

MSP Hike for Rabi Crops

Why in news?

\n\n

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

\n\n

Click [here](#) to read on MSP hike for kharifs.

\n\n

How are prices fixed?

\n\n

\n

- **Earlier** - The CACP used to earlier take into account a host of factors apart from cost of cultivation, while recommending the MSP.

\n

- They include:

\n

\n\n

\n

- i. supply and demand situation for the concerned commodity
- ii. market price trends (domestic and global) and parity vis-à-vis other crops
- iii. implications for consumers (inflation), environment (soil and water use)
- iv. terms of trade between agriculture and non-agriculture sectors

\n

\n\n

\n

- **Now** - However, this changed with the Union Budget for 2018-19.
- The government accepted the so-called Swaminathan formula of fixing MSP for crops at 1.5 times their estimated production costs.

- \n
- Different production costs are taken into consideration in this regard, namely A2, A2+FL or C2.
- \n
- 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.
- \n
- A2+FL includes A2, plus an assigned value of unpaid family labour.
- \n
- 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.
- \n
- The CACP's job thus became simply to estimate production costs of crops for a particular season.
- \n
- It then recommends the corresponding MSPs by applying the 1.5-times formula.
- \n

\n\n

What is the recent decision?

\n\n

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

\n\n

What are the concerns?

\n\n

\n

- The concern now relates to “how” the estimation is done, as only the production costs are taken into consideration by the CACP.

\n

- The CACP recently gave the price policy report for the ensuing rabi season.

\n

- It has constructed a Composite Input Price Index (CIPI), based on the latest available price data for major farm inputs.

\n

- Notably, the retail price of diesel (used as fuel for tractors, harvesters and irrigation pumps) is nearly 32% higher than a year ago.

\n

- Likewise, farm fertiliser and pesticides prices have also gone up to significant levels.

\n

- The raw materials/intermediates and technical material/active ingredients for these are largely imported.

\n

- So their prices are linked to global crude oil and gas rates.

\n

- In effect, the CACP cost projections are lower than the actual prices that farmers are currently paying for inputs.

\n

- 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.

\n

- If the higher prices of fertiliser and pesticides are added, the extra production cost for these inputs increase substantially.

\n

- This would erode a significant chunk of the gains from the increase declared in the MSP.

\n

\n\n

What is the way out?

\n\n

\n

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

\n

- India’s farm sector has multiple stress points, and ground-level procurement

often does not take place at stipulated support prices.

\n

- So a robust mechanism that actually helps farmers get the declared MSP for a crop is essential.

\n

- The [price deficiency payment](#) scheme and [private procurement plan](#) are steps towards this.

\n

- All these being in a nascent stage, there needs to be a holistic reboot of the agriculture sector.

\n

\n\n

\n\n

Source: Indian Express, The Hindu

\n

