



COMMITTEE ON AGRICULTURE
(2009-2010)

FIFTEENTH LOK SABHA

MINISTRY OF AGRICULTURE
(DEPARTMENT OF AGRICULTURE & CO-OPERATION)

PRICING POLICY OF AGRICULTURAL PRODUCE

**{Action Taken by the Government on the Observations/
Recommendations contained in the Forty-first Report (Fourteenth Lok Sabha)
of the Committee on Agriculture (2007-2008)}**

THIRD REPORT



LOK SABHA SECRETARIAT

NEW DELHI

December, 2009/Agrahayana, 1931 (Saka)

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Presented to Lok Sabha on 18.12.2009

Laid on the table of Rajya Sabha on 18.12.2009



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COA No. 226

Price: Rs.

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Thirteenth Edition) and Printed by

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COMPOSITION OF THE COMMITTEE ON AGRICULTURE (2009-2010)

Shri Basudeb Acharia - Chairman

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| 1. | Shri S. Bal Shekar | - | Joint Secretary |
| 2. | Shri P.V.L.N. Murthy | - | Director |
| 3. | Shri P. C. Koul | - | Additional Director |

INTRODUCTION

I, the Chairman, Committee on Agriculture (2009-2010) having been authorized by the Committee to submit the Report on their behalf, present this Third Report on Action Taken by the Government on the observations/recommendations contained in the Forty-first Report (Fourteenth Lok Sabha) of the Committee on Agriculture (2007-2008) on 'Pricing Policy of Agricultural Produce.'

2. The Forty-first Report of the Committee on Agriculture (2007-2008) on 'Pricing Policy of Agricultural Produce' was presented to the Hon'ble Speaker on 27 June and to Lok Sabha on 22 July, 2008 respectively. The Report was laid on the Table of Rajya Sabha on 17 October, 2008. The Ministry of Agriculture (Department of Agriculture & Cooperation) furnished their Action Taken Notes on the Observations/Recommendations contained in the Report on 16 July, 2009.

3. The Report was considered and adopted by the Committee at their Sitting held on 16 December, 2009.

4. An analysis of the Action Taken by the Government on the Observations/ Recommendations contained in the Forty-first Report (Fourteenth Lok Sabha) of the Committee is given in **Annexure**.

NEW DELHI;
16 December, 2009
25 Agrahayana, 1931(Saka)

BASUDEB ACHARIA
Chairman,
Committee on Agriculture.

CHAPTER I

Report

This Report of the Committee on Agriculture deals with the action taken by the Government on the recommendations contained in the Forty First Report (Fourteenth Lok Sabha) of the Committee on Agriculture (2007-2008) on 'Pricing Policy of Agricultural Produce' which was presented to the Hon'ble Speaker and Lok Sabha on 27 June and 22 July, 2008 respectively and laid on the Table of Rajya Sabha on 17 October, 2008.

1.2 The Ministry of Agriculture (Department of Agriculture & Co-operation) have furnished Action Taken Replies in respect of all the 12 recommendations/observations contained in the Report. These have been categorised as under:

- (i) Observations/Recommendations that have been accepted by the Government :
Recommendation Nos. 1, 2, 3, 6, 7 and 11
- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the Government's reply:
Recommendation Nos. – Nil
- (iii) Observations/Recommendations in respect of which action taken replies of the Government have not been accepted by the Committee
Recommendation Nos. 4, 5, 8, and 9
- (iv) Observations/Recommendations in respect of which final replies of the Government are still awaited.
Recommendation Nos. 10 and 12

1.3 The Committee trust that utmost importance would be given to implementation of the observations/recommendations accepted by the Government in cases, where it is not possible for the Department to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that Action Taken notes on the observations/recommendations contained in Chapter-I and final

action taken replies to the recommendations contained in Chapter-V of this Report should be furnished to them at an early date.

1.4 The Committee will now deal with the action taken by the Government on some of the recommendations in the succeeding paragraphs.

Pricing Policy
(Recommendation Para No. 1)

1.5 Having traced the evolution of the pricing policy of agricultural produce since pre-independence era; noting the various mechanisms and commissions that had determined the costs and prices and their inadequacy in fixing remunerative prices, the Committee had observed in their Forty-first Report that their had been far-reaching changes in the agricultural scenario and the MSPs suggested by CACP and announced by the Government have not addressed the problems faced by the farmers in running their house-hold activities, family and social responsibilities such as Roti, Kapda and Makan and education of their children and family marriages, etc. and other social functions.

The Committee had also questioned the relevance of factors considered by CACP such as (i) effect on industrial cost structure and (ii) assessment of objective needs of economy at a particular point of time while fixing the MSP as they had never come across a situation in which the industry-produced goods were ever related/compared to the agricultural crop prices.

In view of the labour intensive nature of Indian agriculture and the animal wealth being a part of agricultural activities, the Committee had felt that it was imperative to promote crop-livestock integrated farming system rather than monoculture of the same crop and variety as in contract farming. They had also stressed upon the need to promote conservation farming and sustainable rural livelihoods, which could lead to evergreen revolution and improve productivity in perpetuity without associated ecological harm.

Further, observing that in the era of climate change our dependency on wheat and rice will enhance vulnerability to climatic factors, the Committee had asked the Government to frame such policies that can revitalize the earlier food traditions of rural and tribal area people. The relevant crops should be

included under MSP Scheme to generate remunerative income to the farmers and which can be grown as alternatives to wheat and rice, which presently are over-subscribed crops eating into our fast depleting irrigation water resources. In view of the rising demand for food, the Committee had also suggested the Government to declare 'Right to Food' as a fundamental human right and enforce it legally and socially.

The Committee had also recommended the Government to launch a 'Bridge the yield gap movement' in order to close the gap between potential and actual yields in major food and fodder crops and to achieve this objective, the technologies, services and public policies needed to be reinforced. The post-harvest technology including processing, storage, value-addition and marketing should be strengthened.

Asking the Government to accord highest priority to provide the small and marginal farmers opportunities for assured and remunerative marketing of their produce at the time of harvesting, the Committee had reiterated that in addition to 24 food crops covered under MSP fixed by CACP, the minor millets, the horticulture crops such as potatoes and onions; should also be covered under food crops and CACP should be asked to fix the MSP for these crops also, however, for other horticulture crops which are covered and also others that are not covered under Market Intervention Scheme, Government should explore the possibility of setting up of a separate Central Horticulture Price Commission for major horticulture crops on the lines of the Central Agriculture Price Commission. To encourage the farmers to go for horticulture crops, the Committee had recommended that infrastructure facilities such as good roads, cold chain facilities including cold storages, warehouses and marketing facilities near the farmers fields be developed by the Government in a big way.

The Committee had also recommended an expeditious decision on the recommendations of the Expert Committee set up under the Chairmanship of Prof. Y.K. Alagh to examine Methodological Issues in the Fixation of Minimum Support Prices which were under consideration of the Government.

The Committee had further recommended formulation of farmer and agriculture centric policies with a view to check the bias towards industrialization at the cost of agriculture; to arrest exodus from rural areas to

urban centres; and to generate remunerative employment opportunities in the rural areas.

1.6 The Ministry of Agriculture (Department of Agriculture and Co-operation), in their Action Taken Note, have stated as follows:

‘A new scheme entitled – National Project on Management of soil health and fertility provides for promotion and distribution of micro-nutrients to State Government/State designated agencies. Under the scheme, one fully-fitted mobile testing laboratory shall be provided through State Government and other agencies to 250 districts during 2008-09. 500 soil testing laboratories will be set up in public/private sector during 11th Plan Period. To provide integrated nutrient management, distribution of green manure, soil amendments/reclamation of acidic soils is also included under the scheme.

Government implements the Market Intervention Scheme (MIS) for crops other than those for which MSP is fixed. Under this Scheme, horticultural commodities and other agricultural commodities which are perishable in nature and which are not covered under the minimum support price scheme are included. In order to protect the growers of these horticulture / agricultural commodities from low prices in an event of bumper crop during the peak arrival period, the Government implements MIS for a particular commodity on the request of the State Government concerned. Losses suffered are shared on 50:50 basis between Central and the State Government. In the case of north-eastern States, losses shared are on 75:25 basis between Central and the State Government. In view of the perishable nature of these crops they are covered under the MIS scheme.

Agricultural markets in most parts of the country are established and regulated under the State’s APMC Act. To facilitate varying models of ownership of markets to accelerate investment in the area and enable private investment in owning, establishing and operating markets, the Ministry has prepared a model Act and circulated to all States/UTs for guidance. Several States/UTs have initiated steps for amending APMC Act.

Government has considered the Recommendations of the Expert Committee to Examine Methodological Issues in Fixing MSP and has decided that for recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP;

- (i) The premium actually paid by farmers for crop insurance;
- (ii) Marketing and transport charges incurred by farmers;
- (iii) Imputing value of family labour on actual market rate for casual labour in cost estimates and
- (iv) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the

competitiveness of agriculture and agro-based commodities.

Allocation and supply of food grains by Government of India under the Targeted Public Distribution System includes distribution of coarse grains such as ragi, jowar, bajra, maize, etc. The Department of Food & Public Distribution, accordingly, makes allocation of these coarse grains under TPDS to various States/UTs based on the request/demand received from them. During the current year, 2009-10, different coarse grains have been allocated to Andhra Pradesh, Karnataka, Madhya Pradesh and Gujarat based on the requirements intimated by these State Governments. Potatoes and onions are not allocated to the States for distribution under TPDS. Being perishable commodities requiring specialized storage, it would not be possible or desirable to include them in the general PDS basket.

Agricultural Research Institutes and State Agricultural Universities have prime responsibilities to provide research inputs in terms of varietal development, seeds and the nutrients essential for balanced growth whereas the policy on prices are to be undertaken by State Agriculture Departments. Accordingly, necessary research efforts are constantly undertaken by various research institutes and SAUs to help the farmers'.

1.7 The Committee note that the Government have launched a new Scheme 'National Project on Management of Soil Health and Fertility'. 500 soil testing laboratories are proposed to be set up in public/private sector during the Eleventh Plan Period under this Scheme. The Scheme also envisages provisions of integrated nutrient management, distribution of green manure, soil amendments/reclamation of acidic soils, etc. The Committee are sure that if implemented judiciously and expeditiously, this Scheme would address the concerns voiced by the Committee about the alarming deterioration in Soil Health and fertility, nation-wide, to a considerable extent. The Committee would like to be updated on the progress of implementation of this Scheme at the earliest.

The Committee are, however, highly perturbed over the complete silence of the Government on their recommendation regarding declaration of 'Right to Food' as a fundamental human right and its enforcement, both legally and socially. Instead of taking a proactive stand in the matter, the Government have maintained an intriguing silence on this issue of vital national interest. The Committee firmly

believe that in the absence of a firm commitment on this issue the Government's declared stand of 'Food for All' will remain a mere slogan. The Committee, therefore, strongly deprecate the failure of the Government to respond to their instant recommendation and desire that the stand of the Government in the matter be conveyed to them without any further delay.

Further, the Committee are pained to note a similar apathy of the Government in regard to their recommendation about the Government proposal of launching a 'Bridge the yield Gap' movement with a view to close the gap between potential and actual yields in major food and fodder crops. The Committee while disapproving failure of the Government to furnish their Action Taken Note on this important matter, strongly feel that unless a cogent and well laid out road-map consisting of effective long term strategies and proven technologies is given shape and implemented on a war footing to bridge the yield gap, it will be well nigh impossible to not only ensure food availability to the masses but also maintain food sovereignty of the Country. The Committee, therefore, desire a specific response from the Government in the matter at the earliest.

The Committee tend to agree with the reply of the Government that in view of the perishable nature of commodities like potato and onion it will not be possible to include them in the PDS basket, as the storage and other infrastructural facilities of the PDS are woefully inadequate. The Committee, however, fail to understand as to what is stopping the Government from bringing the minor millets under the MSP regime as recommended by the Committee in their Forty-first Report. The specious plea of these being taken care of under the Market Intervention Scheme (MIS) programme does not cut ice with the Committee. The fact that MSP being a pre-cultivation phenomenon is the single most important factor enabling the farmer to decide what should be cultivated from the point of view of cost/price economics. The MSP of wheat and paddy last year was the determining factor for the farmers overwhelmingly going for the cultivation of these two crops at the expense of sugarcane, which led to record production of food grains on one hand and shrinking of sugarcane cultivation resulting in shortage of sugar on the other hand.

The MIS is merely a post-harvest fire-fighting device meant for obviating, to some extent, distress sales by the farmers in situations of bumper crops, etc. By no stretch of imagination can thus MSP and MIS be equated. The Committee, therefore, desire that the Government should seriously consider inclusion of minor millets under the MSP regime. This will not only make cultivation of these crops remunerative for the farmers but also lend variety to the crop basket of the country, which, to our great disadvantage, is largely dependent on only two crops viz. wheat and rice. They desire to be apprised of the action taken/progress made in respect of these recommendations within 3 months of the presentation of this Report.

**Fixation of Minimum Support Price (MSP)
(Recommendation para Nos. 2 and 3)**

1.8 On the issue of cost and other factors considered for fixation of MSP, the Committee in their earlier Report had revisited the working of CACP. Having noted several infirmities and shortcomings in the present system of fixing of MSP by CACP as also the other problems besetting the agriculture sector in the Country viz. coverage of only 24 crops under the MSP, considerations of factors like (i) effect on industrial cost structure; (ii) effect on cost of living; and (iii) assessment of objective needs of the economy at a particular point of time, etc; not taking into account the risk factors and their consequences; Government interventions and market forces both at national and international levels; the lack of access to majority of farmers to information on best agricultural practices from Government machinery, better pesticides and fertilizers, farm machinery and implements, high yielding seeds; the downturn in food grain production and availability climate change, etc, the Committee had felt that the only way out in the face of these shortcomings/problems was by making agriculture a profitable vocation. Further more, improving of conditions of soil, its nutrient content, water management, growing of alternative crops, research and development of small farm technologies which are useful and affordable were also to be attended to.

They had, therefore, strongly recommended that while fixing MSP, the CACP should stop counting the factors, such as (i) effect on industrial cost structure; (ii) 'effect on cost of living' and (iii) assessment of objective needs of the economy relating to industrial development etc.; and reassess the factor

relating to 'effect on general price level/inflation' by including wholesale price index and not the market rate. They had also recommended that the risk factors enumerated by them should invariably be considered while calculating the level of Minimum Support Price of an agriculture commodity. Besides, 50% risk co-efficient and so also the self-insurance premium of the farmers and premiums of MNAIS and WBCIS should form part of costing factors considered by CACP for fixing MSP.

The Committee had also opined that where States had their own Agriculture Price Committee for giving inputs to CACP, while calculating the cost of a crop in their States, they should include per unit cost of electricity charges and should also consider the comparative advantages of cropping pattern in their States and suggest to the farmers as to which crop would fetch them more remunerative prices on comparative scale.

Finding that CACP's role is restricted to the announcement of MSP, the Committee suggested that CACP should take into account all the minor and major cost factors including risk factors natural as well as man-made and must take into account a profit margin of at least 50% of the cost price, that a farmer should get to run his household, perform his social & family responsibilities and rear his animals, etc.

The Committee after considering the methodology adopted by CACP for calculating the MSP, had recommended that apart from inclusion of all paid out costs, such as, those incurred on account of hired human labour, bullock labour/machinery labour (both hired & owned) and rent paid for leased in land, CACP should also include cash and kind expenses on use of material inputs like seeds, fertilizers, manures, irrigation charges including actual cost of diesel/electricity for operation of pump-sets, etc. as a part of production cost.

The Committee having observed that while calculating the Cost of production, CACP takes into account the rent for leased land and not the cost incurred towards owned land a many a farmers entered this avocation by purchasing land on payment of agreed price had also recommended that interest foregone on owned land should also be counted towards calculation of cost of production.

The Committee had further noted that in addition to paid out costs, some imputed costs are also incurred and are counted by CACP towards fixing of MSP. They, therefore, recommended that the farmer and his family should be considered as skilled labour as they are, in a sense, a techno-managerial group who knows better about the land formation, irrigation requirements of a particular crop, seed quality, farm implements needed, weather conditions and when and how the crop is to be sown, grown and harvested, how to control the pests, when to use insecticides, etc. and when to sell the crops in the market. So far the owned animal labour cost which include cost of green and dry fodder, depreciation on animals and cattle sheds etc., are concerned, they had desired that the expenses incurred on imputed costs, should also be considered by CACP while fixing up of MSP.

Not convinced by the justification of the Government about the use of average cost method for fixing of MSP by CACP, the Committee had opined that though synthetic model is time consuming for collecting the cost data of the raising certain crops, however, when completed, it will be more useful from the farmers point of view for fixing up of MSP of his crops.

The Committee had also recommended that :

- (i) Higher labour charges, actual or minimum, of human, animal and machinery; whichever is higher, should be counted.
- (ii) Maintenance expenses for owned animals, machinery and land should also be included.
- (iii) The micro-nutrients used in agricultural production and cost of depletion of these micro and macro nutrients should also form part of the paid out costs. The computation should include both pre and post harvest operational data.
- (iv) Expenses on material inputs such as seed (home grown and purchased), fertilizer, manure (owned & purchased), pesticides, insecticides and irrigation facilities should be counted as if these have been purchased at market rates.
- (v) Depreciation of farm buildings such as cattle sheds, machine sheds, storage sheds, etc. should be 10% or more per year on pucca sheds; and depreciation on wooden farm implements should be @ 20% and on metal implements @ 10% per year.

- (vi) For land revenue, the paid out cost should include, income loss on account of investment in land plus the tax paid to the Government on purchase price or stamped value of agricultural land.

1.9 In their Action Taken Note the Government have stated as follows:

“The price policy also seeks to provide a fair return to the farmers while keeping in view the interest of the consumers, especially the large majority of poor consumers both in rural and urban areas in the sense that it tries to keep the prices of food and other agricultural commodities at reasonable levels. As any policy regarding agriculture cannot be looked in isolation of the overall economy, agricultural price policy also has to keep the objective needs of the economy in consideration.

Government has considered the Recommendations of the Expert Committee to Examine Methodological Issues in Fixing MSP and has decided that for recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP;

- (i) The premium actually paid by farmers for crop insurance;
- (ii) Marketing and transport charges incurred by farmers;
- (iii) Imputing value of family labour on actual market rate for casual labour in cost estimates and
- (iv) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the competitiveness of agriculture and agro-based commodities.

As regards consideration of risk factors in cultivation, at present the production risk is taken care by the National Agricultural Insurance System (NAIS) in force and the price risk is covered under the MSP. MSP is a price guarantee that is provided to the farmers to ensure that the price does not fall below that floor limit and the chances of distress sale by the farmers are eliminated. Regarding the production risk in farming, it seems appropriate that the farmers are provided with farmer-friendly insurance cover and the cost on account of insurance premium is included in the overall cost of production”.

The Government in their Action Taken Note have further stated that the value of owned land is imputed at market rate subject to the ceiling prescribed by the State Government. Family labour is imputed on the basis of statutory casual wage rate or actual market rate, whichever is higher. Value of owned animal labour is evaluated on the basis of cost of their maintenance. Similarly, value of owned machinery charges is imputed on the basis of cost of maintenance of farm machinery. Expenditure towards preparatory tillage of land during intervening period of two crops is counted in estimated cost of production of crops for next season. Paid out cost by farmer include depreciation of implements and farm building and material inputs. Regarding income loss on account of investment in land plus taxes paid

and cost of depletion of micro and macro nutrients, these are not taken into account as per existing methodology.

The Government has, from time to time, set up expert committees to revise the methodology and system of calculation of the cost of cultivation/production of agricultural produce. These include Special Committee on “Cost of Production Estimates” under the Chairmanship of Dr. S.R.Sen in 1980, Expert Committee to review the Methodology of cost of Production of Crops under the Chairmanship of Dr. Hanumantha Rao in 1990, National Statistical Commission under the Chairmanship of Dr. C. Rangarajan in 2000 and Expert Committee under the Chairmanship of Dr. Y.K. Alagh in May, 2003. As per the recommendation of the Expert Committee under the Chairmanship of Dr. Hanumantha Rao, the expenditure incurred on cow/buffalo’s calves for first three years, till they are grown up for use in Agriculture and/or milking, and also old animals that are not good for production is not taken into account. The work done by house ladies in different items of work other than relating to agriculture is also not counted.

Government has considered the Recommendations of the Expert Committee to Examine Methodological Issues in Fixing MSP and has decided that for recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP;

- (i) The premium actually paid by farmers for crop insurance;
- (ii) Marketing and transport charges incurred by farmers;
- (iii) Imputing value of family labour on actual market rate for casual labour in cost estimates and
- (iv) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the competitiveness of agriculture and agro-based commodities.

1.10 The Committee have noted that the Government have considered the recommendations of the Expert Committee set up to Examine Methodological Issues in Fixing MSP and have decided that items of cost like premium paid by farmer for crop insurance; marketing and transport charges; family labour on actual market rate for casual labour shall also be considered by CACP while recommending the MSP. They firmly believe that though not amounting to much, such value additions are a right step in the direction of making prices of agricultural produce remunerative and provide the much needed incentive to farming in the country to some extent.

The Committee are, however, least convinced by the rationale for continuing with present pricing policy of agricultural produce. The contention of the Government that while keeping in view the interest of the consumers, especially the large majority of poor consumers both in rural and urban areas and trying to keep the prices of food and other commodities at reasonable rates, the pricing policy seeks to provide a fair return to the farmers is not at all tenable being devoid of factual basis. They are of the strong opinion that Government policies over a period have rendered agriculture, as the least profitable vocation in the country. Besides, the poor and hapless consumer, for whose benefit the Government is purportedly taking recourse to the extant pricing policy, continues to bear the brunt of unprecedented and continuous hike in prices of food grains and other agricultural commodities for years now, without any respite. The present pricing policy, has neither benefited the farmer nor the consumer. The Government, therefore, needs to seriously introspect on the question of continuing with such a skewed policy. The Committee also feel that a farmer friendly pricing policy would not only automatically take care of rural poor, who form a majority of the farming community but also act as a counter magnet for the current exodus to urban areas. This, thereby, would reduce the population of the urban poor, who are living in abominable conditions considerably, as the lack of gainful opportunities, is driving the rural poor to urban centres.

The Committee, therefore, desire a serious rethink by the Government on the various remedial steps suggested in these two recommendations .

The Committee also expect, at the earliest, specific responses from the Government on their recommendation about CACP stopping counting factors, such as

- (i) effect on industrial cost structure;
- (ii) effect on cost of living; and
- (iii) assessment of objective needs of the economy relating to industrial development, etc, while fixing the MSP.

This is all the more necessary as a similar view on the effect of pricing of industrial products on the rural consumer is not taken into consideration except that the profit motive of the industrial enterprises is the sole guiding factor.

They would also like to be apprised of the views of the Government on keeping a profit margin of 50% of the cost price as a part of MSP so as to enable the farmer to run his household, perform his social and family responsibilities and take care of his livestock, etc.

MSP of Jute vis-à-vis other Crops
(Recommendation para 4)

1.11 The Committee had observed that generally the MSP, is fixed at the time of sowing of crops, months later when the said crop comes for marketing is treated as the procurement price by the Government, irrespective of the market price obtaining at that point of time. However, in case of jute, though a single MSP was recommended by CACP and approved by the Government, subsequently, based on this MSP, different MSPs were announced, keeping in view the quality considerations and consequent input price differentials. The Committee had, therefore, recommended that the system of calculating MSP for Jute should also be adopted for other crops.

In view of the increasing costs of inputs, the Committee had also recommended that the MSP should be announced well before the sowing season of the crops covered under the MSP Scheme and should include cost + 50 per cent.

With a view to create a stake of the farmer in the profits accruing to the exporters of their produce, the Committee had recommended that the new APMC Act should recognize whether the purchases of essential commodities were for public good or for commercial profit, and in the latter case the farmer deserved a share in profit, if his produce was exported for a profit.

1.12 The Government in their Action Taken Note have stated as follows :

“MSP is expected to operate as a price signal for the farmers so as to decide regarding the crops to be cultivated and the area to be allocated for growing any particular crop. Accordingly, it is endeavoured to announce the MSP before the sowing season of crop.

Considering the terms of reference of CACP and the long term price policy, a mechanical linkage of cost of production with MSP would not be desirable. The cost of cultivation/production is a major factor in fixing the MSPs. While estimating the cost of cultivation/production CACP considers both paid-out cost and fixed cost. Under the category of paid-out cost are included all expenses borne in cash and kind by the farmers. These expenses cover the cost on account of human labour, bullock labour/machine labour (both hired and owned), rent for leased-in land, seeds, fertilizers, manures, irrigation charges, interest value of owned capital assets, etc. It is attempted to ensure that the MSP is remunerative and provides adequate margin over the cost of cultivation/production.

The powers and functions of APMCs are governed under the respective of Agricultural Produce Marketing (Regulation) Acts of different States. The main functions of APMCs are to ensure correct weighment, prompt payment and creating environment for orderly marketing of agricultural produce in the market yards and settlement of disputes, etc. Regarding issue of Smart Card in recognition of the farmer selling his agricultural produce for public good and have share of profit, when the same produce is exported, it is mentioned that the maximum procurement of agricultural produce for public good is being coordinated by Department of Food and Public Distribution with different agencies in the country. Accordingly, the share of the profit to the farmer from the agricultural produce sold by him is to be given by these agencies which are not covered under the domain of State APMC Act as the Act has to ensure correct weighment, prompt payment and creating environment for orderly marketing of agricultural produce in the market yards and settlement of disputes, etc”.

1.13 The Committee are not at all satisfied with the repetitive and perfunctory reply of the Government on the issue of having a variable MSP as in case of jute for all other crops covered under the MSP Scheme. They are of the firm opinion that variable MSP for other crops would definitely be an important incentive to the farmer after the basic MSP acts as a price signal to him in the matter of selection of crop for cultivation. The reply of the Government instead of throwing some light on this matter merely repeats about the inputs taken into account for arriving at the MSP in the extant regime as replied to in earlier recommendations of the Forty-first Report. The Committee would expect a well considered and cogent reply from the Government on the desirability of having a variable MSP for all crops on the lines of the MSP for jute.

As regards the reply of the Government about the State APMC Act, the Committee wish to remind the Government that they are well aware of the various provisions of the APMC Acts in different States and they would like the Government to respond to the limited question of the new APMC Act recognising, if the purchase is for public good or for commercial profit. They desire to be apprised of the response to this recommendation at an early date.

Inclusion of more crops under MSP
(Recommendation para No. 5)

1.14 The Committee had noted that inspite of demands for a long time several cash crops had not been included under the MSP Scheme because of the element of subsidy involved, the perishable nature of such crops and the existence of Market Intervention Scheme. Not convinced by the arguments extended by the Government, the Committee had recommended that in order to prepare ourselves to the challenges of climate change and global warming the Government should widen the food security basket by including tubers, minor millets and other such crops under the MSP.

1.15 In their Action Taken Note, the Government have stated that they are implementing Market Intervention Scheme (MIS) on the request of a State/UT Government for procurement of agricultural and horticultural commodities generally perishable in nature and not covered under Price Support Scheme. The MIS is implemented in order to protect the growers of these commodities from making distress sale in the event of bumper crop when there is glut in the market and the prices tend to fall below economic levels/cost of production. Procurement under MIS is made by NAFED as Central agency and by the State designated agencies. Losses, if any, incurred by the procuring agencies are shared between Central Government and the concerned State Government on 50:50 basis (75:25 in case of North-Eastern States) restricted to 25% of the procurement cost. Profit, if any, earned by the procuring agencies is retained by them.

The proposal for implementing MIS received from any State Government/ UT administration is evaluated as per MIS guidelines in this Department in consultation with concerned Departments/Divisions and State/UT Government. The Market Intervention Price (MIP) is fixed at the cost of production.

1.16 The Committee are not convinced by the Government's contention that Market Intervention Scheme (MIS) is efficiently playing the role of MSP in case of crops such as tubers, minor millets, and other cash crops. As stated previously in this Report, the MSP which is a pre-cultivation phenomenon helps the farmer arrive at a well considered choice of crop to be cultivated. MIS at best is a device to salvage the cost incurred on a crop so as to prevent distress sales in bumper harvest situations. MIS does not necessarily help the farmer to get remunerative

price for his produce. Crops like minor millets, etc. mentioned previously are very important constituents of the food baskets in the regions of their production. Absence of price support mechanism for such crops results in gradual loss of farmers' interest in cultivation of these crops. Sustainable cultivation of such crops will reduce the excessive dependence on staple cereal foods like wheat and rice. The Committee believe that when alternative food crops are available, food scarcity created by situations like drought could be better tackled through augmentation of the nation's food security basket. They, therefore, reiterate their recommendation that the Government should widen the food security basket by including tubers, minor millets and other such crops under the MSP Scheme without any further delay.

Farmer as Skilled Labour
(Recommendations para No. 8)

1.17 Taking note of the huge disparities in the wages of the farming community vis-à-vis other classes of employees, the Committee had recommended that farming being a skill based profession, the farmer and his family members should be treated as skilled labour and the CACP should compute the relevant values accordingly. They had also recommended that the statutory wage rate or actual market rate of farm labour should also be revised accordingly.

1.18 In their Action Taken Note the Government have stated that as per the existing methodology farmer and his family members are not treated as skilled labour. However, the manpower employed in agriculture is treated as agricultural labour. The relevant market wages for ploughing, sowing, weeding, transplanting and harvesting, etc. are considered to determine the cost of labour engaged in agriculture.

1.19 The Committee deprecate the view taken by the Government which equates the labour put in by the farmer and his family in agriculture and allied activities at par with casual labour. The farmer and his family should rather be considered as a techno-managerial group with exhaustive knowledge of the nature of land under cultivation, the crops to be cultivated, the best agricultural practises, etc. The National

Commission for Farmers has also emphasised on this fact by proposing training to farmers at the farms of outstanding farmers. The Commission in fact wished the Government to see farmers as partners in their effort to improve the way agriculture is practised in the country. The Committee, therefore, once again recommend that Government should take immediate steps to declare farm labour in the category of skilled labour for the purpose of computing MSP.

**Crop Loan
(Recommendation para No. 9)**

1.20 In view of the insufficiency of the present ceiling of Rs. 3 lakh for short term crop loans and the high interest rate of 7 % charged on it, the Committee had recommended that the ceiling be hiked to Rs. 5 lakh and interest be reduced to 4 %.

The Committee had further recommended that the period of calculating the rate of interest should be fixed from the date of sowing crops to the date when the farmers actually gets the money in hand after selling his crops i.e. based on the cycle of the Rabi or Kharif crop season. This total sum of interest paid on crop loans during this period should be taken as one of the cost factors while calculating the total cost fixation of MSP.

1.21 The Government in their Action Taken Note have stated that as of now, there is no proposal either to increase the loan amount of crop loan to Rs.5 lakhs on principal amount for farmers or to extend crop loans to farmers at the rate of 4%. However, banks have already been advised to follow the practice of charging interest on agricultural advances linked to crop seasons. Banks have also been advised to charge interest on agricultural advances for long duration crops at annual rests. For short duration crops and other allied agricultural activities banks are advised to take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting/marketing season while charging interest and compounding the same if the loan/instalment becomes overdue. As per CCEA decision on the recommendations of the Expert Committee to examine Methodological Issues in the Fixation of Minimum Support Prices, interest rate of 12.5% is already being allowed on working capital for half the crop period.

1.22 The Committee do not approve of the reply of the Government and emphasise that the farmers should be provided with a fair enough short term crop loan, which in any case he is going to repay with interest. The Committee cannot but comment on this apathetic attitude of Government towards farming community and the stark contrast of the benevolence bestowed upon the borrowers of other sectors, notably the industrial sector.

The rising cost of all inputs compounded with the conditions created due to global recessionary trends are more than sufficient justification for enhancing the short term crop loan limit as also reducing the rate of interest charged on it. The Committee, therefore, unequivocally reiterate that the Government should revisit the issue urgently and raise the short term credit limit to Rs. 5 lakh and also reduce the interest charged on it from 7 % to 4 %. They further desire to be apprised of the status of the positive action taken in the matter.

Agricultural Subsidies
(Recommendation para No.10)

1.23 The Committee had noted that agricultural subsidies are given by both the Central and the State Governments. The Central Government give subsidies on fertilizers, seeds, machinery, etc. and the State Governments give subsidies for irrigation, power, etc. under various schemes. The current pricing mechanism of fertilizers has also encouraged nutrient imbalance in the agriculture land.

The Committee had, therefore, recommended that as the price mechanism of chemical fertilizers have created nutrient imbalance in the agriculture land it needs to be balanced and farmers be given fertilizer as well as water and power subsidy directly, rather than the producers and suppliers, as the farmers knows better about the quality/quantity of seeds, fertilizers and water to be used in the fields to make the agricultural production a profitable avocation.

1.24 The Ministry in their Action Taken Note have stated as under:

“The pricing of subsidized fertilizers in the country has been rationalized w.e.f. 18th June, 2008 wherein the cost of nutrients NP&K has been made uniform across all subsidized fertilizers to control overuse of urea due to the fact that the price of “N” in urea was much lower than that in complex fertilizers.

So far as recommendation to provide subsidy directly to farmers is concerned, the proposal was flagged for consideration in Group of Minister (GOM), which has been constituted under the Chairmanship of Agriculture Minister to look into sustainable use of fertilizers and pertinent pricing and subsidy issues. The GOM in its final recommendations has not recommended any change in the existing delivery mechanism for fertilizer subsidy through the producers. However, as announced by the Finance Minister in his Budget speech 2008, the Government is exploring the feasibility of nutrient based subsidy and other alternative modes of delivery of subsidy to the farmers.

The National Seed Policy of 2002 calls upon the Government of India to make best quality seeds and planting material available to Indian farmers to increase productivity. In this context, price control regime may have detrimental effect and may discourage private seed companies to make quality seed available in Indian markets, including high yielding varieties and hybrids, which have proved to be of immense benefit to Indian farmers. This underlines the importance of non-regulation of prices of seeds in India. The price of seeds should also be

decided by the producers themselves as it is done for agricultural equipment and machinery, pesticides, etc”.

1.25 The Committee note that the pricing of subsidized fertilizers in the country has been rationalized w.e.f. 18 June, 2008. Now, the cost of nutrients NP&K has been made uniform across all subsidized fertilizers to control over-use of urea due to the fact that the price of ‘N’ in urea was much lower than that in complex fertilizers. The Committee consider this as a welcome step, which was long overdue, and which will surely help in tackling the nutrient imbalance.

The Committee also note with satisfaction that as a follow-up to the announcement made by the Finance Minister in his Budget Speech, the Government is exploring the feasibility of nutrient based subsidy and other alternative modes of delivery of subsidy to the farmers. The Committee expect the Government to come up with a well considered and a farmer friendly decision without any further delay.

It is disconcerting to note that the Government is thinking of non-regulation of prices of seeds in India with a view to let the seed price be decided by the producers and make available quality seed in Indian markets for the benefit of the Indian farmer. The Committee would, in view of the socio-economic condition of the agriculture sector and a vast majority of farming community being small and marginal farmers, like the Government to consider all pros and cons of the matter and come to a decision after extensive consultations with all stakeholders. They would further caution the Government not to allow the situation to become like the one prevailing on fertilizer subsidy front where the farmer *per-se* is not able to avail directly the benefit of the subsidy being given by Government on fertilizers. The Committee would like to be apprised in the matter at the earliest opportunity.

Contract Farming
(Recommendation para No. 11)

1.26 Alarmed by the alacrity with which some national and multinational food processors and fast food chains were entering into contracts with farmers to encourage them to cultivate farm produce like fruits, vegetables, etc and noting

that a host of issues relating to contract farming remained to be legally streamlined, the Committee had recommended that the Government should take corrective steps to ensure that the agriculture land of small and marginal farmers is not manipulated and a situation of 'bonded farming' is avoided.

1.27 The Government in their Action Taken Note have stated as under:

"Promotion of direct marketing and contract farming and development of competitive agricultural markets in private and cooperative sectors have been identified as key areas of reforms in the agricultural sector, to be implemented through the amendments to the State APMC Acts. Contract farming arrangements will provide an effective method of linking small farm sector to sources of extension advice, mechanization, seeds, fertilizers and credit and assured and profitable markets, with due protection to farmer's rights over his hand.

In most of the States which have amended their APMC Acts, a legal framework is in place now to regulate contract farming. This framework provides for –

- (i) Contract Farming Sponsor to register himself with the Market Committee or with a prescribed officer.
- (ii) The Contract Farming Sponsor to get the contract farming agreement recorded with a prescribed officer.
- (iii) No title, rights, ownership or possession of land shall be transferred or alienated or vest in the contract farming sponsor or his successor or his agent as a consequence arising out of the contract farming agreement.
- (iv) Dispute Redressal Mechanism.
- (v) The agricultural produce covered under the Contract Farming agreement may be sold to the Contract Farming Sponsor out side the market yards.
- (vi) Specification of Model Agreement for Contract Farming so that producers can ensure inclusion of various required clauses in their agreement.

It is expected that the regulatory provisions being made in the State APMC Acts and Rules thereunder, will ensure that under the contract farming agreement both sponsors and the producers will be accountable to the terms & conditions laid down for the farming through a written agreement, which will be recorded in a public office and will be available for any dispute resolution. Further, the rights of the farmer cover the title, ownership or possession, etc. will be protected over the land under contract farming and as a consequence of the failure of the contract; they will not lose any right over the land. The agreement prescribed under the law will ensure that farmers get the assured price on supply of the required quantity of produce and the sponsors provide them certain agreed services and technical know-how, if so preferred by both the parties.

Ministry of Agriculture is of the view that the State Governments through their designated authorities shall ensure that the contract farming, which is generally commodity specific does not grow beyond proportion to disturb bio-diversity and agricultural ecology.

However, since contract farming is happening at a very small scale at the moment, no such threat is being experienced in any part of the Country at present”.

1.28 The reply of the Government indicates that reform/amendment of the State APMC Acts will provide the necessary legal frame work governing contract farming in the country. However, it is a known fact that all States are yet to carry out the necessary amendments in their APMC Acts. The Committee wonder how corrective steps could be ensured and enforced nation-wide in the still evolving scenario of contract farming. The Committee are of the opinion that the Government need to prod all States to have sufficient legal framework in place before allowing contract farming. Unless and until the Government is able to ensure this, the Committee’s apprehensions about ‘bonded farming’ and risk to the food security of the country will remain unallayed.

Restructuring and Strengthening of Forward Market Commission
(Recommendation para No.12)

1.29 The Committee had noted that forward market in agricultural commodities enable the stakeholders/market participants to hedge their price risk in an open market environment. It also helps them in price discovery based on which the producers take informed decisions. However, they felt that forward markets in India till now, have not been beneficial to the farmers, or to the consumers, though, the traders in the market or say the middle man is earning at the cost of farmers.

The Committee had, therefore, recommended that future trading in agricultural commodities should be discouraged to contain the speculative and paper trading which generally results in artificial rise in prices. The Committee also recommended that the Government should expedite the setting up of a regulatory authority for forward market trading on the lines of Securities and Exchange Board of India.

1.30 The Government in their Action Taken Note have stated that the primary role of the futures trading is price discovery and price risk

management. Price discoveries in futures market help the producers, namely the agriculturists, to plan their agricultural operations. The producer armed with the knowledge of the futures, can avoid resorting to distress sale. He is also empowered to properly negotiate with the private trader regarding the prices having regard to the informed circumstances.

To ensure that the benefits of the futures market reach the farmers and they are able to derive benefits of the advance price signals, the FMC, Exchanges, AGMARKNET are also working on a project to place ticker boards in APMCs to disseminate future prices on real time basis so that farmers may take appropriate decision about acreage and marketing of their produce.

The regulatory framework needs to be overhauled to bring it on par with those of similar regulators like SEBI, RBI and restructured and strengthen the Forward Market Commission to meet the regulatory challenges. In this connection, a Bill to amend the Forward Contracts (Regulation) Act, 1952 was introduced in Parliament on 13.03.2008.

1.31 The Committee appreciate that the Government have, at last been persuaded by their recommendation to realize the need for overhauling the regulatory framework to bring it on par with those of similar regulators like SEBI, RBI and for having a restructured and strengthened Forward Market Commission to meet the regulatory challenges. The Committee are disappointed to note that the Government have introduced a Bill to amend the Forward Contract (Regulation) Act, 1952 on 13 March, 2008 but have not bothered to give an update to the Committee about the fate of the Amending Bill while furnishing the Action Taken Note more than one and a half year later. The Committee would like the Government to get the Bill to amend the Forward Contracts (Regulation) Act, 1952, enacted expeditiously so that the restructuring and strengthening of the Commission is not delayed any further. They would like to be apprised of the status to obtaining in this regard at the earliest.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Pricing Policy **(Recommendation para No.1)**

The Committee note that agriculture price policies were evolved in the pre-independence era but were not strictly enforced. The focus of agriculture production during British rule was to grow more cash crops, which could be exported, resulting in a big shift against the growth of food grains. This phenomenon continued even during early years of Independence. Thereafter, the Government focused on promoting organized marketing of agricultural commodities through a network of regulated markets to ensure reasonable gain to the farmers. However, the infrastructural facilities remained highly inadequate in most of the States and with the increase in population, the demand for food grains particularly rice and wheat was on the increase from year to year. Another reason for increase in demand of rice and wheat was the increase in income level of the consumers and substitution of coarse grains like maize, jowar, bajra, etc. by wheat and rice. Over a period, the shortage of scarcity, unregulated purchase and movement of food grains by private traders lead to indiscriminate and speculative rise in prices by movement of food grains from surplus producing areas to high purchasing areas. To deal with this situation, the Government of India appointed L.K. Jha Committee in August, 1964 to determine price of rice and wheat for the 1964-65 season and to suggest terms of reference for an agency which could provide an advice on a continuous basis in respect of future season. Based on this Committee report, the Agriculture Prices Commission (APC) was set up on 1st January, 1965 to advise the Government on price policy of major agriculture commodities. With certain charges in its terms of reference, such as , terms of trade between agricultural and non-agricultural sectors, the Commission was renamed as the Commission for Agricultural Costs and Prices (CACP) in 1985, which presently consists of a Chairman, a Member Secretary, two official members and three non-official members from the farming community.

The Committee have been apprised that the Government announces minimum support prices after considering the recommendations of the CACP,

the views of Central Ministries and State Governments and such other factors, which are considered important for fixation of MSPs.

The Committee observe that in recent times, there have been far-reaching changes in the agricultural scenario and the MSPs suggested by the CACP and announced by the Government have not addressed the problems faced by the farmers in running their household-activities, family and social responsibilities such as Roti, Kapada and Makan and education of their children and family marriages, etc. and other social functions. Even the Agricultural Price Policy and the credit policy of the Government have not been able to stop the spate of suicides by the farmers which is spreading from one State to another and the Government has admitted that it has already spread to 31 districts in Andhra Pradesh, Karnataka, Maharashtra and Kerala. There are also reports of suicides by the Punjab & U.P. farmers. It has come to the notice of the Committee that even the samples study for assessing cost incurred for raising a crop, supposed to be done at fields, is carried out, at times falsely even by sitting in office.

The Committee are unable to understand the relevance of factors considered by CACP such as (i) effect on industrial cost structure and (ii) assessment of objective needs to economy at a particular point of time. They have never come across a situation in which the industry produced goods are even related/compared to the agricultural crop prices.

The agriculture of industrialized nations is energy intensive, while the agriculture in developing countries like India is labour intensive and their animal wealth is part of their agriculture activities. Since India is having 20% of the world's cattle, buffalo, sheep and goat population and 82% of the landholdings are very small, so it is imperative to promote crop-livestock integrated farming system rather than monoculture of the same crop and variety as in contract farming. There is a need to promote conservation farming and sustainable rural livelihoods, that can lead to evergreen revolution and improve productivity in perpetuity without associated ecological harm.

The Committee urge upon the Government, agricultural research institutes and agriculture universities to take the responsibility for providing necessary inputs, particularly seeds of appropriate varieties and the nutrients essential for balanced fertilization, at the right time and place and at affordable

price. The research and development effort should focus on the adoption of risk-minimizing and soil enriching technologies.

The Committee observe that climate change through global warming may bring changes in temperature, rainy days and sea level and dependency on wheat and rice will enhance vulnerability to climatic factors. So the Government should frame such policies that can revitalize the earlier food traditions of rural and tribal area people, who in the past depended for their daily food on a wide range of millets, grain legumes, tubers and vegetables. The Public Distribution System, should include, wherever appropriate, ragi, minor millets and other wide range of nutritious cereals such as Jawar, Bajra, Maize, etc. and tubers such as potatoes, onions, etc. These crops should be included under MSP Scheme to generate remunerative income to the farmers and can be grown as alternative to wheat and rice which presently are over-subscribed crops eating into our fast depleting irrigation water resources. As per Food & Agriculture Organization Report, the food production needs to be increased by 50% by 2030 to meet the rising demand. To save the hungry from eating only promises and platitudes, this is the opportune time for the Government to declare 'Right to Food' as fundamental human right and enforce it legally and socially. "Food for all" should be effectively provided in this house of grave energy and food crises or else, we may confront widespread hunger and the consequent food riots.

The Government should launch a 'Bridge the yield gap movement' in order to close the gap between potential and actual yields in major food and fodder crops and to achieve this objective, the technologies, services and public policies will have to be reinforced. The post-harvest technology including processing, storage, value-addition and marketing should be strengthened.

The Committee are of the considered view that the Government should give highest priority to provide the small and marginal farmers opportunities for assured and remunerative marketing of their produce at the time of harvesting.

The Committee also recommend that in addition to 24 food crops covered under MSP fixed by CACP, the minor millets, the horticulture crops such as potatoes and onions; should also be covered under food crops and

CACP should be asked to fix the MSP for these crops also, however, for other horticulture crops which are covered and also others that are not covered under Market Intervention Scheme, Government should explore the possibility of setting up of a separate Central Horticulture Price Commission for major horticulture crops on the lines of the Central Agriculture Price Commission. To encourage the farmers to go for horticulture crops, the Government needs to develop infrastructure facilities such as good roads, cold chain facilities including cold storages, warehouses and marketing facilities near the farmers fields in a big way.

The recommendations of the Expert Committee set up under the Chairmanship of Prof. Y.K. Alagh to examine Methodological Issues in the Fixation of Minimum Support Prices are under consideration of the Government. The Committee recommend that the decision on the recommendations of Expert Committee should be expedited and they may be apprised of the same.

The Committee also deprecate the apprehension that the inflation is being led by food crop rising prices, as there is only 20% contribution of food grain prices in over all calculation of inflation rates.

The Committee note that since the time of liberalization of economic development started in early 90s, till date, the focus of our development is more towards raising industrial production and recently on the service sector and agriculture development has been ignored to the extent that fertile lands are being acquired from farmers at throw away prices to develop Special Economic Zones (SEZs) and Government are giving them tax holidays for years together. The Committee are of the opinion that instead of developing SEZ on agricultural land, the Government should develop Special Agricultural Zones for intensive production of food grains, pulses and oilseeds, etc. The agriculture sector is being ignored and neglected in favour of industrial sector, as if, the poor man in a remote village will be able to earn his livelihood and food from these industrial islands in his area. The prices of agricultural produce received by the farmers are lower than the prices of the same prevailing in a free market and are often less than the cost of cultivation. The ever growing population of our country cannot be fed regularly only by importing food grains and that too at the twice or at least one and half rate

more than the domestic MSP rate fixed by the Government as was done in 2007 by importing wheat up to \$393 per tonne through different international supplier companies. It seems that the farmer centric policies which can only solve our food security and unemployment problem are not on the agenda of the successive governments leading to pressure on the cities to generate employment for the poor farmers and labourers of rural India, who are flooding the big cities, in a big way. If the farmers are provided with easily affordable new technologies and trained to use it, clubbed with remunerative prices for their produce, more than 50% of the unemployment problem can be solved and the city governments could also be saved from amenities to the ever increasing population of the big cities. This lop-sided growth of our economy is increasing the gap between the rich of the cities & poor farmers of the villages, which is not being given the required attention, though both these groups are contributing towards the progress and development of our country. There is a need of a policy for farmers whose roots are embedded to the ground for developing Indian economy first and world economy later.

The food security means a situation where all the people of this country could buy enough nutritious food of their choice to live an active and healthy life in all circumstances. It has been noted that this year the Government have imposed a ban on export of non-Basmati varieties and heavy tax burden on export of Basmati varieties of rice, which is directly against the interest of farmers, resulting in loss of their income and will also discourage them to grow these crops. The Committee, therefore, are of firm opinion that the food security can be achieved only by making farmer and agriculture centric policies through which farmers are encouraged to grow more food crops which earn them enough income to smoothly run their household activities and perform their social responsibilities.

Reply of the Government

A new scheme entitled – National Project on Management of soil health and fertility provides for promotion and distribution of micro-nutrients to State Government/State designated agencies. Under the scheme, one fully-fitted mobile testing laboratory shall be provided through State Government and other agencies to 250 districts during 2008-09. 500 soil testing laboratories will be set up in public/private sector during 11th Plan Period. To provide integrated

nutrient management, distribution of green manure, soil amendments/ reclamation of acidic soils are also included under the scheme.

Government implements the Market Intervention Scheme (MIS) for crops other than those for which MSP is fixed. Under this Scheme, horticultural commodities and other agricultural commodities which are perishable in nature and which are not covered under the minimum support price scheme are included. In order to protect the growers of these horticulture / agricultural commodities from low prices in an event of bumper crop during the peak arrival period, the Government implements MIS for a particular commodity on the request of the State Government concerned. Losses suffered are shared on 50:50 basis between Central and the State Government. In the case of north-eastern States, losses shared are on 75:25 basis between Central and the State Government. In view of the perishable nature of these crops they are covered under the MIS scheme.

Gramin Bhandaran Yojna (GBY) seeks to create scientific storage capacity with allied facilities in rural areas to meet out various requirements of farmers for storing farm produce, processed farm produce, agricultural inputs, etc and prevention of distress sale by creating the facility of pledge loan and marketing credit. The scheme has been made farmer friendly by allowing subsidy for smaller godown of 50 MTs in general, and of 25 MT in hilly areas. By the end of March, 2008 16186 godown having a capacity of 214.28 lakh tonnes involving subsidy of Rs.479.43 crores have been sanctioned by NABARD and NCDC.

Agricultural markets and most parts of the country are established and regulated under the State's APMC Act. To facilitate varying models of ownership of markets to accelerate investment in the area and enable private investment in owning, establishing and operating markets the Ministry has prepared a model Act and circulated to all States/UTs for guidance. Several States/UTS have initiated steps for amending APMC Act.

Government has considered the Recommendations of the Expert Committee to Examine Methodological Issues in Fixing MSP and has decided that for recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP;

- (i) The premium actually paid by farmers for crop insurance;

- (i) Marketing and transport charges incurred by farmers;
- (ii) Imputing value of family labour on actual market rate for casual labour in cost estimates and
- (iv) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the competitiveness of agriculture and agro-based commodities.

With regard to the acquisition of land for SEZ's it may be mentioned that land is a State subject. Land for SEZs is procured as per the policy and procedures of the respective State Governments. State Governments have been advised that in case of land acquisition for Special Economic Zones, first priority should be for acquisition of waste and barren land and if necessary single crop agricultural land could be acquired for the SEZs. If perforce a portion of double cropped agricultural land has to be acquired to meet the minimum area requirements, especially for multi-product Special Economic Zones, the same should not exceed 10% of the total land required for the SEZ. The Board of Approval on SEZs only considers those proposals, which have been duly recommended by the State Government. Further, pursuant to the decision of Empowered Group of Ministers (EGOM) in its meeting held on 5th April 2007, the State Governments have been informed that the Board of Approval will not approve any SEZs where the State Governments have carried out or propose to carry out compulsory acquisition of land for such SEZs after 5th April, 2007. Accordingly, no proposal involving compulsory acquisition is approved for setting up of SEZs.

The total land area involved in 568 SEZs for which formal approval has been granted till date is 69781 hectares out of which over 114 approvals are for State Industrial Development Corporations/State Government Ventures which account for 21053 hectares approximately and the land was already in their possession. As per available information in Department of Commerce in respect of 299 SEZs, the total area of land involved in these SEZs is about 29821 hectares. Out of this, 78% is reported to be barren/waste/Dry/Industrial land, 19% of the land is single crop and the double crop land is only 3%. Department of Commerce is of the view that the implementation of SEZs will not affect food security of the country in any way.

Allocation and supply of food grains by Government of India under the Targeted Public Distribution System includes distribution of coarse grains such

as ragi, jowar, bajra, maize, etc. The Department of Food & Public Distribution, accordingly, makes allocation of these coarse grains under TPDS to various States/UTs based on the request/demand received from them. During the current year, 2009-10, different coarse grains have been allocated to Andhra Pradesh, Karnataka, Madhya Pradesh and Gujarat based on the requirements intimated by these State Governments. Potatoes and onions are not allocated to the States for distribution under TPDS. Being perishable commodities requiring specialized storage, it would not be possible or desirable to include them in the general PDS basket.

Agricultural Research Institutes and State Agricultural Universities have prime responsibilities to provide research inputs in terms of varietal development, seeds and the nutrients essential for balanced growth whereas the policy on prices are to be undertaken by State Agriculture Departments. Accordingly, necessary research efforts are constantly undertaken by various research institutes and SAUs to help the farmers.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.7 of Chapter I of this Report.

Factors considered for fixation of MSP **(Recommendation para No.2)**

The Committee note that CACP covers only 24 crops under the MSP. These crops are Wheat, Paddy, Barley, Gram, Jowar, Bajra, Maize, Ragi, Arhar, Moong, Urad, Cotton, Groundnut in shell, Sunflower seed, Soyabean, Sesames, Niger seed, Tobacco, Masur, Rapeseed/Mustard, Safflower, Copra, Jute and sugarcane. These are important food crops which are grown and consumed in a vast area of the country. For recommendation of MSP, the CACP takes into account, the entire structure of economy of a particular commodity or group of inter-related commodities and considers a number of factors such as (i) cost of production/cultivation; (ii) Demand & Supply; (iii) Trends in market prices-both domestic and international; (iv) changes in import prices; (v) parity between prices paid and prices received by the farmers, (vi) inter-crop price parity; (vii) effect on industrial cost structure; (viii) effect on cost of living; (ix) effect on general price level/inflation; (x) assessment of objective needs of the economy at a particular point of time, including food security, agricultural diversification, etc.

The Committee have been informed that the CACP also issue questionnaire to the Central Ministries, State Governments and other organizations related to trade, industry, processors and farmers both in cooperative and private sector and seeks their views on relevant issues and factual information on related variables. The Commission also obtains extensive feedback from the State Governments and other agencies as also estimates of cost of cultivation obtained through surveys conducted by the respective State Governments themselves. The Commission also makes use of the wholesale price indices of the relevant inputs as are available from the office of Economic Adviser, Ministry of Industry and Commerce.

The Committee are unable to understand the relevancy of factors – vi; (i) effect on industrial cost structure; (ii) effect on cost of living; and (iii) assessment of objective needs of the economy at a particular point of time.

The total economic growth during 2007-08 was 9% whereas agriculture growth was just 2.7%. It has nowhere been mentioned that the targets fixed or achieved by the industrial growth are ever calculated in the light of agriculture growth or production. The profit margin on the industrial products, even in case of medicines is sometimes more than 300% and it has generally never been below 100%, whereas agriculture produce are never sold at these profit margins. The factor 'effect on cost of living' is not directly related to agriculture, it is general cost of living of people of the country and production categories, other than agriculture, do not consider this factor while calculating their sale price. Cost of living is very high in cities and in rural areas, where the farmers live, is very low compared to cities. Both can't be compared.

The CACP also does not take into account the 'risk factors' and their consequences. Natural risk factors which include weather aberrations, rains, floods, famine conditions, pest, temperature fluctuations, hail-storm etc. are not given due weightage in calculating the cost factors. There are other risk factors which are man created viz., Government intervention and market forces including national and international both, which try to control the prices of agricultural produce to their advantage. The risk factors mentioned above are not addressed by CACP/Government, the way they need to be handled for fixing MSP of a particular crop. In 1980s, then the Union Agriculture Minister had admitted in Parliament that the risk factor was not taken into account by Agriculture Price Commission now Commission for Agricultural Costs and Prices while calculating MSP. The Committee have observed that the physical crop is only 20-30% of the crop that can be expected on the basis of applied levels of technology, management and inputs and if one adds the market risks involved in the Indian situation, the risk factor is unlikely to be lower than 50%. The majority of farmers do not have access to Government machinery that could provide information on how to control pests and stem declining productivity of land. Soil tests, information on pests, weather forecasts, field demonstrations, advisory services for use of seeds, information on use of fertilizers and pesticides are not made available to the farmers on demand. They need to be provided with the high yield variety seeds, fertilizers, farm implements and machinery etc. at a subsidized rate. There is a saying 'where hunger rules, peace can not prevail'. If India does not produce 100 million tones of wheat a year by 2020, the Government will be forced to shell out

Rs.40,000 crore to import 20 to 25 million tones of food grains to fill the gap. The huge gap between the supply and demand may lead to rampant hunger and malnutrition throughout the country.

The Committee note that there is a problem in food grain production. Around 2004-05, the per capita food grain production was back to 1970s level, from 476.5 gram per day per person in 1979 to 422 gram per day per person in 2005. Pulses per capita availability has declined from 60.7 gram per day in 1951 to 32.5 gram per day in 2006. Between 1996 and 2004 there was almost zero growth in food grains.

The Committee are of the opinion that if farm ecology and economics go wrong, nothing else will go right in agriculture. Everything can wait but not agriculture, as 65% of the population in one way or other is employed in agriculture and allied activities to grow food and fodder for its 100% human and animal population. If agriculture production does not remain above population growth rate, then there is every likelihood of a situation of recurrent famines. The threat of famines and food scarcity becomes all the more serious on account of the Climate Change. The grain-stocks are disappearing and today we are in the era of diminishing grain reserves, escalating price and persistence of widespread under-nutrition.

The Committee are of the firm view that these aforesaid conditions can be changed only if we can make the agriculture a profitable avocation. We have to improve the conditions of soil, its nutrient contents, water management and grow alternative crops, organize research and development of small farm technologies which are useful and affordable. The factors such as 'effect on industrial cost structure' is not even indirectly related to agriculture production and effect on cost of living is related to all sectors, be it economic growth, industrial growth, service sector growth or agricultural growth. The Committee consider that effect on cost of living if related to farmers, then its relation with other factors and to population other than farming community, do not auger well to keep the food crop prices low and discourage the farmers from growing more food crops. The factor relating to 'the assessment of objective needs of the economy at a particular point of time', if only related to food security and agricultural diversification, then it is understandable, but if it related to other objectives of economy e.g. industrial growth, then the CACP has to do away

with it as industrial growth or its product's price structure never takes into account the prices of food grains and living standard of farmers or whole of the rural population.

The Committee strongly recommend that while fixing MSP, the CACP should stop counting the factors, such as (i) effect on industrial cost structure; (ii) 'effect on cost of living' and (iii) assessment of objective needs of the economy relating to industrial development etc.; and reassess the factor relating to 'effect on general price level/inflation' by including wholesale price index and not the market rate. The risk factors mentioned above should invariably be considered while calculating the level of minimum support price of an agriculture commodity. Besides, 50% risk co-efficient and so also the self-insurance premium of the farmers and premiums of MNAIS and WBCIS should form part of costing factors considered by CACP for fixing MSP.

The Committee are of the view that where States have their own Agriculture Price Committee for giving inputs to CACP, while calculating the cost of a crop in their States, they should include per unit cost of electricity charges and should also consider the comparative advantages of cropping pattern in their States and suggest to the framers as to which crop would fetch them more remunerative prices on comparative scale.

The CACP's role is restricted to the announcement of MSP, however, the Committee are of the view that it should take into account all the minor and major cost including risk factors natural as well as man-made and must take into account the profit margin of at least 50% of the cost price, that a farmer should get to run his household, perform his social & family responsibilities and rear his animals etc.

Reply of the Government

The price policy also seeks to provide a fair return to the farmers while keeping in view the interest of the consumers, especially the large majority of poor consumers both in rural and urban areas in the sense that it tries to keep the prices of food and other agricultural commodities at reasonable levels. As any policy regarding agriculture cannot be looked in isolation of the overall

economy, agricultural price policy also has to keep the objective needs of the economy in consideration.

Government has considered the Recommendations of the Expert Committee to Examine Methodological Issues in Fixing MSP and has decided that for recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP;

- (i) The premium actually paid by farmers for crop insurance;
- (ii) Marketing and transport charges incurred by farmers;
- (iii) Imputing value of family labour on actual market rate for casual labour in cost estimates and
- (iv) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the competitiveness of agriculture and agro-based commodities.

As regards consideration of risk factors in cultivation, at present the production risk is taken care by the National Agricultural Insurance System (NAIS) in force and the price risk is covered under the MSP. MSP is a price guarantee that is provided to the farmers to ensure that the price does not fall below that floor limit and the chances of distress sale by the farmers are eliminated. Regarding the production risk in farming, it seems appropriate that the farmers are provided with farmer-friendly insurance cover and the cost on account of insurance premium is included in the overall cost of production.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.10 of Chapter I of this Report.

Cost Factors for fixing MSP **(Recommendation para No.3)**

The Committee have been apprised that under the sampling design of the comprehensive scheme for studying the cost of cultivation of principal crops, each State is demarcated into a homogenous agro-climatic zones base on cropping pattern, soil type, rainfall etc. The sampling design of the scheme continues to be three-stage stratified random sampling design with Tehsil as the first stage unit, village/cluster of villages as the second stage unit and holding as the third and ultimate stage unit. Based on this, the cost of production per quintal is worked out for major growing State for specific crops, and their weighted average is estimated and considered by CACP, among other factors, for recommending MSP. The cost of cultivation/production taken into account includes all paid out costs, such as, those incurred on account of hired human labour, bullock labour/machinery labour (both hired & owned) and rent paid for leased in land. In addition, cash and kind expenses on use of material inputs like seeds, fertilizers, manures, irrigation charges including actual cost of diesel/electricity for operation of pump-sets, etc. should also count towards production cost.

The Committee observe that while calculating the Cost of production, CACP takes into account the rent for leased land and not the cost incurred towards owned land. Many a farmers enter this avocation by purchasing land on payment of agreed price. It is, therefore, necessary that interest foregone on owned land should also be counted towards calculation of cost of production.

The Committee further note that in addition to paid out costs, some imputed costs are also incurred and are counted by CACP towards fixing of MSP. The imputed costs include family labour, owned animal labour, own machinery charges, implements, farm produced manure, rent of own land, interest on owned fixed capital, interest on working capital, kind payments and main products and by-products. The family labour is counted on the basis of

statutory wage rate or actual market rate, whichever is higher. The Committee recommend that the farmer and his family should be considered as skilled labour as they are, in sense, a technical managerial group who knows better about the land formation, irrigation requirements of a particular crop, seed quality, farm implements needed, weather condition and when and how the crop is to be sown, grown and harvested, how to control the pests, when to use insecticides etc. and when to sell the crops in the market. So far the owned animal labour cost which include cost of green and dry fodder, depreciation on animals and cattle sheds etc., are concerned, the Committee desire that the expenses incurred on cow or buffalo calves for first three years, till they are grown up for use in agriculture or for milking, and also the expenses incurred on the old animals, cow, buffalo or oxen when they are grown old and are not good for agriculture or other productive use, should also be considered by CACP towards calculating the cost of family labour and owned animal labour for fixing up of MSP.

The Committee further recommend that house ladies labour used for processing of crops for domestic use, domiciliary labour, attending to babies in the family should also count towards family labour costs as there are crèches for industrial labour and none exists in rural areas.

The Committee also recommend that the interest charged on short and long term farm loan should also form part of cost factors and include the amount charged from the date of loan taken, till the farmer gets the money in hand from the sale of his crops as sometimes, even after selling his crops, he gets money even a year after selling his crops, this has particularly been seen in case of sugarcane in some of the States, where the sugar-mill owners sometimes do not pay the farmers even after one year of buying of his sugarcane crop. Though the Government has justified the use of average cost method for fixing of MSP by CACP, however, the Committee are of the opinion that though synthetic model is time consuming for collecting the cost data of the raising certain crops, however, when completed, it will be more useful from the farmers point of view for fixing up of MSP of his crops.

The Committee are of the considered view that if it is not desired to take into account the State wise expenditure of per hectare crop, then the cost of

production of food grains incurred on Government and Agricultural University farms should be counted as per hectare cost of the farmers in that region.

The averaging of the costs incurred in different States, is loss to the farmers of the States like Haryana, Punjab for wheat & rice and Karnataka for rice, as the per hectare expenditure in raising the wheat/rice crops in these States is almost twice the cost in other States such as Chhatisgarh and Jharkhand.

The Tubewell irrigation cost in the rainfed areas where water table has gone down to 400 ft. or more as in Rajasthan, is several times more than Western UP and Northern Haryana and Punjab where water-table is around 60-80 ft. below surface level. The farmers of those areas should be encouraged to grow water-resistant varieties of food grains such as Jawar, Bajra, Gram, Mustard, minor millets and remunerative MSP should be fixed to give extra income to the farmers of these rainfed/dryland areas.

The Committee are in agreement with Alagh Committee on its recommendation that crop insurance premium should be included as a part of cost of a crop.

The Committee also recommend that

- (i) higher labour charges, actual or minimum, of human, animal and machinery; whichever is higher, should be counted.
- (ii) Maintenance expenses for owned animals, machinery and land should also be included.
- (iii) The micro-nutrients used in agriculture production and cost of depletion of these micro and macro nutrients should also form part of the paid out costs. The computation should include both pre and post harvest operational data.
- (iv) Expenses on material inputs such as seed (home grown and purchased), fertilizer, manure (owned & purchased), pesticides, insecticides and irrigation facilities should be counted as if these have been purchased at market rates.
- (v) Depreciation of farm buildings such as cattle sheds, machine sheds, storage sheds, etc. should be 10% or more per year on pucca

sheds; and depreciation on wooden farm implements should be @ 20% and on metal implements @ 10% per year.

- (vi) For land revenue, the paid out cost should include, income loss on account of investment in land plus the tax paid to the Government on purchase price or stamped value of agricultural land.

Reply of the Government

The value of owned land is imputed at market rate subject to the ceiling prescribed by the State Government. Family labour is imputed on the basis of statutory casual wage rate or actual market rate, whichever is higher. Value of owned animal labour is evaluated on the basis of cost of their maintenance. Similarly, value of owned machinery charges is imputed on the basis of cost of maintenance of farm machinery. Expenditure towards preparatory tillage of land during intervening period of two crops is counted in estimated cost of production of crops for next season. Paid out cost by farmer include depreciation of implements and farm building and material inputs. Regarding income loss on account of investment in land plus taxes paid and cost of depletion of micro and macro nutrients, these are not taken into account as per existing methodology.

The Government has, from time to time, set up expert committees to revise the methodology and system of calculation of the cost of cultivation/production of agricultural produce. These include Special Committee on "Cost of Production Estimates" under the Chairmanship of Dr. S.R.Sen in 1980, Expert Committee to review the Methodology of cost of Production of Crops under the Chairmanship of Dr. Hanumantha Rao in 1990, National Statistical Commission under the Chairmanship of Dr. C. Rangarajan in 2000 and Expert Committee under the Chairmanship of Dr. Y.K. Alagh in May, 2003. As per the recommendation of the Expert Committee under the Chairmanship of Dr. Hanumantha Rao, the expenditure incurred on cow/buffalo's calves for first three years, till they are grown up for use in Agriculture and/or milking, and also old animals that are not good for production is not taken into account. The work done by house ladies in different items of work other than relating to agriculture is also not counted.

Government has considered the Recommendations of the Expert Committee to Examine Methodological Issues in Fixing MSP and has decided that for recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP;

- (i) The premium actually paid by farmers for crop insurance;
- (ii) Marketing and transport charges incurred by farmers;
- (iii) Imputing value of family labour on actual market rate for casual labour in cost estimates; and
- (iv) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost structure of agro-based products and the competitiveness of agriculture and agro-based commodities.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.10 of Chapter I of this Report.

Awareness about MSP amongst Farmers

(Recommendation para No.6)

The Committee note that as per the National Sample Survey Organization (NSSO) report, at the all-India level only 19% farmers understood the idea of MSP and they knew the agency to which they could sell their crops if their market price fell below the MSP. It shows that extension machinery is not fully oiled even though the MSP is being fixed for more than four decades. Though the Government have enumerated a number of schemes such as State Extension Programme, Mass Media Support to Agriculture, Kisan Call Centers, etc. to make the farmers aware about the MSP, however, the Committee are pained to observe that it is the will-power of successive Governments, which is lacking and not the number of programmes/schemes, which are being implemented half-heartedly only on paper. They, therefore, recommend that the Government at Central as well as State level should develop strong extension services to help the farmers to get remunerative prices of their produce.

Reply of the Government

1. Mass Media Scheme: The existing infrastructure of Doordarshan and All India Radio is being utilized under the scheme “Mass Media Support to Agriculture Extension” for providing agriculture related information and knowledge to the farming community.

The Free Commercial Time (FCT) of 150 seconds for each programme of 30 minutes duration by Doordarshan and All India Radio is being used for telecast of Audio/Video spots on Kharif/Rabi Advisories, MSP, Kisan Call Centre No. – 1551, Kisan Credit Card, Potential Fishing Zone Advisories for Coastal Region, etc.

On the request of DAC, Doordarshan and AIR have produced a 50 seconds capsule on “Minimum Support Price (MSP)” which is being updated on a regular basis. The capsule is being telecast on National, 18 Regional Kendras and 180 HPTs/ SPTs of Doordarshan, 5-6 days a week in Krishi Darshan programme and 96 FM Radio Stations of all India Radio everyday during the Kisan Vani programme.

2. Support to State Extension Programmes for Extension Reforms:

The scheme aims at providing farmer-friendly bottom-up and demand-driven extension support to the farming community through a Cafeteria of activities developed in line with the Policy Framework for Agriculture Extension. During the 10th plan 262 ATMAs were set up in the country to implement the programme. This scheme is now being implemented through 565 ATMAs set up in 27 States/ Uts of the country. It is proposed to cover all the rural districts under the programme.

The District level activities supported under the scheme include- Farmer Oriented Activities, Farm Information Dissemination Activities, Research-Extension Farmer Linkages and Innovative Activities.

Under the category Farm Information Dissemination, the farmers are provided relevant information on all important aspects of agriculture including marketing of their produce and Minimum Support Price etc. through Print Media, Local level Agriculture Exhibitions and development of Technology Packages in Electronic form. The Scheme has been strengthened both by

increasing the physical coverage and by allocating substantial funds under the programme during the 11th plan.

3. Kisan Call Centre: The “Kisan Call Centres”, scheme was launched by the Ministry of Agriculture to provide the information on agriculture and allied aspects including the information on schemes and projects for the welfare of the farmers. The Kisan Calls Centers have been expanded from 14 to 25 centres from July, 2008 with a view to enhance accessibility to the maximum farmers. The state departments of Agriculture provide the information on a regular basis to the call centers agents about the provisions under different schemes, which in turn is given by the L-1 agents to the calling farmers.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Need to increase 50% Food Production **(Recommendation para No.7)**

The Committee note that agricultural commodity prices rose sharply in the past two years and continue to rise even more sharply during the first half of this year. Accordingly to a joint report by Food and Agricultural Organisation (FAO) and Organisation for Economic Cooperation and Development (OECD) the food prices are expected to remain high over the next decade even if they would ease from their recent peaks. According to UN Security General’s report, food production needs to rise by 50% by 2030 to meet the rising demand. The investment in agriculture is vital to ensure global food security. It has been reported that in American, Australian and European countries production of wheat has gone down even 15 to 20%. So it is not possible to control the these prices artificially for the benefit of the middleman to buy at the MSP and then sell it in international market at twice the prices and the farmers suffer losses in between. So far India is concerned, this is absolutely necessary to find out ways and means to enhance food production capacity of farmers so that they may produce enough food grains, not for their own families but also contribute to national food security system. If we count the price of wheat in Euro instead of Dollar, then according to experts in field, the prices of wheat are almost stable since 1996. To offset this stagnation, the Committee urge upon the Government to take concrete steps to enhance the

food availability to vulnerable people. Distributing high-yielding seeds and fertilizers on time should urgently boost small farmers food crop production capacity and they should be given remunerative price of their produce.

Global food crisis is a wake-up call for Indian agriculture food grains production. We should now build our own national food security system and should not depend on imports, which are very expensive as compared to the food grain prices prevalent in the Indian market.

The Committee are of the opinion that there is a dire need of an evergreen revolution to cop up with the over increasing populating of our country and that can be achieved only developing new high yield variety seeds which can be grown in a near dry situation due to shortage of irrigation facilities, coupled with remunerative prices, which will encourage the farmers to grow those crops.

Reply of the Government

A Centrally Sponsored Scheme on 'National Food Security Mission' has been launched in view of the resolution of National Development Council (NDC) to launch a Food Security Mission in the country to enhance the production of rice, wheat and pulses by 10, 8 and 2 million tonnes respectively by the end of XI Plan. The Mission aims at increasing production of rice, wheat and pulses through area expansion and productivity enhancement; restoring soil fertility and productivity; creating employment opportunities; and enhancing farm level economy to restore confidence of farmers of targeted districts.

Integrated Cereals Development Programme Rice/ Wheat/ Coarse Cereals (except Maize) based Cropping System Areas (ICDP-Rice/ Wheat/ Coarse Cereals (except Maize) are also being implemented under Macro Management Mode. The scheme is being implemented only in areas/districts which are not covered under NFSM. Under these scheme assistance is given to the farmers for Demonstration of improved package of practices, SRI/hybrid Rice production technology demonstration, support for quality seeds of high yielding varieties and hybrids, resource conservation technologies, integrated nutrient and pest management, training. Besides, Frontline Demonstrations are also organized by the Indian Council of Agricultural Research (ICAR)/State

Agriculture Universities on farmer's field to popularize the frontier technologies among farmers.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Contract Farming
(Recommendation para No.11)

The Committee note that several national and multinational food processors or fast food chains are increasingly entering into contract with the farmers to encourage them to cultivate farm produce mainly fruits, vegetables, etc. of the desired quality by providing them not only seeds and other inputs but also assured procurement of the produce at pre-determined contracted prices. The Committee feel that in the absence of any rules/guidelines governing the operations of contract farming, it is vulnerable to manipulation of agriculture land of small and marginal farmers by the contracting companies. Till now whole lot of issues relating to contract farming remain to be legally streamlined and will need foremost consideration towards the interests of the farmers. Otherwise, such a situation can even result in 'bonded farming' instead of 'contract farming' and expansion of contract farming may lead to imbalance in land and irrigation water use for the contracted crops. Even agricultural production under contract farming may not cater to the regional requirements of the food grains and the crops that are not used by the local population, may be preferred by the contracting companies, thereby causing rise in price of locally used food crops. If the MSP is fixed, keeping in view the local conditions and expenses involved and risk factors taken into account, the farmers may not have to enter into contract with the national or multinational companies and can bargain effectively and earn more from the same company even without entering into any contract farming for them. The interests of farmers particularly of the small and marginal farmers have to be protected, so that these farmers can also contribute to national food basket and produce food crops of their choice to fulfil the needs of their families and fodder for cattle, poultry, etc. which may earn them extra income by selling milk, butter, eggs, checks, etc.

The Committee are of the unanimous opinion that contract farming will be beneficial to the contracting companies and the food security of the nation and farmers' family interest will take a back seat, as he will work like a machine to earn his livelihood by growing the crops for the contracting partners and will not be able to even rear any animal of his choice to earn extra money. They, therefore recommend that the Government should take corrective steps to save the contracting farmers from becoming 'bonded farmers' working only for the contracting firms/companies, so that they may also contribute to the food-basket of the country.

Reply of the Government

Promotion of direct marketing and contract farming and development of competitive agricultural markets in private and cooperative sectors have been identified as key areas of reforms in the agricultural sector, to be implemented through the amendments to the State APMC Acts. Contract farming arrangements will provide an effective method of linking small farm sector to sources of extension advice, mechanization, seeds, fertilizers and credit and assured and profitable markets, with due protection to farmer's rights over his hand.

In most of the States which have amended their APMC Acts, a legal framework is in place now to regulate contract farming. This framework provides for –

- (i) Contract Farming Sponsor to register himself with the Market Committee or with a prescribed officer.
- (ii) The Contract Farming Sponsor to get the contract farming agreement recorded with a prescribed officer.
- (iii) No title, rights, ownership or possession of land shall be transferred or alienated or vest in the contract farming sponsor or his successor or his agent as a consequence arising out of the contract farming agreement.
- (iv) Dispute Redressal Mechanism.
- (v) The agricultural produce covered under the Contract Farming agreement may be sold to the Contract Farming Sponsor outside the market yards.

- (vi) Specification of Model Agreement for Contract Farming so that producers can ensure inclusion of various required clauses in their agreement.

It is expected that the regulatory provisions being made in the State APMC Acts and Rules thereunder, will ensure that under the contract farming agreement both sponsors and the producers will be accountable to the terms & conditions laid down for the farming through a written agreement, which will be recorded in a public office and will be available for any dispute resolution. Further, the rights of the farmer cover the title, ownership or possession, etc. will be protected over the land under contract farming and as a consequence of the failure of the contract; they will not lose any right over the land. The agreement prescribed under the law will ensure that farmers get the assured price on supply of the required quantity of produce and the sponsors provide them certain agreed services and technical know-how, if so preferred by both the parties.

Ministry of Agriculture is of the view that the State Governments through their designated authorities shall ensure that the contract farming, which is generally commodity specific does not grow beyond proportion to disturb bio-diversity and agricultural ecology.

However, since contract farming is happening at a very small scale at the moment, no such threat is being experienced in any part of the country at present.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.28 of Chapter I of this Report.

CHAPTER III

**RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
THE COMMITTEE DO NOT DESIRE TO PURSUE
IN VIEW OF THE GOVERNMENT'S REPLY**

-Nil-

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Fixing of MSP (Recommendation para No.4)

The Committee observe that the minimum support price is being treated as procurement price even by the Government, though it is fixed at the time of sowing of the crops and in between, till the time, the crop is ripe for harvesting and taken out for marketing, the national and international rates of the crops may have undergone sea-change depending on the scarcity/availability and demand for a particular crop. However, the farmers are given the price fixed five months back, say for example in case of wheat, the Government fixed the MSP # Rs.1000/- per quintal in October, 2007 and it procured it at the same rate in April/May, 2008, and the private traders were discouraged to enter the field till the Government's quota of procurement was fulfilled. The day the private traders were allowed to purchase, the wheat price went up by Rs.100/- per quintal.

The Committee do not see any parity between prices paid for inputs such as seeds, insecticides, pesticides and fertilizers and prices received by the farmers for their produce. Even the subsidy provided for fertilizers, go to the manufacturers of the fertilizers and not to the farmers in whose name, the subsidy is given and many of fertilizer manufacturing industries are run because they get lot of money in the name of agriculture/fertilizer subsidy in the absence of which they would have closed long back.

The Committee observe that without giving remunerative prices to the farmers for their produce, they cannot produce more per unit of land and water, under conditions of diminishing per capital arable land and irrigation water availability and expanding biotic and abiotic stresses. Assured and remunerative prices of the agricultural produces, hold the key to stimulate and sustain farmers' interest in producing more than their own household requirements. The Committee recommend that the MSP should be

announced well before the sowing season of the crops covered under this scheme and should include Cost C2 + 50 per cent.

The Committee also note that in the case of jute, a single MSP is recommended by the CACP and approved by the Government. Based on this basic MSP, different MSPs for jute are announced subsequently, keeping in view the quality considerations and consequent input price differentials, which vary from place to place. These MSPs are in fact derived prices from the basic MSP fixed by the Government, mainly to ensure that the farmers are paid better prices for their better varieties. The Committee, therefore, recommend that this system of calculating MSP should be adopted for other crops also for which Government announces MSP to give better price for better varieties and to compensate regional imbalances in cost-inputs and risk factors of different crops as is being done for Jute and Cotton crops.

The Committee are also of the opinion that whenever, there is bumper crop and every likelihood of its surpluses in the market or even otherwise, at the time of procurement, the farmer should be issued a smart-card in his name giving the information about the crop and the quantity procured from him by the Government or by the private traders, as the case may be, thereby giving his post-procurement recognition for selling his produce for public good. Whenever, the Government or private traders export that food crop, at a much higher rate at a later date, the post-procurement, adjustment should get him a certain profit out of his share of export. For example, if the wheat is procured for Rs.1000/- per quintal from the farmer is exported at a later date @ Rs.2000/- per quintal, then the farmer must be recognized for the contribution he made in that export. The aim of this smart-card issuance is that we must insulate our farmers from the exploitative trade. The NEW APMC Act must recognize the purchasers of essential commodities as to whether they are buying for public good, e.g. FCI, NAFED or whether they are buying for commercial profit e.g., Kargil, ITC, etc. Since a large majority of the farmers are unable to hold their produce for a long time, they deserve to have a smart card and a share in profit, if their produce is exported for a profit, in future.

Reply of the Government

MSP is expected to operate as a price signal for the farmers so as to decide regarding the crops to be cultivated and the area to be allocated for growing any particular crop. Accordingly, it is endeavoured to announce the MSP before the sowing season of crop.

Considering the terms of reference of CACP and the long term price policy, a mechanical linkage of cost of production with MSP would not be desirable. The cost of cultivation/production is a major factor in fixing the MSPs. While estimating the cost of cultivation/production CACP considers both paid-out cost and fixed cost. Under the category of paid-out cost are included all expenses borne in cash and kind by the farmers. These expenses cover the cost on account of human labour, bullock labour/machine labour (both hired and owned), rent for leased-in land, seeds, fertilizers, manures, irrigation charges, interest value of owned capital assets, etc. It is attempted to ensure that the MSP is remunerative and provides adequate margin over the cost of cultivation/production.

The powers and functions of APMCs are governed under the respective of Agricultural Produce Marketing (Regulation) Acts of different States. The main functions of APMCs are to ensure correct weighment, prompt payment and creating environment for orderly marketing of agricultural produce in the market yards and settlement of disputes, etc. Regarding issue of Smart Card in recognition of the farmer selling his agricultural produce for public good and have share of profit, when the same produce is exported, it is mentioned that the maximum procurement of agricultural produce for public good is being coordinated by Department of Food and Public Distribution with different agencies in the country. Accordingly, the share of the profit to the farmer from the agricultural produce sold by him is to be given by these agencies which are not covered under the domain of State APMC Act as the Act has to ensure correct weighment, prompt payment and creating environment for orderly marketing of agricultural produce in the market yards and settlement of disputes, etc.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.13 of Chapter I of this Report.

Inclusion of more crops under MSP
(Recommendation para No.5)

The Committee have been informed that presently 24 agricultural produce viz. Paddy, Jowar, Bajra, Maize, Ragi, Arhar (Tur), Moong, Urad, Cotton, Groundnut in Shell, Sunflower seed, Soyabean, Sesamum Nigerseed, Tobacco, Wheat, Barley, Gram, Masur (Lentil), Rapeseed/Mustard, Safflower, Cropra, Jute, and Sugarcane are covered under the MSP. The Committee note that there have been demands for inclusion of banana crop, green coconut, red variety of rice (common in Kerala), arecanut, tea, coffee, spices, tomato, potato and other cash crops for fixation of MSP. But in view of the subsidy involved, their perishable nature and existence of Market Intervention Scheme, the system of minimum support price was not introduced. The Committee are unable to buy this argument of the Government and also that in the absence of MSP, how the value of subsidy is calculated under MIS for these crops. The Committee are of the opinion that in order to prepare ourselves to face the climate change due to global warming, the Government should widen the food security basket by including tubers (viz. potato, onions, etc.) and orphan crops such as minor millets (viz. kodu, ramdana, etc.), banana crops, red variety of rice (Kerala), green coconut and other such crops under MSP. In several countries the tubers/crops such as potatoes, onions, etc. and minor millets are recognized as food crops. The Committee, therefore recommend that these crops should also be covered under MSP and ensure that adequate storage and processing facilities are provided to save these crops from going waste.

Reply of the Government

The Government is implementing Market Intervention Scheme (MIS) on the request of a State/UT Government for procurement of agricultural and horticultural commodities generally perishable in nature and not covered under Price Support Scheme. The MIS is implemented in order to protect the growers of these commodities from making distress sale in the event of bumper crop when there is glut in the market and the prices tend to fall below economic levels/cost of production. Procurement under MIS is made by

NAFED as Central agency and by the State designated agencies. Losses, if any, incurred by the procuring agencies are shared between Central Government and the concerned State Government on 50:50 basis (75:25 in case of North-Eastern States) restricted to 25% of the procurement cost. Profit, if any, earned by the procuring agencies is retained by them.

The proposal for implementing MIS received from any State Government/ UT administration is evaluated as per MIS guidelines in this Department in consultation with concerned Departments/Divisions and State/UT Government. The Market Intervention Price (MIP) is fixed at the cost of production.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.16 of Chapter I of this Report.

Farmer as Skilled Labour (Recommendation para No.8)

The Committee note that CACP recommends only the Minimum Support Prices with an objective to provide the farmers a reasonable and remunerative price of a commodity. The cost of nourishment of farmers, their income parity with the Government employees are not taken into account with the result that the farmers are not even treated as skilled labour and the living standard of small and marginal farmer is even below that of a Group “D” Government employee, in terms of his standard of living, reading & educating his children and his monthly income, though they fully engage themselves in agriculture and allied activities for the whole day and even at night.

The Committee have been apprised by the Government that farmers skill is certainly taken into consideration as one of the cost factor for fixing MSP, however, the value of family labour is imputed at actual market rate paid to the hired labour or statutory wage rate. The Committee recommend that as has been admitted by the Government, considering the managerial skill and experience in various agricultural activities such as ploughing and watering the

fields, roping of different crops at different times and other related activities such as rearing of animals, etc., the farmer and his family members should be treated as skilled labour and CACP should also treat the farmers that way while computing the value of their family labour and the statutory wage rate or actual market rate of farmers labour should also be revised accordingly.

Reply of the Government

As per the existing methodology farmer and his family members are not treated as skilled labour. However, the manpower employed in agriculture is treated as agricultural labour. The relevant market wages for ploughing, sowing, weeding, transplanting and harvesting etc. are considered to determine the cost of labour engaged in agriculture.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.19 of Chapter I of this Report.

Crop Loan

(Recommendation para No.9)

The Committee have been apprised that farmers are provided short term crop loan from Commercial Banks, Regional Rural Banks, Cooperative Credit Structure, etc. upto Rs.3 lakh at 7% rate of interest. The Committee are of the considered view that keeping in view the MSP announced for different crops, the loan amount of Rs.3 lakh is quite low and the rate of interest is very high. As the MSP for agricultural crops is not remunerative enough for the farmers to take up agriculture as first priority to earn their livelihood, the Committee, therefore, recommend that the loan amount should be raised to Rs.5 lakh and as suggested by the National Commission on Farmers, the rate of interest in crop loan to farmers should be fixed at the rate of 4%.

The Committee further recommend that the period of calculating the rate of interest should be fixed from the date of sowing crops to the date when the farmers actually gets the money in hand after selling his crops i.e. based on the cycle of the Rabi or Kharif crop season. This total sum of interest paid on crop loans during this period should be taken as one of the cost factors while calculating the total cost fixation of MSP.

Reply of the Government

As of now, there is no proposal either to increase the loan amount of crop loan to Rs.5.00 lakhs on principal amount for farmers or to extend crop loans to farmers at the rate of 4%. However, banks have already been advised to follow the practice of charging interest on agricultural advances linked to crop seasons. Banks have also been advised to charge interest on agricultural advances for long duration crops at annual rests. For short duration crops and other allied agricultural activities banks are advised to take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting/marketing season while charging interest and compounding the same if the loan/instalment becomes overdue. As per CCEA decision on the recommendations of the Expert Committee to examine Methodological Issues in the Fixation of Minimum Support Prices, interest rate of 12.5% is already being allowed on working capital for half the crop period.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.22 of Chapter I of this Report.

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Agriculture Subsidies **(Recommendation para No.10)**

The Committee have noted that agricultural subsidies are given by both the Central and the State Governments. The Central Government gives subsidies on fertilizers, seeds, machinery, etc. and the State Governments give subsidies for irrigation, power, etc. under various schemes. The estimated subsidy on fertilizer alone is Rs.60649.36 crore for 2008-09. How and to whom this subsidy is given remains a puzzle to be solved, as the total cropped area/net sown area and cropping intensity have been stagnating or rather decreasing over the years. On the one hand, it is an admitted fact that a gradual degradation of natural resources through excessive and inappropriate use of chemical fertilizers has affected the soil quality, resulting in stagnation in the yield levels, and on the other hand, Government are increasing subsidy on chemical fertilizers and the bio-fertilizers and manures are yet to be considered for any subsidy or financial help. So the Committee are unable to comprehend as to how the amount of subsidy on chemical fertilizers is increasing year after year and is given in the name of agriculture subsidy with no direct benefit to the farmers. The current system of fertilizer subsidy has allowed the inefficient units to persist. The Committee view this fact seriously. Even in Economic Survey 2007-08, Government has admitted that a large proportion of fertilizer subsidy goes to the fertilizer units, which is paid on a (group based) cost plus basis. The current pricing mechanism of fertilizers has also encouraged nutrient imbalance in the agriculture land. The excessive use of urea is a bias against micro-nutrients. As against the desirable NPK proportion of 4:2:1, the average use is 6.2:4:1. The Steering Committee of the Planning Commission has also observed that "because nitrogenous fertilizers are subsidized more than potassic and phosphatic fertilizers, the subsidy tends to benefit more the crops and regions which require higher use of nitrogenous fertilizers as compared to crops and regions which require higher application

P&K". The excessive use of urea has also affected the soil profile adversely. A healthy plant growth is possible only if all the 16 nutrients are available in soil. The farmers should be encouraged to use bio-fertilizers and manures and for that they should be given monetary help so that the fertility of the soil is increased resulting in higher production of crops.

The Committee also note that the prices of GM/Hybrid/high yield varieties of seeds are hardly subject to any regulation, which need to be regulated without any further delay.

The Committee recommend that as the price mechanism of chemical fertilizers have created nutrient imbalance in the agriculture land it needs to be balanced and farmers should be given fertilizer as well as water and power subsidy directly, rather than the producers and suppliers, as it is the farmers who knows better about the quality/quantity of seeds, fertilizers and water to be used in the fields to make the agricultural production a profitable avocation.

Reply of the Government

The pricing of subsidized fertilizers in the country has been rationalized w.e.f 18th June, 2008 wherein the cost of nutrients NP&K has been made uniform across all subsidized fertilizers to control overuse of urea due to the fact that the price of "N" in urea was much lower than that in complex fertilizers.

So far as recommendation to provide subsidy directly to farmers is concerned, the proposal was flagged for consideration in Group of Minister (GOM), which has been constituted under the Chairmanship of Agriculture Minister to look into sustainable use of fertilizers and pertinent pricing and subsidy issues. The GOM in its final recommendations has not recommended any change in the existing delivery mechanism for fertilizer subsidy through the producers. However, as announced by the Finance Minister in his Budget speech 2008, the Government is exploring the feasibility of nutrient based subsidy and other alternative modes of delivery of subsidy to the farmers.

The National Seed Policy of 2002 calls upon the Government of India to make best quality seeds and planting material available to Indian farmers to increase productivity. In this context, price control regime may have detrimental effect and may discourage private seed companies to make quality seed available in Indian markets, including high yielding varieties and hybrids, which have proved to be of immense benefit to Indian farmers. This underlines the importance of non-regulation of prices of seeds in India. The price of seeds should also be decided by the producers themselves as it is done for agricultural equipment and machinery, pesticides etc.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.25 of Chapter I of this Report.

Forward Market Trading

(Recommendation para No.12)

The Committee note that forward market in agricultural commodities enable the stakeholders/market participants to hedge their price risk in an open market environment. It also helps them in price discovery based on which the producers take informed decisions. But the Committee feel that forward market in India till now, has not been beneficial to the farmers, or to the consumers, however, the traders in the market or say the middle man is earning at the cost of farmers. 82% of the farming community in India is constituted of small and marginal farmers who are resource poor and not aware of the pros and cons of the speculative price discovery in the forward market trading, hence unable to take its advantage. These farmers have to be protected against any sharp fall in the prices of their produce. Recently the commodity market has attracted a lot of investment and they have earned a lot through speculative price discover of the prices of the commodities in international market. Again the loser is the farmer, who is unaware of such

market forces, who fix up the price of their food grains, without going through the heat and strain of growing the food grains, the middle man fixes their prices and earn huge profit, at the cost of farmers' earnings.

The forward market can wait but the small farmers can't wait, as they are forced to sell their produce just after it is harvested, so the remunerative price at the time of harvesting is more important to these farmers, than higher price at a future date. The present trade must be fair than profit making future trade. The future trade benefit the big farmers, traders and exporters and it needs a large number of warehouses at different places to store the agricultural produce for future trade which can be built only with an extra expenditure by the Government as well as the private sector.

Forward market trading can boost the sale artificially by speculating the price at a future date and the consumers have to pay a higher price, even after a bumper crop near their home. We should remember that farmers is the largest group of consumers of their produce, once they sell it at a fixed price of MSP at the harvesting time, they also suffer when buy the same food crops in future.

The Farmers all over India have to be made aware about the future trading in agricultural commodity so that they know the prices of their commodities in futures market well in advance and plan their production accordingly. Unless this is done and minimum contract size of agricultural commodity for trading is fixed and a farmers-friendly platform by restructuring agricultural commodity trading is set up, the Indian agricultural commodity futures market should not be linked to international futures trading market. As has been admitted by the representatives of the Ministry of Agriculture that markets are not always perfect and market failures an market imperfections are well established and we cannot entirely depend on the market, particularly in a developing country like ours with large number of small farmers and where there is a lot of non availability of even market infrastructure, communication facilities, etc., the Committee, therefore, recommend that future trading in agricultural commodities should be discouraged to contain the speculative and

paper trading which generally result in artificial rise in prices. The Committee also recommend that the Government should expedite the setting up of a regulatory authority for forward market trading on the lines of Securities and Exchange Board of India.

Reply of the Government

The primary role of the futures trading is price discovery and price risk management. Price discoveries in futures market help the producers, namely the agriculturists, to plan their agricultural operations. The producer armed with the knowledge of the futures, can avoid resorting to distress sale. He is also empowered to properly negotiate with the private trader regarding the prices having regard to the informed circumstances.

Regarding whether and to what extent futures trading in agricultural commodities influence the wholesale and retail prices of these commodities, the Government had set up an Expert Committee to study this aspect. The analysis made by the Expert Committee led it to conclude that no strong conclusion can be drawn on whether introduction of futures trade is associated with decrease or increase in spot price volatility. Although inflation increased post-futures in some sensitive commodities but it is not possible to make any general claim that inflation accelerated more in commodities with futures trading. The Committee further opined that the period during which futures trading has been in operation is too short to discriminate adequately between the effect of opening up of futures markets and what might simply be normal cyclical adjustment. FMC had also assigned a study to Indian Institute of Bangalore (IIMB) to analyze the performance of futures markets and their impact on farmers. The study has concluded that market fundamental seems to be the major factors behind changes in the prices of these commodities.

To ensure that the benefits of the futures market reach the farmers and they are able to derive benefits of the advance price signals, the National Exchanges are required to widely disseminate price information through (a) Their own web sites, (b) print media, (c) T.V. Channels and (d) Radio. The FMC, Exchanges, AGMARKNET are also working on a project to place ticker boards in APMCs to disseminate future prices on real time basis so that

farmers may take appropriate decision about acreage and marketing of their produce. FMC proposes to cover 1000 APMC mandis/rural post offices in the current year but in the long term to cover all such mandis and public places frequently visited by the farmers. The Government has also initiated steps towards creation of awareness about the concept of futures market among various stake holders including farmers. The Commission has launched an awareness campaign in collaboration with the recognized exchanges, various Government organizations, farmers representative bodies, Banks, Department of Posts, major agricultural universities/institutions, B-schools, various institutions involved in rural development such as NABARD, prestigious institutes involved in improving managerial skills of professionals involved in rural development and several other organizations aimed at creating awareness among various stake holders regarding the useful role played by the futures market, towards price discovery and risk management and educate them on how they can participate in the futures market. The Commission has organized 114 programmes in 2007-08, of which 75 programmes were exclusively for farm sector. As regards the compulsion of farmers to sell immediately after the harvest as they are not in position to wait to get better price in future, it is only the futures market which may enable the farmer to sell his produce in the present at a price which is likely to prevail in future.

The commodity Exchanges as well as the Regulator are making all possible efforts to put the infrastructure in place so that the farmers are benefited. Besides, the very facility of sale at a future price enables various stockholders to sell in future and buy in the present if there is a glut in the spot market because of harvest season. This reduces pressure of sale in the spot market thereby stabilizing the prices in the present, i.e., in the spot market. Therefore, even if the farmer is not able to participate directly in the immediate future he can be benefited by the price discovery taking place on the Commodity Exchanges platform. This price discovery takes into account the off-season demand of the commodity in a more transparent and rational manner, thereby, avoiding unrealistically depressed prices because of over supply in the spot market at the time of harvest.

The regulatory framework needs to be overhauled to bring it on par with those of similar regulators like SEBI, RBI and restructured and strengthen the Forward Market Commission to meet the regulatory challenges. In this connection, a Bill to amend the Forward Contracts (Regulation) Act, 1952 was introduced in Parliament on 13.03.2008.

(Vide Ministry of Agriculture (Department of Agriculture & Co-operation), Directorate of Economics & Statistics Letter No. F.No. 7/19/2007-FES-ES dated 16 July, 2009).

Comments of the Committee

For comments of the Committee please refer to Para No. 1.25 of Chapter I of this Report.

**NEW DELHI;
16 December, 2009
25 Agrahayana,1931 (Saka)**

**BASUDEB ACHARIA
Chairman
Committee on Agriculture**

APPENDIX

COMMITTEE ON AGRICULTURE (2009-10)

MINUTES OF THE THIRTEENTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 16th December, 2009 from 1530 hours to 1600 hours in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Basudeb Acharia - *Chairman*

MEMBERS

Lok Sabha

2. Shri Narayan Singh Amlabe
3. Shri Thangso Baite
4. Smt. Shruti Choudhry
5. Shri Sk. Nurul Islam
6. Shri Naranbhai Kachhadia
7. Shri Prabodh Panda
8. Shri Hukmdeo Narayan Yadav

Rajya Sabha

9. Shri Sharad Anantrao Joshi
10. Shri Mohd. Ali Khan
11. Shri Khekiho Zhimomi

SECRETARIAT

1. Shri S. Bal Shekar - Joint Secretary
2. Shri P.V.L.N. Murthy - Director
3. Shri P.C. Koul - Additional Director

2. At the outset the Hon'ble Chairman welcomed the members to the sitting of the Committee. Thereafter, the Committee took up the following Draft Reports for consideration:-

* (i) *** *** *** *** *** *** *** *** *** ***

* (ii) *** *** *** *** *** *** *** *** *** ***

(iii) Action Taken Report on 41st Report (14th Lok Sabha) of the Committee on Agriculture (2007-2008) on 'The Pricing Policy of Agricultural Produce'.

After some discussion, the Committee adopted the said draft Reports.

3. The Committee, then, authorized the Chairman to finalise the above Draft Reports after getting them factually verified from the concerned Ministry/Department and present the same to the Houses of Parliament.

The Committee then adjourned.

**Matter not related to this Report.*

ANNEXURE

(Vide Para 4 of Introduction of the Report)

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE FORTY-FIRST REPORT OF COMMITTEE ON AGRICULTURE (14TH LOK SABHA)

(i)	Total number of Recommendations	12
(ii)	Recommendations/Observations which have been Accepted by the Government	
	Serial Nos. 1, 2, 3, 6, 7 and 11	
	Total	6
	Percentage	50 %
(iii)	Recommendations/Observations which the Committee Do not desire to pursue in view of the Government's replies	
	Total	NIL
	Percentage	0%
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee	
	Serial Nos. 4, 5, 8 and 9	
	Total	4
	Percentage	33.33%
(v)	Recommendations/Observations in respect of which Final replies of the Government are still awaited	
	Serial Nos. 10 and 12	
	Total	2
	Percentage	16.67%