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COMPARATIVE ANALYSIS OF AGRICULTURE PRICE POLICY: WHEAT AND RICE SINCE THE EARLY 1980s

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ABSTRACT

Agriculture Price Policy could be seen as a part of a larger package of policies adopted by the government to promote overall agriculture growth through production incentives. As rice and wheat are two major cereal crops grown in India, many farmer's livelihood is dependent on the incomes of these two crops. Rice and wheat are grown in the area of nearly 75 million hectares or more than 40% of the gross sown area. So comparative analysis regarding Minimum Support Price will help us to understand how price policy works. The objective of the paper is to analyze costs, return and Minimum Support Price of wheat and rice, so to have an idea about the profitability of Indian agriculture. However, there has been a debate that since the cost of production of both wheat and paddy is almost the same; then rice should be given the same MSP as wheat. Recently Agricultural price policy has been criticized on the grounds of higher support price than the cost of production, leading to distortion in the market.

KEYWORDS

agriculture price policy cost of production, wheat, rice, minimum support price, indian agriculture.

1.1. INTRODUCTION

Agriculture Price Commission (APC) was set up in 1965 as a part of the larger package of Green Revolution to provide the incentive to adopt new high yielding seeds. The primary objective of APC was to give incentive to farmers, to ensure efficient utilization of resources and to study the possible impact of support price. APC was set up as an advisory body, where all decision-making powers were in hands of the government. APC was renamed in 1985 as Commission of Agriculture Cost and Price (CACP). Now Term of Reference was expanded to include a term of trade between agriculture and non-agriculture sector. Earlier APC did not cover any pricing principle based on costs or parity between sectors. After 1974, there has been representative of farmers working as the full-time member of the Commission. The aim of APC was to protect the interest of both consumer and producer. Agriculture price policy is an important instrument in achieving food security by providing incentives to farmers to enhance production thereby raising incomes of farmers.

One of the important instruments of agriculture price policy is support price/ procurement price. CACP recommends support price to the government to prevent farmer distress. It recommends incentive price to promote investment and growth in agriculture, procurement price at which government procures grains which involve an element of tax. It recommends issue price at which government distributes grains which involve an element of subsidy.

1.2 MINIMUM SUPPORT PRICE

Given large fluctuation of food-grains prices from year to year due to uncertain rainfall and low elasticity of demand, the notion of support price has acquired importance in this context. With an objective of providing incentives to farmers to adopt modern technology and better farm practices and with the aim to achieve self-reliance government announces Minimum Support Price (MSP). Minimum Support Price is that price at which governments binds itself to purchase all quantities offered by farmers. Farmers have a choice either to sell crops to the government when MSP is above market price or sell in the market when MSP falls below market price. Minimum Support Price is usually 'minimum' not 'maximum' price, so is seen as an indicative price. CACP recommends MSP in order to make agriculture as a remunerative sector and provide positive price policy to farmers. Currently, CACP recommends MSP for 24 commodities such as wheat, paddy, maize, bajra, sugarcane, pulses, oilseeds, cotton, etc. Such effective price policy has resulted in sustaining incomes of farmers and providing them an incentive to make the investment in agriculture sector. Government announces Support price well before the sowing season, so MSP indirectly affects the farmer's decision regarding land allocation of crops.

CACP recommends MSP to government on the basis of following determinants:

- Cost of Production
- Demand and Supply
- Term of trade between agriculture and non agriculture sector
- Trends in market prices, both domestic and international
- Inter crop price parity
- Likely implication of MSP on the rest of economy

Among these given determinants cost of production play important role in determining MSP.

Procurement operation is an important instrument in order to make MSP more effective. Important objective of procurement price is to provide positive price to farmer and to prevent distress sale. The FCI and other designated State Agencies undertake procurement of cereals, wheat and rice.

1.3. COMPARATIVE ANALYSIS OF WHEAT AND RICE**1.3.1 Cost of Production**

The Cost of production is one of the critical factors used by CACP to arrive at MSPs, but it's not the only factor used to determine MSP. Minimum Support Price is usually seen as 'cost-plus-pricing' especially by farmer's organizations and stakeholders. CACP has made it very clear that MSP is not merely cost-plus pricing formula; it also takes into account demand consideration.

COC is the cost of cultivation on per hectare and COP is the cost of production per quintal, both are estimated by combining various cost items.

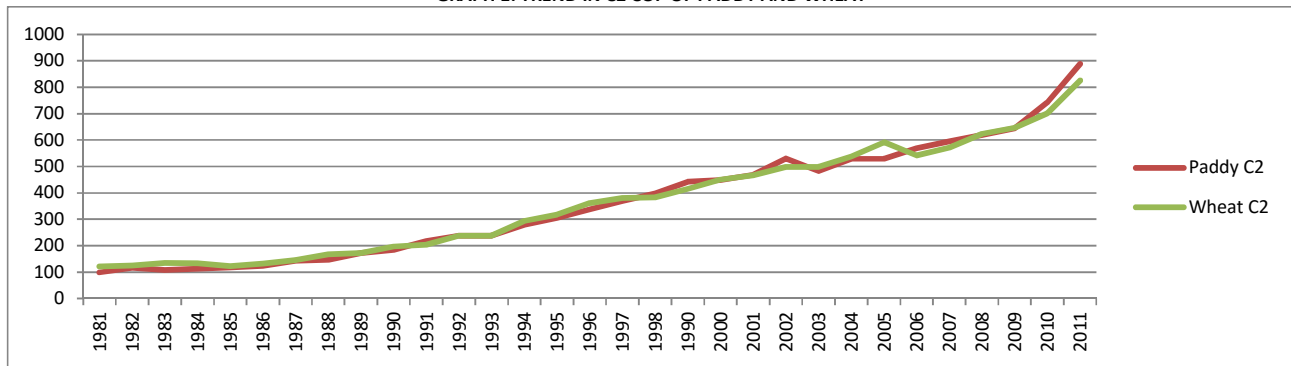
TABLE 1

Cost A1	All actual expenditure incurred by owner in production including both in cash and kind
Cost A2	Cost A1 plus rent paid for leased in land
Cost B1	Cost A1 plus interest on value of owned capital assets (excluding land)
Cost B2	Cost B1 + rental value of owned land (net of land revenue) and rent paid for leased-in-land
Cost C1	Cost B1+ imputed value of family labour
Cost C2	Cost B2 +imputed value of family labour

Source: CACP

In this section trend in C2 cost of production per quintal for both paddy and wheat from 1981-82 to 2011-12 is examined. As evident from the graph that C2 cost of production of both paddy and wheat is more or less is same for the entire period, except from 2008 where C2 cost of production of paddy is somewhat higher than wheat.

GRAPH 1: TREND IN C2 COP OF PADDY AND WHEAT

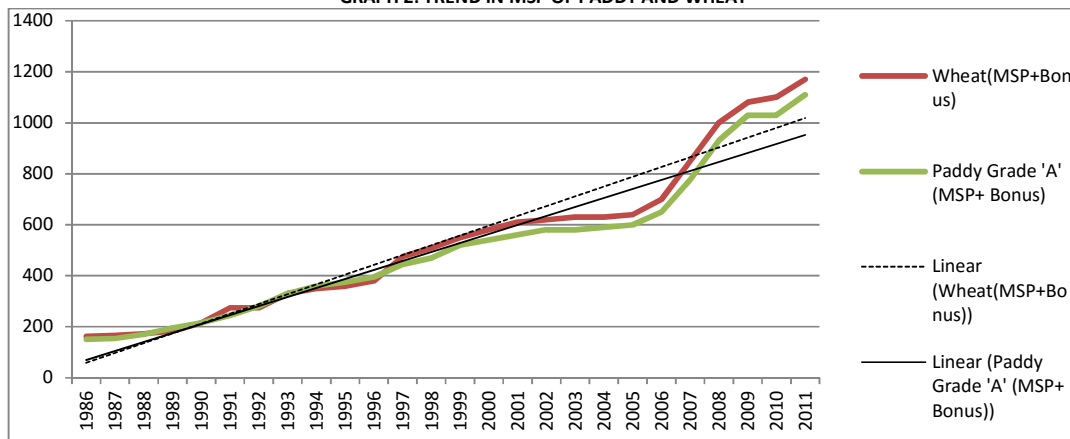


Source: DSE, Ministry of Agriculture

1.3.2 Trend in Minimum Support Price

Despite the fact that C2 cost of production of both paddy and wheat is comparable over the entire period there is difference in changes in MSP of these two crops. Examining the trend in MSP of wheat and rice shows that since 1990's MSP of wheat has been continuously higher than MSP of paddy moreover the gap between two MSP has been increasing also.

GRAPH 2: TREND IN MSP OF PADDY AND WHEAT



Source: DSE, Ministry of Agriculture

During the period 1990-91 to 2000-01, the increase in MSP of rice was 0.99 percentage points whereas for wheat it was 2.23percentage points. Similarly, for the period 2000-10 to 2009-10, the MSP for rice increased more by 1.81 percentage points but in the case of wheat, there was a decline of 1.30 percentage points. MSP in rice has increased sharply in recent years because of the sharp rise in input costs, land rental, and capital cost. Therefore, a minimum margin of 5.5% over C2 and 47% over A2+FL cost is recommended for the year 2012-13. In the case of paddy cost of production has risen by 53% since 2008-09 but farmers are not duly compensated for these rising cost, therefore for 2012-13 CACP has recommended 16% increases in MSP but even this % of the increase in MSP is not able to adequately compensate for the sharp increase in cost.

TABLE 2: TREND GROWTH RATES (%PER YEAR) IN MSP FOR RICE AND WHEAT IN REAL TERMS

Period	Rice	Wheat
1981-82 to 1990-91	-0.95	-2.22
1990-91 to 2000-01	0.99	2.23
2000-01 to 2009-10	1.81	1.30

Source: Calculated from CACP reports

Comptroller and Auditor General Report (CAG) in its Report No.7 of 2013 showed that the margin of Minimum Support Price (MSP) fixed over the cost of production varied over from 14% to 60% in case of rice while 29% to 66% in wheat from the period 2006-07 to 2011-12. % of margin over C2 cost is always higher in wheat as compared to rice. Therefore, CAG in its report stated that there is the need for greater transparency in the method of arriving at MSP.

TABLE 3

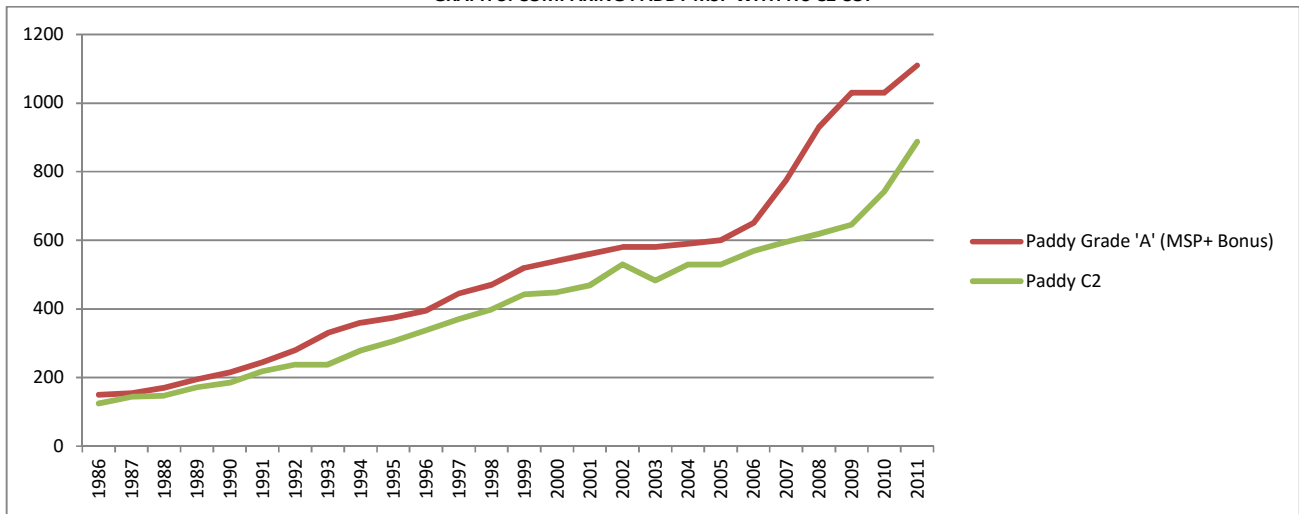
Year	C2 Cost		MSP Fixed		% Margin Over C2	
	Paddy	Wheat	Paddy	Wheat	Paddy	Wheat
2006-07	569	542	650	700	14	29
2007-08	595	574	775	850	30	48
2008-09	619	624	930	1000	50	60
2009-10	645	649	1030	1080	60	66
2010-11	742	701	1030	1100	39	57
2011-12	888	826	1110	1170	25	42

Source: CAG, Report No.7 of 2013 (tables 2.2 & 2.3)

1.3.3 Comparing Minimum Support Price with COP

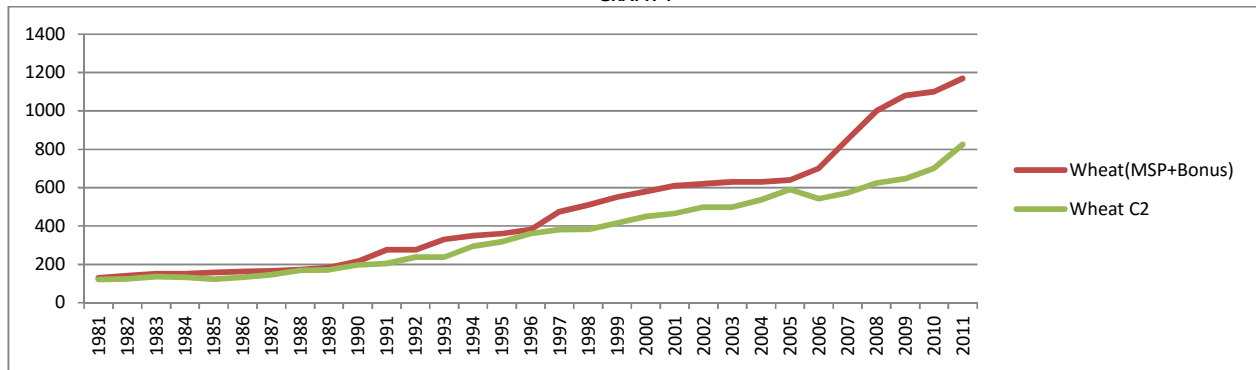
To have an idea whether the price policy has been successful in providing a margin over total cost for both wheat and paddy farmer, MSP of both crops has been compared with its respective C2 cost of production.

GRAPH 3: COMPARING PADDY MSP WITH ITS C2 COP



Source: DSE, Ministry of Agriculture

GRAPH 4



Source: DSE, Ministry of Agriculture

It is evident from above graph that MSP of both paddy and wheat is always higher than its respective C2 cost since 1981, providing enough margins to both these farmer.

1.3.4. Production and Procurement of Rice and Wheat

In this section production and procurement of wheat and rice has been compared to the period of 2001-02 to 2011-12. Over the entire period production and procurement of rice has always been higher than wheat. Even procurement as % of production by the government is higher in the case of rice than wheat.

TABLE 4: PRODUCTION AND PROCUREMENT OF RICE AND WHEAT (in lakh tons)

Crop Year	Rice			Wheat		
	Production	Procurement (Kharif Marketing Season)	Proc. as % of Production	Production	Procurement (Rabi Marketing Season)	Proc. as % of Production
2001-02	933.40	221.28	23.71	727.70	190.54	26.18
2002-03	718.20	164.22	22.87	657.60	158.01	24.03
2003-04	885.26	228.28	25.79	721.50	167.95	23.28
2004-05	831.31	246.85	29.69	686.40	147.87	21.54
2005-06	917.93	276.56	30.13	693.50	92.26	13.30
2006-07	933.55	251.07	26.89	758.10	111.28	14.68
2007-08	966.93	287.36	29.72	785.70	226.89	28.88
2008-09	991.80	341.04	34.39	806.80	253.82	31.46
2009-10	890.90	320.34	35.96	808.00	225.14	27.86
2010-11	959.80	342.00	35.63	868.70	283.35	32.62
2011-12	1043.22	350.22*	33.48	939.03	381.48	40.62
2012-13	855.9\$	5.85 #	-	-	-	-

Source: CACP

1.4. REGRESSION OF MSP ON COST OF PRODUCTION

Running regression of MSP on COP, will give us an idea about the importance of cost of production as determinant of MSP.

Regress Paddy MSP on C2 paddy-

paddygrade~s | Coef. Std. Err. t P>|t| [95% Conf. Interval]

 +-----

paddyyc2 | 1.391578.0743308 18.72 0.000 1.237813 1.545343
_cons | -56.34511 31.81774 -1.77 0.090 -122.1651 9.47491

R-square-value-0.94

Regress wheat msp on wheat C2-

wheatmsp | Coef. Std. Err. t P>|t| [95% Conf. Interval]

 +-----

wheatc2 | 1.557458.0894785 17.41 0.000 1.372358 1.742559
_cons | -95.20626 38.16464 -2.49 0.020 -174.1558 -16.2567

R-square value-0.93

The Regressions run on MSP as the dependent variable and COP as the independent variable for both paddy and wheat shows better results. Both the model are coming out to be significant at 1% level with R- square value of 93%, which means for both paddy and wheat, C2 COP can alone explain 93% variation in MSP. Therefore, from above results, we can say that COP is a one of the most important determinant of MSP, but it is not the only determinant, and MSP depend on upon various other factors also.

1.5. PROBLEMS RELATED TO COP USED AS BASIS FOR MSP

Since the cost of production is one of the most important determinants of MSP there are some problems related to it. This is valid in the case where there is a shortage of supply, and the main aim is to increase it. But in the case of excess supply and demand being short of it, then demand side factor should be given primacy. However, when COP is used as an essential basis for MSP farmers will not bother if the particular land is unsuitable for the production, resulting in inefficiency for example in the case of rice, cultivation has expanded to semi-arid and sandy soils region like Haryana, Punjab creating lot many environmental and natural resource problems. Another problem is this totally neglects' society preference. There is an imbalance between what is being produced and what is demanded as in the case of rice and wheat.

1.5.1 Efficacy of Price Policy

Despite the huge procurement operation set up by the government, farmers are unable to get MSP due to which they are forced to sell their crop at distress. Coverage of procurement operation for the crop like paddy is not adequate as well as effective. However, for another crop situation is even worse. Regions with poor infrastructure are usually excluded from MSP operation by Central agencies. Therefore, there is need to expand procurement operation network, especially to poor infrastructure areas. Similarly, for wheat procurement except for the states like Punjab, Haryana procurement operation is inadequate. FCI, which is the central agency, has its own limitation in expanding further. Because of inefficient procurement operation in various states like U.P, Bihar, Gujarat farmers had to suffer when market price fall below MSP.

1.6. CONCLUSION

Since the cost of production is one of the important determinants of MSP but how another factor come into play in determining MSP is not clear and not even spelled out by CACP. Therefore, there is a need for greater transparency in arriving at MSP. There is no proper weight provided to determinants of MSP, which is leading to the problem of subjectivity. Since COP is one of the most important determinants of MSP, there is a limitation in the cost concept used by CACP in determining MSP. CACP uses weighted average COP. However, % of production covered under weighted average C2 cost varies a great deal from crop to crop with paddy at 62% and wheat at 70% in the year 2011-12. Therefore, appropriates of weighted average cost has been questioned. Alternative to this weighted average cost can be bulk line cost. Another issue with cost concept is that cost is hugely underestimated partly because of the time lag in cost data when it is collected and when it is made available to the commission. However, agriculture price policy is successful in providing a reasonable margin of around 20% to both paddy and wheat. Despite having the same cost of production of both paddy and wheat since mid 90's, wheat MSP is 14% higher than paddy MSP since then till 2007 (Vishandass, 2013). Therefore, we can argue that there is some merit in the argument that MSP of paddy should be slightly below or close to MSP of wheat, and recent hikes in MSP of paddy is justified on this ground (Vishandass, 2013).

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