MINIMUM SUPPORT PRICE (MSP)

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Context:

With soyabean prices in the market falling below the minimum support price (MSP), the Centre is set to procure 13 lakh metric tonnes of the oilseed from Maharashtra, which is a major producer of the crop and is scheduled to go to Assembly polls soon.

Background:

A kharif season crop, soyabean is used as feed and for oil extraction. It is sown in June-July and harvested in September-October.
About Minimum Support Price (MSP)

Definition:

The Minimum Support Price is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices. It is the price at which the government purchases crops from the farmers, regardless of the market price.

Objective:

1. To protect farmers from distress sales and ensure them remunerative prices for their produce.
2. To encourage higher investment in agriculture and ensure food security by guaranteeing price stability.

Announcement and Implementation:

1. The MSP is announced at the beginning of the sowing season by the Government of India, based on the recommendations of the Commission for Agricultural Costs and Prices (CACP).
2. MSP is not legally enforceable; it acts as a floor price, but the government procures only a few crops under it.

Crops Covered: MSP is announced for 23 crops, including:

1. 7 cereals (such as rice, wheat, maize)
2. 5 pulses (like gram, arhar)
3. 7 oilseeds (including groundnut, mustard)
4. 4 commercial crops (cotton, sugarcane, jute, copra)

Factors Considered for MSP Calculation:

1. Cost of production (both paid-out costs and imputed costs like family labor).
2. Supply-demand situation in the market.
3. Price trends in domestic and international markets.
4. Inter-crop price parity (balancing the price of crops).
5. Farmers' input-output price parity.
6. Terms of trade between agriculture and non-agriculture sectors.

Types of Costs Considered:

1. A2 Costs: It covers all paid-out costs directly incurred by the farmer — in cash and kind — on seeds, fertilisers, pesticides, hired labour, leased-in land, fuel, irrigation, etc.
2. A2+FL Costs: A2 costs + the value of unpaid family labor.
3. C2 Costs: It is a more comprehensive cost that factors in rentals and interest forgone on owned land and fixed capital assets, on top of A2+FL.

CACP Recommendation:

The CACP suggests MSP based on the A2+FL formula. However, farmers' organizations often demand the MSP to be fixed at 1.5 times the C2 cost, in line with the recommendations of the Swaminathan Commission.

Significance of MSP:

1. Price Assurance: Ensures farmers receive a fair price, reducing the risk of exploitation by middlemen.
2. Food Security: Helps maintain buffer stocks of key food grains like rice and wheat, critical for the Public Distribution System (PDS).
3. Economic Stability: Stabilizes agricultural income, contributing to rural development and poverty alleviation.
4. Incentive for Diversification: MSP on diverse crops encourages farmers to grow different varieties of crops, promoting crop diversification and reducing over-reliance on water-intensive crops like rice and wheat.

Challenges:

1. Limited Reach: Only about 6% of farmers benefit from MSP, mostly in states like Punjab and Haryana, where government procurement is high.
2. Procurement Issues: The procurement system is heavily focused on wheat and rice, neglecting other crops like pulses and oilseeds.
3. Market Distortions: Distorts market signals, leading to overproduction of certain crops (e.g., wheat, rice) and underproduction of others, resulting in unsustainable agricultural practices.
4. Cost for Government: Procuring at MSP leads to increased subsidies and fiscal burden on the government.
5. Environmental Impact: Overemphasis on wheat and rice has led to depletion of water resources and soil degradation, especially in water-scarce states like Punjab.