

FARM LAWS: HAS MSP BEEN DISMANTLED?

INTRODUCTION

The Farmers' Produce Trade and Commerce (Promotion & Facilitation) Act, 2020 [**first farm law**] creates a barrier free inter-state and intra-state trade of farmer's produce. Whereas, the Farmers' (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 [**second-farm law**] creates a national framework for contract farming. These two farm laws effectively allow a farmer to sell his produce even beyond market/mandis set up under various state APMC laws, where they used to get a minimum government determined price, which is generally referred to a floor price or minimum support price [hereinafter referred to as '**MSP**'], and can enter into direct contract with a buyer at a mutually pre-determined price. The fear expressed by many is that under these farm laws there is a lack of security as to the assurance of a minimum support price. The farmers this way, as per those who oppose the reforms, are left at the mercy of buyers who will exploit them using their unequal bargaining power. In this short article, let's understand MSP and its effectiveness in the prevailing agriculture marketing system in India.

ABOUT MSP

During 1960's, when India was facing an acute food scarcity¹ the Central Government appointed Food Grains Prices Committee under the chairmanship of Mr. LK Jha in the year 1964. Following the recommendations of the committee, Food Corporation of India (**FCI**) and Agriculture Prices Commission (**APC**) were set up in the year 1965. It is the FCI who is made responsible for procuring food grains at MSP and then to stock and distribute through public distribution system (PDS) [later became a targeted PDS] which consists of fair price ration shops all over the country. The APC's (later renamed as Commission on Agricultural-

Costs and Prices (CACP) in the year 1985} main function was to advise the Union Government's Cabinet committee on Economic Affairs (CCEA) on agriculture commodities price policy and determining MSP².

In 1966, the government for the first-time announced MSP for the wheat crop only. With time, the list of crops covered under MSP was increased to 23 and this led to the exponential rise in the production of these crops. So as to give impetus to the green revolution, the concept of MSP was brought to encourage farmers. Resultantly, by 1980s India became self-sufficient, self-dependent and secure in agriculture production³. As on today, India is a net exporting country.

Price fixation method

A Commission on Farmers was constituted in the year 2004 under the chairmanship of MS Swaminathan which submitted its report in the year 2006 and recommended the following 3 ways of fixation of MSP:

- **A2** means and includes the cost of seeds used, fertilizers, insecticides and pesticides, electricity, water and other paid out expenses involved in crop production.
- **A2+FL** in addition to input costs also includes the Family Labour (FL) cost.
- **C2** whereas includes opportunity cost as well like capital investment, interest on it, rent on land, etc in addition to input costs and family labour cost.

The Commission recommended that 150% of this C2 should be the MSP. As per the data, out of the crops covered under MSP only bajara (millet) crop is able to get the C2+50% benefit. At present, since 2018-19 the Central Government has fixed the MSP at 1.5 times of A2+FL.



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1.¹Mainly because India during this time fought 2 wars- one with China and the other with Pakistan in 1962 and 1965 respectively.

2.²<https://nationalinterest.in/indias-agricultural-pricing-policy-intervention-and-repercussion-ca35d125011f/>(I-visited April 7, 2021).

3.³Please do not confuse here with food production and food distribution. The news that we keep hearing about the death of people because of hunger is not because of insufficient food production but instead because of shortcomings in food distribution. So at one place the food is produced in surplus but the same is wasted because of lack of proper storage and gaps in distribution mechanism on the other hand.

DEBATABLE ISSUES

1. Only limited crops are covered - Only certain agriculture produce are available at MSP. For example, cereals like wheat and rice, pulses, oil seeds and commercial crops like raw jute, etc. in all 22 crops are covered under MSP. Sugarcane is sold at fair and remunerative price, a concept similar to MSP. On the other hand, fruits, vegetables, dairy products, fishery products, flowers, etc. are outside the purview of MSP. Moreover, mainly wheat and rice are covered under the government procurement schemes. So, there is no guarantee that other crops will get the MSP in APMC mandis.

2. Water scarcity- Around 1.3 bn Indians have access to only about 4% of the world's water resources and farmers consume almost 90% of the groundwater water available. The crops covered under the MSP are mainly those crops which consume a lot of water. For example, farmers produce rice, wheat and sugarcane in 40% of the country's gross farmed area and consume about 80% of its irrigation water⁴.

3. Crop pattern - MSP is one of the several factors which helps in selecting which crop is to be grown over other crops. This has caused shifting in cultivation of more beneficial crop ignoring other essential crop like pulses. For examples, farmers are increasingly opting for cereals rather than pulses as total MSP for cereals is higher than pulses⁵.

4. Corruption and wastage – FCI is well known for inefficiency, operationally expensive and corrupt. FCI further lacks sufficient infrastructure, storage facilities.

WHY PUNJAB AND HARYANA ARE MAJORLY EFFECTED?

The green revolution was mainly focused on the areas in and around Punjab and Haryana and therefore these 2 states are always remained ahead of other states in agriculture production since then. Almost 88% and 70% of the total production of rice and wheat respectively in Punjab and Haryana collectively is procured at MSP. That means, a major chunk of agriculture trade of these 2 states is dependent on MSP. Whereas, 35%, 62% and 50% of rice, wheat and cereal respectively in overall India comes from the states of Punjab and Haryana. This shows that a considerable amount of food security to India is provided by these 2 states. Other than these 2 states, on an average only 44% of the total production of rice is traded under MSP in the states like Andhra Pradesh, Telangana, Orissa and Uttar Pradesh. In case of wheat, only 23% of the total production is traded under MSP in states like MP and UP. The figures show that the economy of states like Haryana and Punjab is majorly dependent on MSP.

SHANTA KUMAR COMMITTEE OBSERVATIONS

The Committee looked into the food procurement system and in 2015 reported⁶ that on an average just around 14 percent of paddy and wheat farmers were able to sell their produce to government procurement agencies. That shows that the government though announcing a MSP but itself is procuring either a very less quantity of crops or procuring not at all. Further even those who sold to the government got the declared MSP for only 27-35 percent of their produce. The committee noticed that only rich and big farmers are able to access government mandis and get paid the MSP. As per the report, surprisingly of the total agriculture households in India less than 6 percent sold to procurement agencies. In fact, nearly 75 percent of paddy growers and over 65 percent of wheat growers didn't even know that the government procures any foodgrain. What is even more surprising is that 68 percent of the paddy growers and 60 percent of the wheat growers have not even heard of MSP. Even if one assumes that rich and big farmers accord for 50 percent of the paddy and wheat that hits the market, the committee suggested that just about a sixth of India's total rice and wheat output is bought by the government at the MSP it announces.

CONCLUSION

The demand of protesting farmers is that the government provides them an assurance of applicability of MSP by providing a provision in the farm laws itself. But the fact is that government has never provided MSP under any law before and MSP was made applicable through government notifications only. The Central Government at the floor of the Parliament house and as well otherwise has made it clear that the farm laws doesn't intend to dismantle MSP and it will continue to decide and announce MSP for various crops and actually it did recently.

The Farm laws doesn't dismantle MSP, it is just that the laws do not mention anything on MSP. It is apprehended that leaving farmers at the mercy of private players might affect the bargaining power of farmers hence dismantling MSP. The farm laws on the positive side may encourage increased competition and for farmers selling their produce outside the APMC markets through contract farming, the prices prevailing in APMC markets can serve as a benchmark price, helping in a better price discovery for farmers.

⁴<https://economictimes.indiatimes.com/news/economy/agriculture/rising-water-crisis-forces-indian-farmers-to-rethink-thir-crop-selection/articleshow/77098970.cms?from=mdr> (last visited April 07, 2021).

⁵<https://thewire.in/agriculture/wheat-rice-msp-procurement-cropping-patterns-data> (last visited April 07, 2021).

⁶https://fci.gov.in/app2/webroot/upload/News/Report%20of%20the%20High%20Level%20Committee%20on%20Reorienting%20the%20role%20and%20Restructuring%20of%20FCI_English.pdf (last visited April 07, 2021).