AGRICULTURAL PRICING

Agricultural Price Policy was introduced by the Government of India to ensure that the farmers receive the due compensation for their agricultural products and continue to invest in agriculture. Agricultural Price Policy in India sets the Minimum Support Price for agricultural products.

Features of Agricultural Prices in India

1. **Non-Remunerative Prices:** non-profitable prices do not provide any incentive to put in hard work, apply better inputs, produce more and earn more. Farmers should be able to sell their produce at remunerative prices for earning higher income.

2. **Role of Supply in Agricultural prices:** Although prices of agricultural goods are determined by both, the demand & supply side factors, the supply levels of any agricultural good play an important role in determining its agricultural price. The reason behind this being the notion that demand for these goods is largely inelastic and hence more supply brings less income to the farmers.

3. **Uncertainty**: uncertainty caused by seasonal fluctuations discourages farmers from adopting any new agricultural practices and also from taking on risks. A comparatively stable price will provide the farmers with a sense of security to improve their cultivation.

4. **Distress Sale:** Farmers resort to distress sale immediately after harvesting the crops since they lack capacity to hold those crops.

5. **Middle men**: Most of the small and marginal farmers of our country sell their produce to the middle men who exploit them by paying a lower price than the market price.

6. **Incomplete information**: Most of the farmers are not aware about the information regarding the prevailing prices. This makes the farmer sell their product at a non- remunerative price and incur losses.

7. **Poor infrastructure**: Facilities like an organized market, correct market information, communication, and transport system are lacking in our country which makes it difficult for farmers to do effective marketing of agricultural goods.

Agricultural price policy deals with two sets of foodgrain prices:

- Procurement prices at which the government buys agricultural goods, mainly foodgrains, from the farmers to provide farmers with better incomes.
- Issue prices at which the government sells the procured goods to the fair price shops. Poor consumers, therefore, are able to buy foodgrains from these fair price shops at lower prices.

Objectives of Agricultural Price Policy

Its main objectives are summarized below:

(i) To Ensure Relation between Prices of Food-grains and Agricultural Goods:

The foremost objective of agricultural price policy is to ensure the appropriate relationship between the prices of food grains and nonfood grains and between the agricultural commodities so that the terms of trade between these two sectors of the economy do not change sharply against one another.

(ii) Protecting farmers' interests: The Agricultural Price Policy in India eliminates the need for intermediaries by introducing land reforms, establishing institutions that directly support farmers, etc.

(iii)Maintaining a reasonable price for agricultural products: Another objective of the Agricultural Price Policy is to ensure that food is sold and purchased at a price that the farmers and consumers both benefit from.

(iv) Increasing agricultural production: When farmers benefit from their seasonal produce, they are more likely to continue investing in agricultural services. Agricultural Price Policy in India ensures that the Minimum Support Prices are being met.
Relation Between Prices of Crops

(iv) To Control Seasonal Fluctuations:

Another object of price policy is to control cyclical and seasonal fluctuations of price rise to the minimum extent.

(v) Integrate the Price:

The agricultural price policy should also aim at to bring the greater integration of price between the various regions in the country so that regular flow of marketable surplus could be maintained and exports of farm products stimulated regularly.

(vi) Promote Capital Formation:
Only when farmers earn remunerative prices from the sale of their agricultural produce will they be able to save a part of their income.

<u>Price Policy And Its Implementation</u>

In 1964, Under L. K. Jha, the Report of the Jha Committee on Foodgrain Prices was the first step in organizing an agricultural price policy for the country. In January 1965, Agricultural Prices Commission (APC) was set up on the recommendations of the Tha Committee. At present, the Commission is called as Commission for Agricultural Costs and Prices (CACP) and is responsible for determining administered yearly basis.

A. Determination of Appropriate Level of Price

The CACP while determining an appropriate level of price is expected to consider the following factors:
(i) the cost of production
(ii) changes in input prices
(iii) market prices
(iv) demand and supply
(v) risk factors
(vi) effect on industrial cost
(vii) effect on cost of living
(viii) effect on general price level
(ix) international price situation
(x) parity between price of different crops, parity between input and output prices and also parity between price received by the farmers and paid by the consumers
(xi) trend of price level in the past

B. Announcement of Administered Prices

Government announces three types of administered prices, namely, minimum support prices, procurement prices and statutory minimum support prices.

(1) Minimum Support Prices (MSP): The minimum support prices announced each year by the CACP takes into account the above mentioned factors. Special consideration is given to the cost factor. The cost concept covers all items of expenses of cultivation including the imputed value of inputs owned by farmers. The important cost concepts used by CACP are the C2 and C3, costs.

C2, cost includes all actual expenses in cash and kind incurred in production by actual owner plus rent paid for leased land plus imputed value of family labour plus interest on value of owned capital assets plus rental value of owned land net of land revenue.

C3, cost is equal to C_2 + 10 percent of cost to account for managerial remuneration to the farmer.

Thus the formula for Minimum Support Price (MSP) can be expressed as

⇒MSP=C(C2 + C3)

Swaminathan Formula: The M.S. Swaminathan Committee titled as 'The National Commission on Farmers' recommended to fix MSP at level 50 percent more than the weighted average cost of production (C), in its report submitted in 2006.

⇒C2 + 50%

The central government every year announces the minimum support price (MSP) for 23 major agricultural commodities which include 7 cereals, 5 pulses, 7 oilseeds and 4 commercial crops.

Minimum Support Price is price fixed by the Government of India to protect the producer - farmers - against excessive fall in price during bumper production years. The minimum support prices are a guarantee price for their produce from the Government. The major objectives are to support the farmers from distress sales and to procure food grains for public distribution. The government announces MSPs for 23 major crops under this shame.

(2) Fair & Remunerative Price:

Fair and remunerative price (FRP) is the minimum price at which sugarcane is to be purchased by sugar mills from farmers, on the recommendations of the Commission for Agricultural and Prices and announced by Cabinet Committee on Economic Affairs.

- **<u>FRP is used in sugarcane industry to replace the MSP</u>**, it is based on the Rangarajan Committee report of reorganizing the sugarcane industry.

How is FRP decided?

The FRP is based on the recovery of sugar from the cane. For the sugar season of 2021-22, FRP has been fixed at Rs 2,900/tonne at a base recovery of 10 per cent.

- Sugar recovery is the ratio between sugar produced versus cane crushed, expressed as a percentage.
- The higher the recovery, the higher is the FRP, and higher is the sugar produced.

<u>(3) Procurement Price:</u> The price at which the government procures grains from producers. Main difference between MSP and procurement price is that MSP is declared during sowing season while procurement price is declared after harvesting. Normally, the procurement price is higher than the minimum price.

<u>(4) Issue Prices</u> - It is the price at which government sells foodgrains via ration shops. Issue prices are lower than procurement prices as consumers who purchase grains from ration shops usually belong to the poorer sections of our society. Since 2002-03 the issue price for Antyodaya Anna Yojana categories have remained unchanged.

Under AAY, household is entitled to get 35 kg of foodgrains. An individual of priority household is entitled for 5 kg of foodgrains per month. The prices under this scheme is 3 per kg for rice, 2 per kg for wheat and 1 per kg for coarse grains.

C. Implementation of MSP

For implementing administered prices i.e. MSP, Procurement price and Issue price the following measures are taken by the government:

(i) **Entrusting the Task to Different Agencies**: The Food Corporation of India (FCI) undertakes prices support operations for most foodgrains.

The National Agricultural Cooperative Marketing Federation (NAFED) undertakes such operations for coarse cereals, pulses and oilseeds.

The Cotton and Jute Corporations of India are entrusted with the price support operations for cotton and jute respectively.

In the case of sugarcane, sugar mills are required to pay atleast the minimum prices to the producers.

For tobacco, the responsibility for implementing the price policy decisions rests on Tobacco Board. Similar specialised Commodity Boards exist for rubber, coffee, tea, spices, coconut, oil-seeds and vegetable oils, horticulture etc.

(ii) Establishment of National Crop Forecasting Centre (NCFC): It was established by the Government in January 1999 to oversee any abnormal fluctuations in prices of primary products which include wage goods and other items of common man's consumption and recommend government intervention in the market wherever necessary. NCFC will put an advanced warning system to signals likely supply shortages. This was found necessary till now in the case of prices of onions, pulses, and edible oil.

(iii) Setting up of High Powered Price Monitoring Board: It was set up in 1999 for monitoring the essential commodity prices and anticipating the need for government's intervention in the market.

(iv) Buffer stocks: A buffer stock scheme is a government plan to stabilise prices in volatile markets. This requires intervention in buying and selling. The freed corporation of India and NAFED build-up buffer stocks of essential grains and use them in times of shortages since shortage of any good leads to increase in its prices. Government protects Indian consumers from such increase in prices of essential commodities by using its buffer stocks.

(v) Warehousing: Storage facilities in the form of warehouses are provided by the government. Example - warehouses of FCI. Warehousing facility helps farmers to store their farm products until they are transported to markets.

(vi) Regulated markets: Most of the state governments regulate agricultural markets in their states to prevent volatile fluctuations in agricultural prices.

(vii) Credit facility: Loans at lower rate of interests are provided by government So farmers can store their produce during times when prices are low and sell them after a few days.

Evaluation of Agriculture Price Policy

1. **Difficulty in Deciding 'Fair' Prices**: While the government announces MSP every year, it is difficult to judge whether the administered price (decided by the government) has been correctly decided by the government or not. It may be said that the price fixed be regarded as 'fair' if it covers the cost of production even though it was much below the free market price. In case of monopoly procurement it was not easy to determine the 'fairness' of the administered price since there does not exist any free market price for comparison . Here the price movements of competing crops could be taken into consideration to avoid a distortion of the cropping pattern.

2. **No Integration between Different Criteria**: In determining the procurement price, the Agricultural Prices Commission considers various criteria. However, the issue experienced in considering different criterias is that they lack coordination. Therefore, a precise model for calculating the administered price does not exist.

3. **Benefit to Large Farmers**: Ideally, it should be the small, marginal & landless farmers benefiting from the MSP scheme. However, the main beneficiaries of high' agricultural prices declared by the government continue to be the large farmers.

4. **Mounting Fiscal Deficits** - Implementation of agricultural price policy involves the expenditure on procurement of foodgrains, warehousing storage and distribution via the PDS through fair price shops (ration shops). This expenditure known as food subsidies have risen enormously in recent years increasing the government's fiscal deficit.

5. **Contribution to inflationary trend**: CACP has been increasing procurement prices year after year. The increase in price has nothing to do with the cost of production. This has led to hoarding of foodgrains by large farmers which forces the government to increase prices.

6. **Impact on rural poor**: The Government assumes that increase in agricultural prices leads to higher returns to farmers, which in turn leads to higher wages to agricultural labor. However, Indian marginal farmers hardly are left with surplus produce for selling

in the market after meeting their personal consumption needs. Therefore, farmers are not able to enjoy the benefit of increasing agricultural prices to a desirable extent.

7. **Bias in favor of low cost states:** At present, administered prices are fixed by the CACP for the entire country at a uniform rate. As a result of this uniform purchase price policy, farmers in low cost regions where labor wages, rent are lower as compared to states regions in high cost enjoy substantial benefits.

8. **Not all commodities covered:** MSP is declared for only 23 crops. Many other essential commodities are left out resulting in exploitation of producers as well as consumers.

Conclusion:

Under W.T.O agricultural trade has become more liberal. Hence, India like all other countries will have to adopt more competitive market policies so that agricultural prices will be influenced more by market forces than the government measures.

It is necessary for the Indian farmers to increase efficiency and reduce cost so that the competitive market price becomes remunerative price. The Government, however, should not abandon their responsibility of providing a minimum level of support to the agriculturists

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