41

STANDING COMMITTEE ON AGRICULTURE

(2007-08)

FOURTEENTH LOK SABHA

MINISTRY OF AGRICULTURE

(DEPARTMENT OF AGRICULTURE & COOPERATION)

PRICING POLICY OF AGRICULTURAL PRODUCE

FORTY-FIRST REPORT

LOK SABHA SECRETARIAT

NEW DELHI

JUNE, 2008/ASHADHA, 1930 (Saka)

FORTY-FIRST REPORT

STANDING COMMITTEE ON AGRICULTURE

(2007-08)

(FOURTEENTH LOK SABHA)

MINISTRY OF AGRICULTURE

(DEPARTMENT OF AGRICULTURE & COOPERATION)

PRICING POLICY OF AGRICULTURAL PRODUCE

Presented to Speaker, Lok Sabha on 27.06.2008

Presented to Lok Sabha on 22.07.2008

Laid in Rajya Sabha on _________

LOK SABHA SECRETARIAT

NEW DELHI

JUNE, 2008/ASHADHA, 1930 (Saka)

COA No 206

Price: Rs.

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

<CONTENTS>

PAGE

COMPOSITION OF THE STANDING COMMITTEE ON AGRICULTURE (2007-2008)

Prof. Ram Gopal Yadav – Chairman

MEMBERS

LOK SABHA

2. Shri Ranen Barman
3. Shri Anil Basu
4. Shri Manoranjan Bhakta
5. Shri Girdhari Lal Bhargava
6. Shri Kuldeep Bishnoi
7. Shri Khagen Das
8. Shri Dharmendra
9. Shri Gadakh Tukaram Gangadhar
10. Shri Deepender Singh Hooda
11. Shri Hari Rama Jogaiah
12. Smt. Kalpana Ramesh Narhire
13. Shri Mahendra Prasad Nishad
14. Shri Prabodh Panda
15. Shri Raosaheb Danve Patil
16. Smt. Rupatai Diliprao Nilangekar Patil
17. Shri K.J.S.P.Reddy
18. Shri Y.S.Vivekananda Reddy
19. Shri Chandra Bhushan Singh
20. Shri M.P.Veerendrakumar
21. Shri Baleshwar Yadav

RAJYA SABHA

22. Shri Harish Rawat
\# 23. Dr. M.S. Gill
24. Smt. Mohsina Kidwai
25. Shri Vikram Verma
26. Shri Vinay Katiyar
@ 27. Shri Sk. Khabir Uddin Ahmed
@ 28. Shri Datta Meghe
29. Shri Sharad Anantrao Joshi
30. Shri M.Rajasekara Murthy
31. Prof. M.S.Swaminathan
* 32. Shri Ishwar Singh

Ceased to be the member of this Committee due to his appointment as Minister of State (Independent charge) in the Council of Ministers on 6.04.2008

@ Ceased to be the members of this Committee due to retirement from Rajya Sabha on 2.04.2008

* Joined the Committee on 14th May, 2008.

SECRETARIAT

1.	Shri S.K. Sharma	-	Addl. Secretary
2.	Shri A.K. Singh	-	Joint Secretary
3.	Smt. Veena Sharma	-	Director
4.	Shri Raj Kumar	-	Deputy Secretary
5.	Shri N.S. Hooda	-	Deputy Secretary

INTRODUCTION

I, the Chairman, Standing Committee on Agriculture, having been authorized by the Committee to submit the report on their behalf, present this Forty-First Report on Pricing Policy of Agricultural Produce of the Ministry of Agriculture (Department of Agriculture & Cooperation).

2. The Committee took a briefing on the subject from the representatives of the Ministry of Agriculture (Department of Agriculture & Cooperation) on 4th October, 2007 and their oral evidence was taken on 30th October, 2007.

3. The Committee considered and discussed the Report at their sitting held on 12th June, 2008 and adopted it at their sitting held on 19th June, 2008.

4. The Committee wish to express their thanks to the officials of the Ministry of Agriculture (Department of Agriculture & Cooperation) for giving evidence and for placing before the Committee the study material and information desired in connection with the examination of the subject.

5. The Committee would also like to place on record their deep sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. For facility of reference, the observations/recommendations of the Committee have been printed in bold letters and placed at Part II of the report.

NEW DELHI;
24 June, 2008
3 Ashadha, 1930 (Saka)

PROF. RAM GOPAL YADAV
Chairman,
Standing Committee on Agriculture

REPORT

PART I

(A) INTRODUCTORY

In India, the agriculture price policies and allied instruments were evolved in the pre-Independence era. The procurement and distribution of major food grains were started and statutory maximum prices were fixed, but were not strictly enforced. In the post-Independence era, the objective of achieving food security has been combined with environment sustainability. The objective of the Government's price policy for agri-produce is to set remunerative prices with a view to encourage higher investment and production. Though the Government decided to purchase food grains at fixed prices, if market prices fell precipitously, but till 1954 there was not sharp decline in food prices.

2. The demand for food grains particularly rice and wheat, was on the increase from year to year. This is because population was growing and incomes were rising and a trend was developing towards increased level of consumption as well as substitution of coarse grains like maize, jawar, etc. by wheat and rice. In the circumstances shortages even of a marginal nature were likely to persist and there was a steady upward trend in price levels to bring demand and supply into balance.

(B) COMMISSION FOR AGRICULTURAL COSTS AND PRICES (CACP)

3. Till 1964, procurement was confined to surplus States. It was extended to deficit States as well during the drought years and thereafter. In a situation of shortage or scarcity, unregulated purchase and movement of food grains by private trade led to indiscriminate and speculative rise in prices by movement of surpluses of the producing regions to areas of high purchasing power. To deal with that situation, the Government of India took a number of decisions. On 1st August, 1964, the Government of India appointed a Committee under the Chairmanship of Shri L.K. Jha, Secretary to the then Prime Minister on the determination of the prices of rice and wheat for the 1964-65 season. The Committee was asked to advise on:

(a) the determination of producers' prices in respect of the 1964-65 season, first for rice and then for wheat on an all-India basis with such quality-wise and region-wise variations as might be necessary, which are fair and economical and also the reasonable wholesalers' margins, retailers' margins and consumer prices;

(b) the terms of reference which would be suitable for an agency to provide such advice on a continuous basis in respect of future seasons, the suitable form of such agency, and the kind of personnel it should have; and

(c) the best manner in which the work of such an agency could be fitted in with arrangements being made for advice on policy in regard to wages, incomes and savings.

Later on, the Committee was also asked to suggest prices of coarse food grains for the 1964-65 season.

4. The Committee submitted its report related to prices on 24th September, 1964 and in respect of the agency to advise on price policy and price structure on 24th December, 1964. Based on the recommendations of the Committee, the Agricultural Prices Commission (APC) was set up on 1st January 1965 with the basic objective of assuring fair prices for farm produce and to advise the Government on price policy of major agricultural commodities. The thrust of the policy in 1965 was to meet the overall needs of the economy and with due regard to the interest of the producer and the consumer. At that point of time, the highest priority was to maximize production since the country was passing through a critical shortage of food grains. Perhaps the most significant aspect of the price support mechanism has been the insulation of farmers against a decline in prices. When an overall balance between demand and supply was in sight in 1980, the APC's terms of reference, apart from other issues, also included for taking into account the changes in the Terms of Trade between agricultural and non-agricultural sectors. The Commission was renamed in 1985 as the Commission for Agricultural Costs and Prices (CACP).

5. The Commission is composed of a Chairman, a Member-Secretary, two official members and three non-official members. The non-official members are

the representatives of the farming community. They are usually persons with long field experience and active association with the farming community.

6. Asked as to why the Commission for Agricultural Costs and Prices (CACP) to be a Central body and why such a body should not be there for each State, the Ministry in a post-evidence reply stated as under:-

> "A mechanism for recommendations for support prices by a technical body i.e., the Commission for Agricultural Costs and Prices (CACP) to fix the MSP for various agricultural commodities already exists. If such a body is set up in each State, that will lead to duplication of the existing mechanism.
>
> Different MSPs by the State Governments for the same crop say, wheat or paddy, would encourage inefficient production and would go against the principle of comparative advantage in producing specific crops. Such a system would also distort the market. If all the State Governments start doing similar job through such commissions, it would also entail financial burden on them without much gain."

7. Elucidating further on the issue, the Secretary during the evidence stated:

> "We cannot have a separate price, one price for 'X' State and another price for 'Y' State. It will not be operational. If we assume that the States can have their own Commissions, they may not have the resources to operate their MSP. At least, at the Central level, the Central Government resources are available to them. Depending on the quality of say, wheat or paddy or the location or the area and depending on the market, the farmers will get the best possible prices."

8. Enquired as to why CACP cannot be made a statutory body, the Ministry in a written reply stated that it is already an independent body and provides professional advice to the Government on agricultural price policy and related matters. As such, it is autonomous in its functioning and the Government fixes the MSP based on its advice. In view of this, there may not be any additional advantage by giving statutory status to CACP.

(C) AGRICULTURAL PRICE POLICY, 1986

9. There are three basic pillars of a sound agricultural economy: (i) productive technology package, (ii) efficient deliveries of inputs and services, and (iii) remunerative and stable market prices for agricultural produces. Keeping this in view, the Government announced in 1986 "Agricultural Price Policy: A Long Term Perspective" with a twin objectives of ensuring a remunerative price to growers for their produce with a view to encouraging higher investment and

production, and to protect the interest of consumers by making available supplies, particularly of essential commodities, at reasonable prices. It addresses the issues relating to the role of the price policy, price support mechanism, seasonality in prices, farm input price policy, terms of trades, relevance of international prices and poverty alleviation aspects of price policy. With the advent of Green Revolution, the agricultural scenario changed dramatically. Agricultural Price Policy of the Government of India stipulates that a uniform support price for the whole country would lead to efficient utilization of resources so that low cost States may benefit more than others. A uniform price encourages crop specialization and optimum use of nation's land, water and other productive resources on the basis of comparative advantage.

10. During evidence, the representative of the Ministry further elaborated that 'many years ago, when there were some restrictions on the movement of commodities, probably a price could work in a State. Presently, it will be impossible to operate by giving separate price in different States.

(D) FACTORS CONSIDERED BY CACP FOR RECOMMENDING MSP

11. The Committee have been informed that at present 24 agricultural produce are covered under the Minimum Support Prices (MSPs). These are Paddy, Jowar, Bajra, Maize, Ragi, Arhar (Tur), Moong, Urad, Cotton, Groundnut in Shell, Sunflower seed, Soyabeen, Sesamum, Nigerseed, Tobacco, Wheat, Barley, Gram, Masur (Lentil), Rapeseed / Mustard, Safflower, Copra, Jute, and Sugarcane. In addition, for plantation crops such as tea, coffee and rubber, the Deptt. of Commerce is implementing a Price Stabilization Fund Scheme.

12. In formulating the recommendations in respect of the level of minimum support prices, the Commission takes into account, apart from a comprehensive view of the entire structure of the economy of a particular commodity or group of commodities, the following factors:

i) Cost of production
ii) Demand and supply
iii) Trends in market prices—both domestic and international
iv) Changes in input 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.

13. The Comprehensive Scheme for Studying the Cost of Cultivation of Principal Crops in India was initiated in 1970-71 on the recommendations of a Technical Committee on Indices of Input Costs appointed by the Government. The Special Experts Committee on Cost of Production Estimates, constituted in 1979 under the Chairmanship of Dr. S.R. Sen had recommended for the adoption of a crop complex approach to replace the single crop approach followed till that time. A modified cost classification was also suggested. These recommendations of the Special Expert Committee were implemented from 1981-82. In 1990, another Expert Committee for Review of Methodology of Cost of Production of Crops was constituted under the Chairmanship of Dr. C.H. Hanumantha Rao. Partially modifying the recommendation of this Committee relating to valuation of labour, the Government decided that the basis of valuation of labour should be statutory wage rate or the actual market rate, whichever is higher. The Government also accepted the Committee's recommendation relating to computation of a separate Cost in order to account for managerial input of the farmers.

14. The estimates of cost of cultivation/cost of production which is an important input for forming the recommendation of MSP, are made available to the Commission through the Comprehensive Scheme for Studying the Cost of Cultivation of Principal Crops. These data are collected through State Agricultural Universities and Agro-Economic Research Centres located in various states. The sample size is 8,400 holdings. The estimates take into account real factors of production and include all actual expenses in cash and kind incurred in production by a farmer, rent paid for leased in land, imputed value of family labour, interest value of owned capital assets (excluding land), rental value of

owned land (net of land revenue), depreciation on farm implements and buildings and other miscellaneous expenses.

15. With a view to interacting with various interest groups and stake holders in connection with the preparation of Price Policy Reports, the Commission follows the sequence of steps indicated below:

(i) Identification of the main issues of relevance for the ensuing season (short, medium or long term).

(ii) Issuing questionnaire to Central Ministries, State Governments and other organisations related to trade, industry, processors, and farmers both in the cooperative and the private sector and seeks their views on relevant issues and factual information on related variables.

(iii) Subsequent to step (ii), holding separate discussions with the State Governments, Central Ministries/Departments and other organisations. The Commission also interacts with research and academic institutions like ICAR and keeps track of relevant studies and takes them into account.

(iv) Undertaking visits to areas/mandis for on-the-spot observations and getting feedback from local level organisations and farmers.

16. The Commission also obtains extensive feedback from the State Governments and other agencies which, *inter alia,* provide valuable information with regard to movements in the State specific input prices as also estimates of cost of cultivation obtained through surveys conducted by the respective State Governments themselves. In addition, the Commission makes use of the wholesale price indices of the relevant inputs as are available from the Office of Economic Adviser, Ministry of Industry & Commerce. These indices are used for tracking the movements of prices of certain inputs for which reliable and direct price data are not available.

17. 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 zone based on cropping pattern, soil type, rainfall, etc. The primary sampling units (Tehsils) are allocated to different zones in proportion to total area of all the crops covered in the study. 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 cost of production per quintal is worked out for the major growing states, for specific crops, and their weighted average is estimated and considered by CACP, among other factors, for recommending MSP.

18. 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/machine labour(both hired and owned) and rent paid for leased in land besides cash and kind expenses on use of material inputs like seeds, fertilizers, manures, irrigation charges including cost of diesel/electricity for operation of pump sets, etc, the details of which are given below:

(I) COST ITEM:

The items of cost of cultivation cover both paid out cost (out of pocket expenses) and the imputed costs. The items covered under these costs are:

Paid out costs:

(i) Hired labour (human, animal and machinery).

(ii) Maintenance expenses on owned animals and machinery

(iii) Expenses on material inputs such as seed (home grown and purchased), fertilizer, Manure (owned & purchased), Pesticides and Irrigation.

(iv) Depreciation on implements and farm buildings (such as cattle sheds, machine sheds, storage sheds)

(v) Land revenue.

(vi) Rend paid for leased-in-land.

Imputed costs

Value of family labour/managerial input of the farmer, rent of owner land and interest on owned fixed capital for which the farmer does not incur any cash expenses.

II. IMPUTATION PROCEDURES:

Some of the inputs used in production process come from family sources. The procedure adopted for deriving imputed values of these inputs is as under:

Items	Procedure
i) Family Labour	On the basis of statutory wage rate or actual market rate whichever is higher.
ii) Owned animal labour	On the basis of cost of maintenance which includes the following: (a) Cost of green and fry fodder. (b) Cost of concentrates. (c) Depreciation on animals & cattle sheds. (d) Upkeep labour charges. (e) Other expenses, if any.
iii) Owned machinery charges	On the basis of cost of maintenance of farm machinery which includes diesel, electricity, lubricants, depreciation, repairs and other expenses, if any.
iv) Implements	Depreciation & charges on account of minor repairs.
v) Farm produced manure	Evaluation at rates prevailing in the village.
vi) Rent of owned land	Estimated on the basis of prevailing rents in the village for identical type of land or as reported by the sample farmers, subject to the ceiling of fair rents given in the land legislation of the concerned State.
vii) Interest on owned Fixed capital	Interest on present value of fixed assets charged at the rate of 10% per annum.
viii) Interest on working capital	Interest is charged at the rate of 12.5% per annum on the working capital for half the period of crop.
ix) Kind payments	The kind payments are evaluated at prices prevalent in the village at the time such payments are made.
x) Main product & by-product	Imputed on the basis of post-harvest prices prevailing in the selected villages.

III. COST CONCEPTS:

Costs are generated following certain cost concepts. These cost concepts and the items of costs included under each concept are given below:

Cost A_1: (i) Value of hired human labour.
(ii) Value of hired bullock labour.
(iii) Value of owned bullock labour.

(iv) Value of owned machinery labour.
(v) Hired machinery charges.
(vi) Value of seed (both farm produced and purchases).
(vii) Value of insecticides and pesticides.
(viii) Value of manure (owned and purchased).
(ix) Value of fertilizer
(x) Depreciation on implements and farm buildings.
(xi) Irrigation charges.
(xii) land revenue, cesses and other taxes.
(xiii) Interest on working capital.
(xiv) Miscellaneous expenses.

Cost A_2	:	Cost A_1+ rent paid for leased -in land.
Cost B_1	:	Cost A_1+ interest on value of owned fixed capital assets (excluding land)
Cost B_2		Cost B_1+ rental value of owned land(net of land revenue) and rent paid for leased-in land.
Cost C_1	:	Cost B_1+ imputed value of family labour
Cost C_2	:	Cost B_2+ imputed value of family labour
Cost C_2*	:	Cost C_2+Additional value of human labour based on use of higher rate. i.e. Statutory Wage rate or the actual market rate. This is an intermediate Concept.
Cost C_3	:	Cost C_2* +10 percent of Cost C $_2$* to account for managerial input of the farmer.

IV. ALLOCATION OF JOINT COSTS

The expenditure incurred on, or imputed for, some of the cost items relate to the farm as a whole. Such joint costs are allocated to individual enterprises, among different categories of livestock and so on. Depreciation on farm buildings implements, land rents, land revenue, cesses and taxes, interest on owned fixed capital are such costs which are allocated to individual crop enterprises in proportion to their areas. The cost on livestock is allocated to each category of animals in proportion of its numbers to the total number of animals owned by the farmer.

V. APPORTIONMENT OF JOINT COSTS

The apportionment of total cost incurred jointly for different crops grown in crop mixtures is done in proportion to the total value of output contributed by individual crops in the crop mixtures. The apportionment of total cost of cultivation between the main product and the by-product is done in the proportion to their contribution to the total value of output.

VI. EVALUATION OF FARM ASSETS

The following procedure is adopted for the evaluation of farm assets:-

Item	Procedure
Owned & self-cultivated land	Evaluated at rates prevalent in the village taking into account the differences in type of soil, distance from source of irrigation, etc.
Farm building (cattle sheds, Storage sheds, etc.)	Evaluated at rates prevailing in the village.
Implements and other Farm Machinery	Evaluated at market prices.
Livestock	Evaluated at market prices.

19. The details of cost of various inputs, for wheat and paddy are given in the Table 'A' below:

20. When asked to explain how the farmers of the State with higher cost of production are compensated for their cost of production of a crop when the Government decides single MSP without taking into account the regional differences, the Ministry in a post-evidence reply stated as follows:-

> "The variation in cost of production appears wide, i.e., in the case of wheat total cost of Rs. 24,197 per hectare in Haryana and Punjab for 2004-05, while in Chhattisgarh, it was about Rs.11,443 per hectare. In the case of paddy, cost of cultivation per hectare in Karnataka was Rs.31,360 in 2003-04, and in Tamil Nadu it was Rs.29,632 whereas in Chhattisgarh, Bihar and, Himachal Pradesh Rs.13604, Jharkhand it was around Rs. 13,000. However, the Cost of production per quintal is influenced by productivity/yield level of crops. As per the cost of production projected by CACP for 2007-08 for wheat it was Rs.556 per quintal in Punjab, Rs.590 in Haryana, Rs.817 in Himachal Pradesh, and Rs.921 in Chhattisgarh. Wherever the productivity levels of wheat are low, their cost of production is comparatively high. The weighted average cost of production worked out by CACP was Rs.624 per quintal for 2007-08. The Government had already announced Rs.1000 per quintal as MSP for 2007-08, which is higher than the projected cost of production for 2007-08 for various States.
>
> The cost of production tends to vary from State to State and also within the same State from region to region. Since MSP is recommended by CACP for the country as a whole, the weighted average cost method has been followed for arriving at the cost of cultivation/production of the concerned agricultural produce. While recommending MSP, an effort is made to cover at least the paid out expenses (A2) of farmers in high cost regions plus the imputed cost (FL) of family labour. (i.e., A2+FL cost) and C2 cost (i.e., full cost of production including the imputed rental value of owned land and capital) in relatively efficient states, keeping some margin for the benefit of farmers."

21. The price of agricultural products generally decline at the time of harvesting, due to heavy arrivals in the market. In such a situation, MSP is implemented through designated Central and State agencies to prevent undue decline in prices.

22. Enquired about the reasons for not announcing bonus at the beginning along with MSP, the Committee have been informed that MSP is announced before the sowing season begins. It may not be feasible to announce bonus with MSP since the actual crop production situation, price level and demand-supply scenario becomes clearer just before the harvesting season.

23. On seeking the opinion of the Government, that while fixing the MSP, if cost of production is taken as the cost of production incurred by the agriculture farms in the Agricultural Universities, the Ministry responded as under:-

> "The cost of production involved under experimental farms/demonstration farms of the universities, may not represent ground reality since the crops on those farms are grown under ideal conditions such as optimal use of various inputs and scientific methods of cultivation. In fact the cost of production incurred by the farmers and collected from a sample size of 8,400 holdings located in various parts of the country through various agricultural universities, are more representative, and currently being used by CACP."

24. When enquired about the reasons for using Average Cost Method instead of Synthetic Modeling Method, the Ministry in a written reply stated as follows:-

> "Synthetic Modeling Method of cost estimation basically involves having actual series of cost data, and randomly selected sample from it to create a synthetic cost series by generating cost changes. This requires collection of huge data. In Indian conditions, where there are over 120.82 million farm holdings (as per *2000-01 Agriculture Census*), of which 63 per cent are marginal and 18.88 per cent are small, the collection of data for all of them is not feasible. Added to this, is the diverse agro-climatic conditions in which a particular crop is grown would also affect this type of cost calculation.
>
> In the existing methodology used for estimating the cost of production of various crops in the country with the help of State Agricultural Universities/select centres, the cost on account of fixed assets is taken as 10% of the value of such assets and included in the cost of production. Apart from this, imputed rental value is also taken into account as one of the components of cost of production. Further, variable costs on account of labour, seed, fertilizer, interest on working capital and other inputs are also considered. As such, a mechanism for an objective estimate of cost of production is already in position."

25. During the evidence, Committee were informed that CACP at present takes into account C2 cost for recommending MSP. When enquired, whether MSP was being increased by 50% over C2 cost, the Ministry in a written reply informed that 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.

26. Elaborating further, the Secretary during the evidence stated:-

> "It is because we have to look at the market price; we have to look at other cases. In some cases it can be less than 50 per cent; in some cases it

can be more also depending on the need. So there cannot be a very simple mechanical formula for just adding 50 per cent. If you look at it, the last three years' increase can be more than 50 per cent also".

27. The Committee have been informed that around 60 per cent of the gross cropped area in the country being under rainfed condition, the risk element involved in farming becomes crucial. The Price risk is covered by MSP. The productivity/production loss due to weather aberrations and other reasons are covered by the National Agricultural Insurance Scheme(NAIS) which was introduced in the country from Rabi 1999-2000 season. A comprehensive risk insurance provided to cover yield loss due to non-preventable risks viz. natural fire and lightening; Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood, Inundation and Landslide; Drought, Dry Spells; Pests/Diseases etc. Losses arising out of war and nuclear risks, malicious damage and other preventable risks are excluded. The scheme is operating on the basis of 'Area Approach' and defined area of insurance may be tehsil, block, mandal, gram panchayat etc. The scheme is voluntary for States/UTs and the States/UTs are free to opt in favour of the scheme. Presently, 23 States and 2 UTs are implementing NAIS in the country. However, within the unit area, farmers availing seasonal agricultural operations loans from financial institutions for growing notified crops are compulsorily covered under the scheme while non-loanee farmers are covered on optional basis.

28. With regard to inclusion of weather aberrations in cost calculations and to give options to the farmers/State Government, an alternative product which is not based on crop cutting experiments and with less moral hazard and early settlement of claims, an alternative product in the form of Weather Based Crop Insurance Scheme(WBCIS) has been introduced by Government as announced in the Union Budget 2007-08. The said Scheme has been implemented in selected areas of Karnataka State during Kharif 2007 season. WBCIS intended to provide insurance protection to the farmers against adverse incidence, such as deficit and excess rainfall which are deemed to impact adversely the crop production. The scheme was implemented as an alternative to NAIS. The WBCIS is based on actuarial regime but to make the scheme competitive, premium actually charged from farmers have been restricted to at par with NAIS.

In Kharif 2007, Pilot WBCIS was implemented in 70 hoblies of Karnataka and about 40,000 farmers have been covered under the scheme.

29. Pilot WBCIS is proposed to be implemented in Rabi 2007-08 on a larger scale in terms of coverage of area (12 States) and crops. In addition to Agriculture Insurance Company of India Ltd. (AIC) participation of private insurers i.e. ICICI-LOMBARD General Insurance Company and IFFCO-TOKIO General Insurance Company has also been proposed for selected areas. Administrative Approval for implementation of Pilot WBCIS in Rabi 2007-08 has already been issued.

30. Clarifying the position further on the issue of risk factors and crop insurance, the Secretary during evidence stated:

> "So far as agriculture is concerned, there is no mortality table. But when the insurance companies determine the insurance, they do calculate the actual rate of premium based on the risk profile. That is being done for both, for crop insurance and otherwise. We have introduced a system which varies across different States for different crops. In some States, particularly, the drought prone States and risky crops like groundnut, the risk can go up as high as 35 per cent. They also consider risk based on the coefficient variation and what is the minimum. There are different criteria. There is a mechanism. Crop insurance is more difficult than life or general insurance. In the case of general insurance, like motorcar, we deal with an asset which already exists. Similarly, life insurance, we deal with somebody who already exists. But in the case of crop, we are trying to ensure something which is yet to exist. So, there are complexities.
>
> Recently, it has been recommended by the Alagh Committee that crop insurance will also be included as a part of cost. The premium may appear to be low because it is highly subsidised. It may be six per cent, seven per cent or eight per cent or even more. But to help the farmer, it varies from 1.5 per cent to 3 per cent. But whatever the cost is incurred, will be included as a part of the cost".

31. Asked whether CACP take into account the cost of living of farmers, their nourishment and income parity with the lowest paid government employees, the Ministry replied:

> "The CACP recommends only the minimum support prices, the main objective of which is to provide the farmers a reasonable and remunerative price of a commodity. At present, the cost of nourishment of farmers, their income parity with Government employees are not taken into account. However, among other factors, effect on general cost of living, which includes that of farmers, is kept in view while recommending MSP."

32. About treating farmers as skilled labour, the Secretary during the evidence stated:-

> "Farmers are not considered to be unskilled because they have different types of minimum wage for ploughing, for different activities. These are considered actually to be the different types of skills. So, it is not purely an unskilled type of wage rate but it is a different question whether a wage rate is low or high. But the skill is certainly taken into consideration"

33. In a post-evidence reply, the Ministry has further clarified that as per the presently followed methodology, the value of family labour is already imputed at actual market rate paid to the hired labour or statutory wage rate. However, considering the skill and experience of majority of the farmers in various agricultural activities, there is a case for treating them as skilled workers.

34. Asked whether there is any mechanism for post-procurement adjustment under the existing scheme, the Ministry replied as under:

> "In addition to the MSP, the Government also provides bonus as and when considered necessary after assessing the market trend and crop prospects and considering the interest of both the producers and the consumers. To implement the scheme, the designated central and state agencies purchase/procure the commodities of which the market prices tend to fall below the MSP fixed by the Government. In the existing mechanism, there is no post-procurement adjustment in these prices"

35. On a suggestion made by the Committee that while recommending the MSP, the CACP should take into account actual cost and not notional cost, insurance premia and other costs, the Ministry in a post-evidence reply stated:-

> "The CACP takes into account actual cost as assessed for various crops based on studies conducted by the State Agricultural Universities, on a regular basis. For some inputs when farmer does not pay out of his pocket, certain imputed value is taken into account to arrive at a cost of production which is closer to the actual cost. Based on this and other factors, including terms of trade between agriculture and non-agriculture, MSP of various crops are worked out by CACP. A table containing index of prices paid and prices received by farmers is enclosed (Table 'B')."

36. About the subsidized bank loan, the Ministry informed that farmers may avail short-term credit from the commercial banks, cooperative credit structure and Regional Rural Banks (RRBs). From Kharif 2006-07, farmers are being provided crop loan upto Rs.3.00 lakh at 7 per cent rate of interest.

37. During evidence, when the Committee suggested that rate of interest on farm credit should be reduced from the prevailing rate 7% to 5%. On this, the representative of the Ministry in a positive node informed that "Certainly, we will bring it to the notice of the Finance Ministry"

38. A comprehensive credit policy for agriculture was announced by the Government on 18th June 2004, wherein it was targeted to double the credit availability to the sector in the next three years. This target has already been achieved. As against the credit flow of Rs. 86,981 crore during 2003-04, it has increased to Rs. 2.03 lakh crore during 2006-07.

39. Enquired as to how CACP take into account loan taken by the farmer from landlord, the Ministry in a written reply stated:-

> "For estimating the cost of cultivation / production, interest on fixed capital as well as on the working capital @12.5 per cent per annum is taken into account."

40. When enquired about the reasons for not fixing higher MSP for cotton so as to give some respite to the cotton growers, the Ministry in a post-evidence reply stated as follows:-

> "While recommending the MSPs price policy seeks to ensure that the support price covers atleast the A2+FL cost of production of the various States. It may also be mentioned that as productivity improves and the cost of production declines, the margin available for the farmers would improve. The domestic prices of cotton were ruling high in various parts of the country. Due to considerable growth in export demand, prices continue to rule high. The CACP, an expert body, is expected to take these factors into account while recommending MSP for cotton in the coming season / year."

41. On being enquired, when suicide rate is high in cotton growing areas, why MSP for cotton (F-414/H-777/J 34) has been raised only by 1.7 per cent during 2006-07 over the previous year, the Ministry replied:-

> "CACP takes into account all relevant factors while recommending MSP of cotton. However, in view of the relatively high cost of production of cotton, price support alone cannot solve the problem of suicides. The main

reasons for suicides are high level of indebtedness, lack of credit, crop failure and lack of irrigation facility, etc."

42. Elucidating further on the issue, the Secretary during evidence stated:-

"In case of cotton, the increase has been 1.9 per cent to two per cent. It depends on the variety. I have some interesting figures, which I would like to mention here. In the case of F41H and F777, the latest increase has been 1.69 per cent or 1.7 per cent. In the case of H4 variety, it is 2 per cent this year. If you look at the cost of production, the cost of production of C_2 cotton between 2001 and 2002 was Rs.2358, then it declined to Rs. 2100. Now, it is Rs.2000. Having gone into the calculation of CACP and based on the cost of cultivation studies, there has not been any increase in the case of cotton or there is partly some decline in the product cost for the last 4 to 6 years because the input price has gone down and productivity has gone up. So, the average cost has almost declined or remained the same."

43. About the implementation of Rehabilitation Package in the suicide prone areas, the Ministry in a written reply furnished the following information:-

"Rehabilitation package for 31 suicide prone districts in four States, namely, Andhra Pradesh, Karataka, Kerala and Maharashtra has been approved with an outlay of Rs.16,978.69 crore for implementation over three years starting from 2006-07. The package aims at establishing a sustainable and viable farming and livelihood support system through debt relief to farmers, improved supply of institutional credit, crop centric approach to agriculture, assured irrigation facilities, watershed management, better extension and farming support services, subsidiary income opportunities through horticulture, livestock, dairying, fisheries, etc.

The outlay for the rehabilitation package for suicide prone districts for the year 2006-07 was Rs.7,461.63 crore. A similar amount was provided in the current year under this package. For the said rehabilitation package, as against a total allocation of Rs.14,923.26 crore for 2006-07 and 2007-08, an amount of Rs.10,107.60 crore has been released already for the implementation of different components. Details regarding releases (upto 31st October, 2007) under the Rehabilitation Package are given in Table 'C' below:

44. It was pointed out by the Committee that MSP for jute varies from district to district as jute cost varies from district to district, why this cannot be done for other crops, the Ministry in a written reply stated:-

> "MSPs of jute vary from place to place, mainly because of quality considerations and consequent price differentials. Such a system does exist for cotton also. However, these MSPs are in the form of derived prices from the basic MSP fixed by the Government mainly to ensure that the farmers are paid better prices for their better varieties."

45. Asked whether the Government has conducted any study to know the percentage of farmers, who know or understand the concept of Minimum Support Price (MSP), the Ministry replied:-

> "The National Sample Survey Organisation (NSSO) in their Situation Assessment Survey of Farmers- Some Aspects of Farming (NSS 59th Round January-December 2003 Report No. 496) had reported that at the all –India level, 29 per cent of the farmer households knew or understood the concept of minimum support price (MSP). Of the farmers, 19 per cent not only understood the idea of MSP but also knew the agency (if not its name, its location) to which they could sell their crop if its market price fell below the minimum support price. Again, 10 per cent of farmers were aware of the concept of MSP but not of the procurement agency."

46. About the steps taken to create awareness about MSP operations among farmers, the Ministry has informed that the Government provide support to the States through schemes like support to State Extension Programmes, Mass Media Support to Agriculture, Kisan Call Centres and Establishment of Agri-Clinic and Agri-Business Centres. Further, these are displayed in the Department's website, Doordarshan, Mass Media programmes and exhibitions/Kisan melas.

47. The Committee have been informed that the Government had set up an Expert Committee under the Chairmanship of Prof. Y.K. Alagh in May 2003 to examine the methodological issues in fixation of MSP. Recommendations of the Expert Committee are under consideration of the Government.

(E) ANNOUNCEMENT OF MSPs

48. In a vast country like India with different agro climatic regions and cropping pattern, sowing season is not uniform across states/crops. Efforts are, therefore, made to bridge the gap between the sowing season and the announcement of MSPs so as to give necessary price signal to farmers, which helps them in the choice of crops. The dates of announcement of MSPs for kharif crops and rabi crops in recent years are given below.

Year	Kharif	Rabi
2001-2002	07.09.2001	02.04.2002
2002-2003	26.09.2002	13.02.2003
2003-2004	30.07.2003	18.12.2003
2004-2005	10.08.2004	03.11.2004
2005-2006	20.04.2005	29.09.2005
2006-2007	20.07.2006	27 & 30.10.2006
2007-2008	17.05.2007	09.10.2007

Since the MSPs are announced earlier and the procurement season starts much later (after harvest of crops), decision on bonus is taken just before the start of the procurement season depending on prevailing market situation and assessment of market prices. Moreover, incentive bonus announced over and above the MSP is exempted from State taxes and levies and thus it helps to contain food subsidy.

49. A statement indicating the MSPs announced for different crops in recent years is given in Table ‘D’.

(F) MARKET INTERVENTION SCHEME (MIS)

50. Under the Market Intervention Scheme (MIS), 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. The main crops covered under MIS during 1999-2000 to 20007-08 are oilpalm, onion, kinno / malta, galgal, apple, potato, red chillies, arecanut, ginger, orange, coriander seed, hatkora, black pepper, garlic and passion fruits. The loss is, however, restricted to 25 per cent of the value of the produce so purchased for MIS, including warehousing and other costs.

51. On a suggestion made by the Committee that MIS should be implemented at the Central level instead of at State level, the Ministry in a written reply stated:-

> "Generally the MIS is relevant for area/State specific perishable crops, about which the concerned State Governments are in a better position to assess the situation and take corrective measures. MIS for a particular commodity is operationalised on consideration of the request of the State Government concerned."

52. During the evidence, the Secretary (DAC) further elaborated:-

> "Of course MIS is particularly used for perishable crops and crops which are not covered by MSP. For example, during the last four to five years, MIS operation has been there in the case of apple in Mizoram, Himachal Pradesh, Jammu and Kashmir; black pepper in Kerala; chillies in Andhra Pradesh; garlic and onion in Rajasthan; apple 'C' grade in Himachal Pradesh; malta in Uttranchal; chillies in Mizoram; apple 'C' grade in Uttaranchal etc. From time to time, depending on the proposals received from the State Governments, we have undertaken the MIS for different types of crops particularly perishable crops. Whenever the State Government proposals come, there is not a single case to my knowledge

at least during the last two or three years where we have not agreed to that."

53. When enquired about the reasons for not including tomato, potato, banana crop, green copra, red variety of rice (Kerala), arecanut, coffee, rubber, spices and other such crops, etc under MSP, the Ministry replied as under:-

> "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. However, in view of the subsidy involved, their perishable nature and existence of MIS, the system of minimum support price was not introduced."

(G) FOOD SECURITY

54. To ensure food security, the Government has launched a Centrally Sponsored Scheme namely the 'National Food Security Mission (NFSM)'. It has three components - (i) National Food Security Mission – Rice (NFSM-Rice); (ii) National Food Security Mission – Wheat (NFSM-Wheat); and (iii) National Food Security Mission – Pulses (NFSM-Pulses). The Mission aims at increasing production of rice, wheat and pulses through a set of measures such as area expansion, productivity enhancement; restoring soil fertility; creating employment opportunities; and enhancing farm level economy to restore the confidence of the farmers of the targeted districts. The NFSM-Rice would be implemented in 133 Districts, NFSM-wheat in 138 districts and NFSM-Pulses in 168 Districts. The outlay for the National Food Security Mission is Rs. 4,882.48 crore during Eleventh Plan. It aims to add 10 million tonnes (MT) of Rice, 8 MT of Wheat and 2 MT of Pulse production by the end of the Eleventh Plan i.e. by 2011-12.

55. Enquired about the reasons for lower agricultural growth rate when compared to the industrial growth rate and its impact on food security, the Ministry replied:-

> "This is a fact that the agriculture growth has been much lower than the industrial growth. The growth has been low due to unfavourable weather conditions, stagnating yield levels of various crops, low investment level, etc. However, several programmes have been taken up to deal with the problems. These include, Macro Management of agriculture providing flexibility to the respective states to take up suitable projects, National Horticultural Mission, marketing reforms, strengthening of extension services, setting up of Bamboo Mission and National Rainfed Area Authority. In addition, the National Food Security Mission has been taken up to increase foodgrains production by 20 million tonnes by the end of the

> Eleventh Plan. Rashtria Krishi Vikas Yojana (RKVY) has also been launched to incentivise the states to invest more in agriculture sector to improve the growth rate."

56. According to the information furnished by the Government, the RKVY will be a State Plan Scheme. It aims to achieve 4% annual growth in the agriculture sector during the XIth Plan period by ensuring holistic development of Agriculture and allied sectors. The funds under RKVY would be provided to the States as 100% grant by the Central Government. An outlay of Rs.1500 crore for 2007-08, along with an allocation of Rs.25,000 crore for five years has also been approved. It would result in quantifiable increase in agriculture and allied sector production, productivity and farm incomes and reduction in yield gaps. It would also help in incentivising the producers for adopting improved technologies and for developing production patterns as per national requirements, ensure rational utilization of land, water and other resources and improve Terms of Trade between agriculture and non-agricultural sector.

(H) AGRICULTURAL SUBSIDIES

57. Agricultural Subsidies are given by both the Central and State Governments. Central Government gives subsidies on Fertilizers, Seeds, Machinery, etc. under various schemes while State Governments give subsidies for Irrigation, Power, etc. The Government of India is also providing subsidies to the agricultural sector in the forms of financial incentive/grants/concession under various on-going Central Sector/Centrally Sponsored Schemes. Besides the interest of small and marginal farmers and weaker sections of the farming community is also being protected in the form of various incentives.

Details of the subsidies provided to the agriculture sector in India during 2002-03 to 2006-07 are given as under:

(Rs. in Crore)

S. No.	**Item**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
1.	Fertilizer 1.1 Indigenous fertilizer 1.2 Imported fertilizer 1.3 Sale of decontrolled fertilizer with concession to farmers	 7790 - 3225	 8521 - 3326	 10243 494 5142	 10653 1211 6596	 11400 2704 8348
	Total fertilizer	11015	11847	16127	18460	22452
2.	Electricity, Gas, Steam and other sources of Energy**	8524	10558	NA		
3.	Irrigation##	15012	11142	12990		
4.	Other subsidies given to marginal farmers and Farmer's Cooperative societies in the form of seeds, development of oil seeds, pulses etc.	3098	4017	NA		
	Total	**37649**	**37564**	**NA**		

Source: CSO
Source: 1. Fertilizer and other subsidies given to marginal farmers: Expenditure Budget 2006-07, Vol. I of Central Govt. 2. Electricity & Irrigation: CSO
NA: Not available
***: Includes all subsidies to Electricity Boards and Corporations, Separate estimates of Electricity subsidy accountable exclusively to agricultural sector are not available.*
: The rates for supply of water to farmers are kept low as a matter of policy, resulting in losses to the Government irrigation system, The excess of operating costs over the gross revenue is treated as imputed irrigation subsidy.

58. The Department has informed that the amount of subsidy paid on fertilizers from 2004-05 to 2007-08 is as under:

Subsidy on Fertilizers (Rs. In crores)			
Years	**Urea**	**P&K Fertilizers**	**Total Subsidy disbursed**
2004-05	10637	5142	15779
2005-06	11749	6550	18299
2006-07	15924	10298	26122
2007-08	25654	20005	45659

The Department of Fertilisers has estimated a subsidy requirement of Rs.60,649.36 crores for 2008-09.

(I) CONTRACT FARMING

59. Contract Farming is considered to be one of the most promising avenues for the improvement of the condition of the small farmers in India, as well as, one of the major challenges in the Agricultural Marketing System. Over the past decades, there has been a tremendous increase in the interest of corporate India, specially with the liberalization in the Agricultural Marketing System brought about by the amendment of the APMC Act in several States. Contract Farming has the potential of combining small farmers efficiency with economies of scale, utilizing corporate management skills, providing assured markets and reducing transaction costs in the value chain thereby ensuring better price realization by the farmers. Under contract farming, transfer of land to big companies is not envisaged.

60. Several national and multinational processors or fast food chains are increasingly entering into contract with the farmers to encourage them to cultivate farm products (fruit, vegetables, etc.) of the desired quality by providing them not only seeds and other inputs but also assured procurement of the produce at pre-decided prices. Contract farming is particularly useful for high value crops because it enables the corporates to associate with the farmers and helps in imparting the latest technological know how to them.

61. Asked about the safeguards being taken to protect the farmers from transfer of their land to big companies/corporations through contract farming, the Ministry in a written reply stated as under:

"Much criticism of contract farming in India is mainly based on the stories of systemic failures or exploitation of farmers in the case of crop failures or based on the disputes relating to the quality or quantity of the produce in some parts of the country. These problems can be overcome by proper designing of the contracts along with correct choice of commodities and locations and by detailing suitable terms and conditions in a written agreement to be executed between the sponsors and the producers."

(J) FORWARD MARKET TRADING

62. Forward markets in commodities enable the stake- holders/market participants to hedge their price risk in an open market environment. Such markets also help in price discovery based on which the producers can take informed decisions. However, to keep a check on undue speculative tendencies, there is a need to have a Regulatory Authority for forward markets.

63. Currently, the Forward Markets Commission regulates the commodity futures market. The Forward Contracts (Regulation) Amendment Bill, 2006 was introduced in the Lok Sabha on 21.03.2006. The Bill was referred to the Parliamentary Standing Committee on Food, Consumer Affairs &Public Distribution. The Parliamentary Standing Committee has submitted its Report on 19.12.2006. The recommendations of the Committee have been examined and further action is being taken by the Department of Consumer Affairs.

64. Commenting further on the issue, the Secretary during the evidence stated:

"Of course, futures trade, certainly is useful for price discovery, and farmers should be involved. There is also a scheme by the Ministry of Consumer Affairs, who is the nodal Ministry for the futures market. They have initiated a scheme to put up electronic ticker boards in the market yards. In the first phase, they have shortlisted about 500 market yards so that farmers are aware of the futures. Futures of course is a part of the marketing reforms. As all the hon. Members know, efforts are being made to liberalise the agricultural market. Of course, all of us know about the APMC Act amendment. Some States have done; some States are in the process. This is a dilemma that on the one hand we are talking about MSP and also we are reforming the market. So, this is a period of transition. It is because of that that some issues have arisen. Finally the dependence on the market will grow but at the same time, at least for some time to come, we have to depend on some sort of an MSP. It is because of the market imperfections, we cannot entirely depend on the market. There are certain problems. Sometimes, small farmers, poorer farmers, resource-poor farmers may not be able to take advantage of the market. So we have to have a mix of policies."

65. During evidence, when it was pointed out by the Committee that the primary function of CACP was to give farmers an indication as to the minimum price that they can expect at the time of harvest when the crop is ready, now this facility is available and can be made available by way of the futures markets and we get not only an indication of MSP that will be available to the farmers but also the price which the farmers can lock and actually get, when this facility is available, do we still need CACP at all, to this the representative of the Ministry replied that:

> "We do need CACP even for Future Market. I entirely agree with the Committee that Future Market can help us in discovering the prices that can be there in the future. The various types of markets can also help the farmers in knowing the prices. A large number of small and marginal farmers, i.e. about 82% of them need to be protected against any fall in the prices given the condition that we have here in India."

66. When it was further pointed out that the procurement price at Rs.1000/- per quintal of wheat fixed by CACP is also artificially fixed and the market indications are that it should be Rs.1150 to Rs.1200 per quintal. Even the tendered price for import of wheat were even quoted @ Rs.1500/-qtl. and above (Table E). On this, the representative of the Ministry clarified the position as under:

> "I am not saying that markets should be ignored or we should not look at the markets. Everybody knows that the markets are not always perfect and market failures and market imperfections are well established. 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. CACP is also supposed to look at the market conditions, market prices etc. We need to have some sort of an assurance given to farmers that he will get the minimum support price (MSP). But, it does not mean that the farmer should get only that much price; if the market allows, he must get a higher price. There should be a minimum floor price below which farmers cannot sell their produce, and the State has to assure the farmer that he is assured of this much of price which he should know before he sows the crop so that he can take a good decision and for that we need some mechanism which presently is in the form of CACP."

PART II

RECOMMENDATIONS/OBSERVATIONS

Recommendation No. 1

Pricing Policy

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 focussed 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, jawar, bajra, etc. by wheat and rice. Over a period, the shortage or 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 prices 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 seasons. 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 changes 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 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, 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 of economy at a particular point of time. They have never come across a situation in which the industry produced goods are ever 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 alternatives 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 hour 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 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 affordably 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 spending extra money in providing employment, shelter & food and civic 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 a heavy tax burden on export of Basmati varieties of rice, which is directly against the interests 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.

Recommendation No. 2

Factors considered for fixation of MSP

The Committee note that CACP covers only 24 crops under the MSP. These crops are Wheat, Paddy, Barley, Gram, Jawar, Bajra, Maize, Ragi, Arhar, Moong, Urad, Cotton, Groundnut in shell, Sunflower seed, Soybean, 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 Advisor, Ministry of Industry and Commerce.

The Committee are unable to understand the relevancy of factors – viz; (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 the 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 capital 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 foodgrains.

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 invariable 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 farmers 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 factors 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.

Recommendation No. 3

Cost Factors for fixing MSP

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 based 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 a sense, a technical 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, 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 costs 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 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.

Recommendation No. 4

Fixing of MSP

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 C_2 + 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 him 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.

Recommendation No. 5

Inclusion of more crops under MSP

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, Soyabeen, Sesamum, Nigerseed, Tobacco, Wheat, Barley, Gram, Masur (Lentil), Rapeseed / Mustard, Safflower, Copra, 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.

Recommendation No. 6

Awareness about MSP amongst Farmers

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 Centres, 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 Governments at Central as well as State level should develop strong extension services to help the farmers to get remunerative prices of their produce.

Recommendation No. 7

Need to increase 50% Food Production

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. According 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.

Recommendation No. 8

Farmer as Skilled Labour

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 farmers is even below that of a Group 'D' Government employee, in terms of his standard of living, rearing & 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.

Recommendation No. 9

Crop Loan

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 on 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.

Recommendation No. 10

Agriculture Subsidies

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 chemicals 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 of P&K." The excessive use of urea has also affected the soil profile adversely. A healthy plan 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.

Recommendation No. 11

Contract Farming

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, chicks, 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.

Recommendation No. 12

Forward Market Trading

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 help them in price discovery based on which the producers can take informed decision. 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 discovery 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 a 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 they 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 and 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.

NEW DELHI;	PROF. RAM GOPAL YADAV
24 June, 2008	*Chairman,*
3 Ashadha, 1930 (Saka)	*Standing Committee on Agriculture*

APPENDIX I

<u>MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON AGRICULTURE HELD ON THURSDAY, THE 04 OCTOBER, 2007 AT 1500 HRS. IN COMMITTEE ROOM 'B', GROUND FLOOR, PARLIAMENT HOUSE ANNEXE, NEW DELHI</u>

The Committee sat from 1500 hrs to 1700 hrs

PRESENT

Prof. Ram Gopal Yadav – Chairman

MEMBERS

LOK SABHA

2. Shri Ranen Barman
3. Shri Anil Basu
4. Shri Manoranjan Bhakta
5. Shri Girdhari Lal Bhargava
6. Shri Khagen Das
7. Shri Gadakh Tukaram Gangadhar
8. Smt. Kalpana Ramesh Narhire
9. Shri Prabodh Panda
10. Shri Danve Raosaheb Patil
11. Shri K.J.S.P.Reddy
12. Shri Chandra Bhushan Singh
13. Shri M.P.Veerendra Kumar
14. Shri Baleshwar Yadav

RAJYA SABHA

15. Shri Harish Rawat
16. Smt. Mohsina Kidwai
17. Shri Vikram Verma
18. Shri Sk. Khabir Uddin Ahmed
19. Shri Datta Meghe
20. Shri Sharad Anantrao Joshi
21. Shri M. Rajasekara Murthy
22. Prof. M.S.Swaminathan

SECRETARIAT

1. Shri A.K. Singh	-	Joint Secretary
2. Shri Rajkumar	-	Deputy Secretary
3. Shri N.S. Hooda	-	Deputy Secretary
4. Ms. Amita Walia	-	Under Secretary

WITNESSES

1.	Dr. P.K. Mishra	-	Secretary (DAC)
2.	Dr. T. Haque	-	Chairman (Commission for Agricultural Costs & Prices)
3.	Sh. Karnail Singh	-	Addl. Secretary (DAC)
4.	Dr. N.B. Singh	-	Agricultural Commissioner (DAC)
5.	Dr. A.K. Neog	-	Economics & Statistical Adviser (DAC)
6.	Sh. P.P. Mathur	-	Additional Secretary and Financial Adviser (DAC)
7.	Sh. Siraj Hussain	-	J.S.(Deptt. of Food & Public Distribution)
8.	Sh. U.K.S. Chauhan	-	J.S., Marketing (DAC)
9.	Ms Madhu Bala	-	Adviser, Dte of Economics & Statistics (DAC)
10.	Sh. R. Viswanathan	-	Adviser, Dte of Economics & Statistics (DAC)
11.	Dr. K.G. Radkhakrishnan	-	Secretary(Commission for Agricultural Costs & Prices)
12.	Sh. A.K. Jena	-	Director (Commission for Agricultural Costs & Prices)
13.	Sh. K.S. Sethi	-	Director, Finance (DAC)

At the outset, the Chairman, welcomed the representatives of the Ministry (Department of Agriculture and Co-operation) to the sitting of the Committee and explained the Direction 55 (1) of the 'Directions by the Speaker, Lok Sabha' to treat the proceedings as confidential till the Report is presented to Parliament and then asked the Secretary to brief the Committee about the subject 'Pricing Policy of Agricultural Produce'. While briefing about the subject, the Secretary (Department of Agriculture and Co-operation) apprised the Committee about the three basic pillars of a sound agricultural economy as per the Agriculture Price Policy of 1986 viz. production technology package, efficient deliveries of inputs and services and remunerative and stable market prices for agricultural products. He also apprised the Committee about the role of Commission for Agricultural Costs and Prices (CACP) and their efforts in recommending the Minimum Support Price (MSP) for 25 crops: Market Intervention Scheme, State Agriculture Produce Market Committee acts (APMC), forward and futures market and other issues of price mechanism.

2. The Members raised queries on the methodology adopted by CACP while deciding the cost of production, need of CACP as a central body, risk factors involved in price estimation, time for announcing MSP and bonus, inclusion of some other crops in the ambit of MSP, the recommendations of National Commission for farmers on the subject and import of wheat etc.

3. The representatives of the Department replied to some of the queries. The Chairman then desired that in respect of the points and queries of the Members which could not be replied to instantly, the Department may send their replies in writing to the Secretariat.

4. A verbatim record of the proceeding of the sitting was kept.

The Committee then adjourned.

APPENDIX II

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON AGRICULTURE HELD ON TUESDAY, THE 30 OCTOBER, 2007 AT 1500 HRS. IN COMMITTEE ROOM '139', FIRST FLOOR, PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1500 hrs to 1730 hrs

PRESENT

Prof. Ram Gopal Yadav – Chairman

MEMBERS

LOK SABHA

1. Shri Ranen Barman
2. Shri Anil Basu
3. Shri Manoranjan Bhakta
4. Shri Girdhari Lal Bhargava
5. Shri Khagen Das
6. Shri Mahendra Prasad Nishad
7. Shri Prabodh Panda
8. Smt. Rupatai D. Patil Nilangekar
9. Shri Chandra Bhushan Singh
10. Shri Baleshwar Yadav

RAJYA SABHA

11. Shri Harish Rawat
12. Dr. M.S. Gill
13. Smt. Mohsina Kidwai
14. Shri Vikram Verma
15. Shri Vinay Katiyar
16. Shri Sk. Khabir Uddin Ahmed
17. Shri Datta Meghe
18. Shri Sharad Anantrao Joshi
19. Shri M. Rajasekara Murthy

SECRETARIAT

1.	Shri A.K. Singh	-	Joint Secretary
2.	Shri Rajkumar	-	Deputy Secretary
3.	Shri N.S. Hooda	-	Deputy Secretary
4.	Ms. Amita Walia	-	Under Secretary

WITNESSES

Sl.No.	Name		Designation
1.	Dr. P.K. Mishra	:	Secretary (DAC)
2.	Dr. S.M. Jharwal	:	Principal Adviser (DAC)
3.	Sh. P.P. Mathur	:	Additional Secretary and Financial Adviser (DAC)
4.	Sh. Karnail Singh	:	Additional Secretary (DAC)
5.	Dr. N.B. Singh	:	Agricultural Commissioner (DAC)
6.	Dr. A.K. Neog	:	Economics & Statistical Adviser Dte of Economics & Statistics (DAC)
7.	Sh. Siraj Hussain	:	Joint Secretary (Department of Food & Public Distribution)
8.	Sh. U.K.S. Chauhan	:	Joint Secretary (Marketing) (DAC)
9.	Sh. Satish Chander	:	Joint Secretary (INM, Credit, Coop.)
10.	Sh. K.S. Sethi	:	Director (Finance) (DAC)
11.	Ms Madhu Bala	:	Adviser, Dte of Economics & Statistics (DAC)
12.	Sh. R. Viswanathan	:	Adviser, Dte of Economics & Statistics (DAC)
13.	Sh. D.S. Kolamkar	:	Economic Adviser (Department of Consumer Affairs)
14.	Dr. K.G. Radhakrishnan	:	Member-Secretary (Commission for Agricultural Costs & Prices)
15.	Sh. A.K. Jena	:	Director (Commission for Agricultural Costs & Prices)
16.	Dr. Rajeev Mehta		Adviser (Hort.) Deptt. of A&C

At the outset, the Chairman, Standing Committee on Agriculture, welcomed the representatives of the Ministry (Department of Agriculture and Co-operation) and apprised of the provisions of Direction 55(1) of Directions by Speaker to treat the proceedings of the meeting as confidential till the Report is presented to Parliament, and asked them to give specific and clear reply of the queries made by the Members during the last sitting. The Secretary (Department of Agriculture and Co-operation) explained the Government's viewpoint on the subject 'Pricing Policy of Agricultural Produce'. Thereafter, the Members of the Committee raised certain queries relating to Minimum Support Price (MSP) synthetic modeling method of cost estimation vis-a-vis average cost method being used by CACP, risk factor at productivity level, variation of C_2 cost in different States, cost of inputs and labour in various States, farmers to be treated as skilled labours, rate of interest being charged from the farmers, plight of cotton growers, mechanism of price fixation with the help of Agricultural Universities and futures market etc.

2. The representatives of the Department clarified some of the points raised by the Members and assured to give replies of some other points in written to the Secretariat.

3. A verbatim record of the proceeding of the sitting has been kept.

The Committee then adjourned.

APPENDIX III

MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON AGRICULTURE HELD ON THURSDAY, THE 12TH JUNE, 2008 AT 1130 HRS. IN COMMITTEE ROOM 'E', BASEMENT, PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1130 hrs. to 1245 hrs.

PRESENT

Prof. Ram Gopal Yadav – Chairman

MEMBERS

LOK SABHA

2. Shri Ranen Barman
3. Shri Anil Basu
4. Shri Manoranjan Bhakta
5. Shri Gadakh Tukaram Gangadhar
6. Shri Deepender Singh Hooda
7. Shri Mahendra Prasad Nishad
8. Shri Prabodh Panda
9. Shri Raosaheb Danve Patil
10. Shri K.J.S.P. Reddy
11. Shri Baleshwar Yadav

RAJYA SABHA

12. Shri Harish Rawat
13. Smt. Mohsina Kidwai
14. Shri Vikram Verma
15. Shri Vinay Katiyar
16. Shri Sharad Anantrao Joshi
17. Shri M. Rajasekara Murthy
18. Shri Ishwar Singh

SECRETARIAT

1.	Shri S.K. Sharma	-	Additional Secretary
2.	Smt. Veena Sharma	-	Director
3.	Shri Raj Kumar	-	Deputy Secretary
4.	Shri N.S.Hooda	-	Deputy Secretary
5.	Ms. Amita Walia	-	Under Secretary

At the outset, the Chairman, Standing Committee on Agriculture, welcomed the Members of the Committee and introduced Shri Ishwar Singh, MP, a Rajya Sabha member, who was nominated to the Committee on 14th May, 2008. Thereafter, he requested the Members to consider the Draft Report on 'Pricing Policy of Agricultural Produce'.

2. The Members of the Committee then considered the Draft Report and put forward their suggestions on various issues contained in the Report. After detailed discussions, the Committee decided to hold another sitting on 19th June, 2008 to finalise the Draft Report.

The Committee then adjourned.

APPENDIX IV

MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE ON AGRICULTURE HELD ON THURSDAY, THE 19TH JUNE, 2008 AT 1100 HRS. IN COMMITTEE ROOM 'D', GROUND FLOOR, PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1100 hrs. to 1255 hrs.

PRESENT

Prof. Ram Gopal Yadav – Chairman

MEMBERS

LOK SABHA

2. Shri Ranen Barman
3. Shri Anil Basu
4. Shri Manoranjan Bhakta
5. Shri Girdhari Lal Bhargava
6. Shri Gadakh Tukaram Gangadhar
7. Shri Deepender Singh Hooda
8. Shri Prabodh Panda
9. Shri K.J.S.P. Reddy
10. Shri Chandra Bhushan Singh
11. Shri Baleshwar Yadav

RAJYA SABHA

12. Shri Harish Rawat
13. Smt. Mohsina Kidwai
14. Shri Vikram Verma
15. Shri Vinay Katiyar
16. Shri Sharad Anantrao Joshi
17. Shri M. Rajasekara Murthy
18. Shri Ishwar Singh

SECRETARIAT

1.	Shri S.K. Sharma	-	Additional Secretary
2.	Shri A.K. Singh	-	Joint Secretary
2.	Smt. Veena Sharma	-	Director
3.	Shri Raj Kumar	-	Deputy Secretary
4.	Shri N.S.Hooda	-	Deputy Secretary
5.	Ms. Amita Walia	-	Under Secretary

At the outset, the Chairman, Standing Committee on Agriculture welcomed the Members of the Committee and requested them to continue the discussions on the Draft Report on 'Pricing Policy of Agricultural Produce' and consider the Report for adoption.

2. After discussing in detail the suggestions of the Members, the Draft Report was adopted with certain additions and modifications, which have been carried out in the Report. The Committee then authorised the Chairman to finalise the report and present the same to the Hon'ble Speaker, as the Lok Sabha was not in Session.

The Committee then adjourned.