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

UNSTARRED QUESTION NO:140
ANSWERED ON:09.11.2010
BAN ON FORWARD TRADING
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Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

(a) whether the Government had imposed a ban on forward trading in sugar last year in order to control the rising prices of sugar in the domestic market;

(b) if so, the details thereof and the period for which the ban was imposed;

(c) whether the Government is contemplating to lift the said ban; and

(d) if so, the details thereof and the reasons therefor alongwith the benefits likely to accrue therefrom?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF AGRICULTURE AND MINISTER OF THE STATE IN THE MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION (PROF. K. V. THOMAS)

(a) & (b): As a measure of abundant caution against possible inflationary price expectation due to severe domestic and global supply constraints futures trading in sugar was suspended on 26th May 2009 for a period upto 31st December 2009. The suspension was extended further upto 30th September 2010.

(c) & (d): There is no suspension of futures trading in sugar after 30.9.2010. No perceptible or visible benefit have been observed from the suspension of futures trading in sugar as the prices in the physical market have been governed by the strong supply shortage of about 7 million MT due to drastic reduction in the production of sugar in the last 2 years coupled with a 7 million MT global shortage of the commodity. There was no evidence of futures trading influencing the inflation in spot prices. As a matter of fact, spot prices in sugar rose sharply from about Rs.2200/- per quintal to about Rs.4000/- per quintal after suspension of futures trading in sugar, thereby providing that supply-demand gap rather than futures trading was responsible for the price rise.

Futures' trading in a commodity is a mechanism for price discovery and price risk management, and not a mechanism to control the prices. It is not responsible for price rise in any commodity.

Sugar prices are also governed by the global supply and demand factors. Hence, it is practically impossible in this age of information technology to keep out markets completely insulated from the price movements in the global markets, even if futures' trading is suspended in India as the market players track the futures prices in foreign commodity exchanges for their market strategy.

The futures market, by serving as a platform for price discovery and price risk management helps various stakeholders in the food market such as farmers, producers, processors and exporters toplan their production or purchase / sale, get better value for their produce and mitigate the price risk. In addition to its aforesaid utility for the market players, price information emanating from the futures market is useful for policy makers to take timely corrective policy interventions on the supply or demand side, as the case may be, to redress the supply − demand gap (which is responsible for price rise in food items). For example, if a future shortage trend is indicated by the futures market, policy action to incentives the farmers for higher acreage and / or to liberalise the import regime etc. can be taken to ease the supply constraints in order to control the prices. Similarly, in an over supply situation, encouragement of exports, increased consumption by the consumers / processors etc. will ease the downward pressure on prices (to the detriment of producers). Thus, the futures market also acts as an indicator or enabler of potential policy changes to manage prices of food items in future. Thus, there are no apparent benefits accruing to the consumers on suspension of futures trading in sugar.