

Minimum Support Prices

5.45 The past ten years witnessed large increases in the MSPs of rice and wheat that, inter alia, resulted in a large gap between the cost of production and the MSP. One of the important impacts of this development was the regional segmentation of the markets: for example, prices of food grains in the primary grain markets remained below MSP in some Northern States that substantially reduced private trade from the grain markets and excessive financial costs to the FCI for procurement and storage of foodgrains. Reduction of private trade in wheat and rice in the northern states of Punjab and Haryana also possibly led to "crowding out" of private investment in agricultural marketing channels. Market prices were often lower than the MSPs and, therefore, there was unabated build up of food grain stocks with the FCI. At one point of time (June 2002) the stocks at 64.7 million tonnes were almost three times the buffer requirements that resulted in extremely high carrying costs and bloated food subsidy.

5.46 The situation was reviewed and, as a result, the price policy for rabi and kharif crops announced modest price increases in the past 5 years (Table 5.18). The Government's policy

of restraint in announcing hike in the MSP of principal cereals in the last four seasons is likely to address the problems associated with excessive concentration on production of two crops, namely, wheat and rice.

5.47 The MSP regime needs to be rationalized based on the following considerations: (i) As MSPs help only the large farmers with high marketable surpluses and marginalize the rest of them, the non-price factors such as those related to provision of infrastructure needs to be considered; (ii) As FCI gets full reimbursement for its procurement, handling and storage costs, the scope for its efficiency improvement through reduction in operating costs needs to be examined; (iii) State level sales taxes and marketing committee fees (mandi fees) on procurement operations in Punjab and Haryana inflate the economic cost of the foodgrains, and the average consumer in all States and the States who are net buyers of foodgrains bear the incidence of such State sales taxes and duties. There is a need to explore the possibility of combining moral suasion with some incentive/disincentive to discourage States from imposing such levies.

Table 5.18 : Minimum support/procurement price of wheat and paddy

(Rs/quintal)

Crop Year	Wheat		Paddy				
	MSP	per cent change	Common	per cent change	Fine	Super fine	Grade'A'
1994-95	360	2.9	340	9.7	360	380	-
1995-96	380	5.6	360	5.9	375	395	-
1996-97	475	25.0	380	5.6	395	415	-
1997-98*	510	7.4	415	9.2	-	-	455
1998-99	550	7.8	440	6.0	-	-	470
1999-00	580	5.5	490	11.4	-	-	520
2000-01	610	5.2	510	4.1	-	-	540
2001-02	620	1.6	530	3.9	-	-	560
2002-03	620\$	-	530\$	-	-	-	560\$
2003-04	630	1.6	550	3.8	-	-	580
2004-05	640	1.6	560	1.8	-	-	590
2005-06	-	-	-	-	-	-	600

For MSP of other crops, see appendix-5.5

* Effective 1997-98, MSP is fixed for two varieties of paddy, common and grade-A.

\$ One time special drought relief of Rs.20/- per quintal for rice and Rs 10/- per quintal for wheat was given over and above the MSP.

Source : Ministry of Agriculture.