MSP Hike for Rabi Crops

Why in news?

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The government has recently approved an increase in the minimum support prices (MSP) offered for rabi crops.

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Click here to read on MSP hike for kharifs.

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How are prices fixed?

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- **Earlier** - The CACP used to earlier take into account a host of factors apart from cost of cultivation, while recommending the MSP.
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- They include:
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i. supply and demand situation for the concerned commodity
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ii. market price trends (domestic and global) and parity vis-à-vis other crops
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iii. implications for consumers (inflation), environment (soil and water use)
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iv. terms of trade between agriculture and non-agriculture sectors
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- **Now** - However, this changed with the Union Budget for 2018-19.

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- The government accepted the so-called Swaminathan formula of fixing MSP for crops at 1.5 times their estimated production costs.
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- Different production costs are taken into consideration in this regard, namely A2, A2+FL or C2.
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- A2 covers all paid-out costs directly incurred by the farmer in cash and in kind on seed, fertiliser, pesticide, hired labour, leased-in land, fuel, irrigation, etc.
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- A2+FL includes A2, plus an assigned value of unpaid family labour.
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- C2 is a more comprehensive cost that factors in the rentals and interest forgone on owned land and fixed capital assets, on top of A2+FL.
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- The CACP's job thus became simply to estimate production costs of crops for a particular season.
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- It then recommends the corresponding MSPs by applying the 1.5-times formula.
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What is the recent decision?

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- The government has settled for the intermediate A2+FL cost formula to arrive at MSPs.
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- It has fixed the all-India average A2+FL production costs, for the upcoming 2018-19 rabi planting season, for six crops.
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- These are wheat, barley, chana (chickpea), masur (lentil), rapeseed-mustard and safflower.
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- The projected increase in costs for 2018-19 over last year's rabi season ranges from 1.8% for barley to 7.2% for chana.
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- Government claims that farmers would get a price at least 150% above their production cost, and their incomes would be doubled over time.
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What are the concerns?

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- The concern now relates to “how” the estimation is done, as only the production costs are taken into consideration by the CACP.
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- The CACP recently gave the price policy report for the ensuing rabi season.
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- It has constructed a Composite Input Price Index (CIPI), based on the latest available price data for major farm inputs.
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- Notably, the retail price of diesel (used as fuel for tractors, harvesters and irrigation pumps) is nearly 32% higher than a year ago.
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- Likewise, farm fertiliser and pesticides prices have also gone up to significant levels.
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- The raw materials/intermediates and technical material/active ingredients for these are largely imported.
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- So their prices are linked to global crude oil and gas rates.
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- In effect, the CACP cost projections are lower than the actual prices that farmers are currently paying for inputs.
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- E.g. Rs 17-18/litre increase in diesel price for a wheat farmer consuming at least 80 litres/acre translates to an additional cost of roughly Rs 1,400 per acre.
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- If the higher prices of fertiliser and pesticides are added, the extra production cost for these inputs increase substantially.
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- This would erode a significant chunk of the gains from the increase declared in the MSP.
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What is the way out?

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- Higher minimum support prices often do not translate into better returns for farmers.

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- India’s farm sector has multiple stress points, and ground-level procurement often does not take place at stipulated support prices.
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- So a robust mechanism that actually helps farmers get the declared MSP for a crop is essential.
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- The price deficiency payment scheme and private procurement plan are steps towards this.
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- All these being in a nascent stage, there needs to be a holistic reboot of the agriculture sector.
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Source: Indian Express, The Hindu

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