

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

STARRED QUESTION NO:82

ANSWERED ON:01.03.2011

FORWARD TRADING

Meghwal Shri Arjun Ram ;Pakkirappa Shri S.

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

- (a) whether forward trading is permitted in some essential commodities;
- (b) if so, the details thereof;
- (c) whether small and marginal farmers have benefited from the introduction of forward trading in essential commodities;
- (d) if so, the details thereof;
- (e) whether the Government proposes to ban forward trading in essential commodities to check prices; and
- (f) if so, the details thereof?

Answer

THE MINISTER OF STATE (INDEPENDENT CHARGE) FOR CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION (PROF. K. V. THOMAS)

(a) to (f): A Statement is laid on the Table of the House.

STATEMENT REFERRED IN REPLY TO PARTS (a) TO (f) OF LOK SABHA STARRED QUESTION NO.82 FOR 01.03.2011 REGARDING FORWARD TRADING.

(a) & (b): Yes Madam, the following important essential commodities are presently traded in the futures markets:

Wheat, Chana, Barley, Potato, Mustard Seed, Refined Soya Oil, Soyabean, Refined Mustard Oil, Gur, and Sugar.

(c) & (d): Small and marginal farmers have very small or no marketable surplus in food crops and small quantities of cash crops. Hence, only a small percentage of farmers are involved in marketing of their produce. Given the standard size of futures market contracts and mark- to- market daily obligations, it is not possible for them to trade in futures contracts in the present circumstances till the relatively more easily manageable 'option' contacts are permitted in commodity exchanges. This will happen only after amendment of the Forward Contracts (Regulation) Act. Commodity Exchanges are also working on various models of 'aggregation' in which the aggregators such as Farmers' Groups, NGOs, Farmers' Co-operative Marketing Federations, Regional Rural Banks (RRBs), State Agricultural Marketing Boards, Warehousing Corporation, Commodity Development Boards etc. could provide an interface between the small farmers and the Exchanges, which will facilitate the participation of the said farmers in the futures market which will benefit them directly. Wherever farmers already have such organizational support, viz Rubber Producers' Cooperatives in Kerala, the farmers are participating in futures trading directly and benefiting from the same.

However, presently farmers are indirectly benefiting to some extent from the futures market price discovery, whereby they are able to bargain for a better price from the trade. The Forward Markets Commission (FMC) has launched awareness programmes to educate farmers about the benefit of futures trading and the use of information on futures prices. Electronic price ticker board program has also been started under which so far 636 ticker boards have been installed. These ticker boards display the spot and futures prices of agri commodities of importance to a particular area in the local language on a real time basis.

(e) & (f): No Madam. According to information available with the Government, no study has identified forward trading as one of the reasons for spurt in agri commodity prices. On the contrary, the report submitted (April 2008) by the Committee set up by the Government under the Chairmanship of Prof. Abhijit Sen, and the analysis done in the Annual Report of the RBI for the year 2009-2010(July 2010) have come to the conclusion that forward trading was not the reason for any inflation in the prices of commodities in India. The RBI report has ascribed the inflation primarily to structural constraints in augmenting supplies coupled with rising demand in the fast growing economy. The FMC as a measure of an abundant caution to check perceived inflationary expectations has been suspending forward trading in some commodities from time to time. But the prices of these commodities continued to rise even after suspension. Therefore, no purpose will be served by banning forward trading in essential commodities. Accordingly, the Government does not propose to ban forward trading in essential commodities. At present forward trading is suspended in Tur, Urad and Rice.