trading on the price rise in such commodities. The increasing convergence seen in the physical and futures prices of the commodities in the recent past is indicative of the fact that the futures prices have, by and large, been a correct barometer of the expected prices at a future point of time.

In view of the facts above, the Forward Markets Commission and the Government are not in favour of imposing any further ban on futures trading in any commodity.