

General Studies-3; Topic: Issues related to direct and indirect farm subsidies and minimum support prices; Public Distribution System- objectives, functioning, limitations, revamping; issues of buffer stocks and food security;

Price Stabilisation of Agriculture Commodities

1) Introduction

- Stabilisation of prices, particularly of major foodgrains is of serious concern to most developing countries.
- Tomatoes-onions-potatoes (TOP) are the three basic vegetables that face extreme price volatility in India.
- The government often finds itself on the edge in fulfilling its dual objectives of ensuring remunerative prices for farmers and affordable prices for consumers.

2) Recent Developments

- When output increases well beyond the market demand, market prices decline and in the absence of effective price support policy, farmers are faced with a loss of income.
- The “farm distress” in recent years has been partly on account of this situation, as the loss of income is beyond the ability of the small farmers to absorb
- Recently when onion retail prices crossed Rs 40/kg in Delhi, the government imposed a minimum export price (MEP) of \$850/tonne.
- Later on, as prices went further up, stocking limits were imposed on traders and exports of onions were banned.
- It created problems in neighbouring countries, especially Bangladesh.

3) Options available

- **MSP**
 - a. Hike in MSPs is required, given the current adverse conditions of prices and operating conditions of the farm sector
 - b. Incentivise production of a specific food crop which is in short supply.
- **Price deficiency**
 - a. Price Deficiency Payment system (PDPS) is a system in which the farmer is free to sell in the open market and, if the market price falls below the MSP, the government steps in and makes a deficiency payment which is equal to the difference between MSP and the market price.
 - b. It will reduce the need for the government to actually procure food crops, transport and store them and then dispose of them under PDS.

4) Price Stabilization Fund (PSF)

- It helps regulate the price volatility of important agri-horticultural commodities like onion, potatoes and pulses.
- The scheme provides for maintaining a strategic buffer of aforementioned commodities for subsequent calibrated release to moderate price volatility and discourage hoarding and unscrupulous speculation.
- Apart from domestic procurement from farmers/wholesale mandis, import may also be undertaken with support from the Fund.

5) Operation Green-TOP

- The government had announced “Operation Green-TOP” with an allocation of Rs 500 crore in its budget of 2018.
- The idea was to build value chains of TOP on the lines of “Operation Flood” for milk.
- But, so far, progress is tardy.
- TOP are mostly traded in APMC markets, with layers of mandi fees and commissions, and farmers get less than one-third of the consumer’s rupee.

6) Concerns / Challenges

- Imposition of MSP beyond some point is market distorting.
- Farmers have got negative returns in several crops prompting many economists to question the usefulness of MSP’s.
- MSP is only announced for few crops. There is no MSP for fruits and vegetables.
- Only a fraction of the farmers actually has access to MSP.
- India’s price support programme is also promoting cultivation of water intensive crops like paddy and sugarcane even in water deficit regions such as Punjab, Haryana and Maharashtra.

7) Way Forward

- Need for stabilising retail prices of fresh TOP, and ensuring a higher share of the consumer’s rupee to farmers
- **Ample storage for buffer stocks has to be created.**
 - a. Repeated stocking limits on onion traders discourages private investments in modern cold storages.
 - b. If the government feels that traders are colluding to rig the market, then the Competition Commission of India should look into it.
- **Increase processing capacities for TOP.**
 - a. To propagate the use of processed products the government should run campaigns in association with industry organisations, as was done for eggs.
 - b. India needs to have time bound targets to process and export at least 10-15 per cent of TOP production.
- Direct buying by organised retailers from farmer producer organisations (FPOs) through contract farming, bypassing the mandi system, should be encouraged.
- Like dairy cooperatives, TOP cooperatives and retail outlets like Safal across the country should be opened.
- With crumbling infrastructure, many APMC mandis are running over their capacity.
- For better functioning, APMCs requires at least two to three times more land and much better infrastructure.
- The government needs to find a sustainable solution for price stabilisation of TOP, rather than taking temporary ad hoc measures.