

Food policy : An outlook

5.59 The policy of providing price support by raising the MSP continuously though making the terms of trade for agriculture favourable, has not only distorted domestic market prices but has also eroded our export competitiveness. While developed economies continue to protect their exports through export subsidies, Indian rice (except perhaps basmati rice) and wheat are not export competitive. An exporting country cannot have its grain prices greatly mis-aligned with free-on-board export prices. But, with MSPs of foodgrains ruling at the existing high and being totally mis-aligned with the costs of production as also free market prices, India is no longer competitive internationally.

5.60 Other consequences of the policy of high MSPs during the last five years are :

- The FCI's procurement has more than doubled.
- FCI has become the sole buyer, stockist and seller of foodgrains.
- High MSP together with ad-valorem State taxes have eliminated private trade.
- Shortage of storage space has pushed up costs through wastage and deterioration of stocks.
- High carrying cost is a subsidy benefiting neither the consumers nor the producers.

5.61 Strong corrective steps aligning the minimum support prices with the cost of production of foodgrains are called for. Perhaps, the only solution we have at hand is to freeze the current MSP until such time it becomes equal to C2 Cost or until annual procurement settles down to earlier levels of 24-30 million tonnes.