

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

UNSTARRED QUESTION NO:2137
ANSWERED ON:23.11.2010
CLOSURE OF FMC
Chanabasappa Shri Udasi Shivkumar

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

- (a) whether the Union Government is contemplating to abolish the Forward Market Commission (FMC), National Commodities Exchange and stop Derivatives Futures Trading in view of soaring price rise of essential commodities including foodgrains and pulses;
- (b) if so, the details thereof;and
- (c) if not, the reasons therefor?

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): No Madam.

(b): Does not arise in view of (a) above.

(c): Forward/ Futures trading in a commodity is a mechanism for price discovery and price risk management. It helps the stakeholders of the real commodity sector, such as producers, processors, exporters, importers and stockiest etc. to plan their economic activities better and balance the demand-supply equation. It does not have any role in the soaring price rise of essential commodities. The facts do not support the contention of futures trading leading to price rise. In fact, 8 essential commodities, viz., rice, wheat, tur, urad, chana, soy oil, potato and sugar (apart from rubber) were suspended from futures trading on 4 different occasions over the last 4 years to address the apprehensions that futures trading may in some way have contributed to price rise in these commodities. 3 of them, rice tur and urad continue to be under suspension since 2007. The suspension of futures trading in the sugar lapsed on September, 2010 and it has not been resumed. But, despite the suspension of futures trading in these commodities, prices of these commodities continued to rise in the physical markets on the back of erratic supply and constantly rising demand. The prices of sugar, for example, almost doubled after suspension of futures trading. Prices of tur and urad have risen by over 100% post-suspension.

This has been corroborated by the RBI in its Annual Report of 2009-10 on the basis of detailed analysis of the futures market data of all essential commodities since 2004, i.e., when the market opened up. The comprehensive study by the RBI has noted that the price rise has been maximum in perishable essential commodities, viz., fruits and vegetables which are not traded in the futures market, and quite high in commodities, viz., tur, urad and sugar post-suspension of futures trading due to severe supply side constraints and rising demands. On the other hand, the study shows that the price rise in some of the essential commodities traded on the commodity futures market has been moderate or negative. Hence, RBI has rejected, after detailed statistical analysis, the hypothesis that futures market is responsible for price rise. It has attributed the price rise mainly to structural constraints in augmenting supplies in the face of rising demand in a rapidly growing economy. Effective and efficient regulation of the market by the FMC (Regulator) and the exchanges is necessary to ensure that manipulative practices are curbed and the market serves the interest of the physical market and provides signals to all stakeholders and policy makers to take appropriate steps.