

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

UNSTARRED QUESTION NO:3155

ANSWERED ON:13.12.2011

CALCULATION OF ECONOMIC COST

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

- (a) the criteria adopted for calculation of Minimum Support Price (MSP) of paddy and Economic cost for distribution of rice;
- (b) whether the actual expenditure incurred forms the basis for calculation of MSP and Economic cost of foodgrains including rice and paddy;
- (c) if so, the details thereof indicating the actual expenditure that formed the basis for calculating these prices during the last three years;
- (d) whether the delay in computation of Economic cost puts a heavy burden on the State Governments under the decentralised procurement; and
- (e) if so, the details thereof and the steps taken to formulate a corrective policy?

Answer

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

(a)&(b)&(c) Minimum Support Price (MSP) of crops including paddy is fixed by Department of Agriculture & Cooperation on the basis of following criteria:-

- (i) The need to provide incentive to the producer for adopting improved technology and for developing a production pattern broadly in the light of national requirements.
- (ii) The need to ensure rational utilisation of land, water and other production resources.
- (iii) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, industrial cost structure, etc.

This apart, important factors like cost of production, demand and supply, trends in market prices, change in input prices, parity between prices paid and prices received by the farmers, inter-crop price parity, effect on general price level, etc. are also taken into account while fixing MSP.

State-wise Economic cost of rice is fixed by Department of Food and Public Distribution at the beginning of each crop year on provisional basis which comprises of acquisition cost consisting of MSP, statutory charges, milling charges, transportation charges, gurney cost, mandi labour charges, storage charges, etc and distribution cost consisting of handling & transportation charges, storage charges, interest charges, administrative charges etc. Final rate of economic cost is fixed on the basis of audited accounts of the State Governments/agencies.

(d)&(e) 95% of admissible claim was being released as subsidy to State Governments adopting decentralized procurement (DCP) Scheme on the basis of provisional economic cost fixed in the beginning of each year. Only 5% of the claim was being withheld to be released after submission of final claim by State agencies on the basis of final economic cost.

To mitigate the hardships faced by State Governments/agencies, 100% of fixed cost such as MSP, taxes, milling charges, freight and 95% of the variable costs of economic cost are now being released and only 5% of variable cost is withheld pending finalization of economic cost.

To expedite the finalization of incidentals and economic cost of foodgrains payable to State Governments, a dedicated Cell, manned by professionals, is working in the Department.