

Repealed Farm Legislations, Minimum Support Price, and National Food Security

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Definition of food security no doubt refers to adequate nutritious diet for individuals and households, “but food security is also an important objective at the national level, where political leaders can be held responsible for failures and successes in maintaining accessible supplies of staple foods at stable prices...”³. Rich countries support agriculture at taxpayer’s and consumer’s expense and pay a price higher than what the markets pay. The argument is that the multi-functionality of the agriculture of providing national food security, preservation of environment and welfare of rural societies, justifies the support.⁴ On similar grounds Indian agriculture needs government support. In addition, a vibrant agricultural sector acts as a buffer to macro-economic shocks in developing countries. It is a safety net of last resort.⁵ This has been vindicated by the growth of Agricultural sector at 3.4% at constant prices in 2020-21, while the economy as whole for the same period contracted at -7.2% due to covid19 Pandemic.⁶ Repealed farm legislation give insights into the intent of the government. Minimum support price provides remunerative prices to farmers. Both have implications to Indian agriculture and national food security.

1.0 Introduction

Ensuring adequate domestic production of rice and wheat on one hand and stabilizing their domestic prices on the other are of relevance to public policy. The repealed farm legislations⁷ were not specific to any crop or crops. They pertain to all agricultural production including livestock products. This article however concentrates only on rice and wheat, the two staples that India

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³ C. Peter Timmer, (2017), Food Security, Structural Transformation, Markets and Government Policy, Asia & the Pacific Policy Studies, vol. 4, no. 1, pp. 4–19, Doi: 10.1002/app5.161

⁴ C. Peter Timmer and Selvin Akkus, (2008), Structural Transformation as a way out of Poverty: Analytics, Empirics and Politics, working paper 150, Centre for Global development, page 49

⁵ Ibid

⁶ Government of India, (2020-2021) Economic survey, volume II, chapter 7, page 233

⁷ <https://egazette.nic.in/WriteReadData/2020/222040.pdf>,

1. The gazette of India, Ministry of law and Justice (Legislative Department) The gazette of India CG-DL -E 27092020-222038, part II section I dated Sunday, September 27, 2020, the farmers (empowerment and protection) agreement on price assurance and farm services Act, 2020, No. 20 of 2020

2. The gazette of India, Ministry of Law and Justice, Legislative Department, CG-DL-E-27092020-222039, Part II, section I, the farmers’ produce trade and commerce (promotion and facilitation Act 2020 , NO. 21 OF 2020

3. The gazette of India, Ministry of Law and Justice, Legislative Department, The Essential Commodities (Amendment) Act, 2020, NO.22, 2020.

produces and consumes. The Indian parliament passed three farm legislations in September 2020. A section of the farmers⁸, have been protesting and demanded a repeal of the legislations.⁹ Following the farmer protests, and the cases filed in the supreme court against the laws¹⁰, the implementation was stayed, by the supreme court in January 2021 until further orders. The three-judge bench suspended the legislations to calm the agitating farmers and to make them go in for negotiation with the government.¹¹ The government of India in January 2021, offered to keep the laws in abeyance for a period of 18 months.¹² The standoff remained, even after several rounds of negotiations between the farm leaders and the government. Government passed, Farm Laws repeal bill 2021 on November 29 and it received the assent of the President on November 30, 2021. Gazette Notification will follow.¹³

The repealed legislations clearly reveal the thinking of the Government and its ability to legislate in line with their thinking. Model Agriculture Produce and Livestock Marketing (Promotion and Facilitating) Act 2017, covers the provisions of the two repealed legislations on contract farming and the trade facilitation outside the Agriculture Produce Market Committee regulated Markets.¹⁴ The repealed farm legislations in addition, spell out the nature of government controls on contracts, electronic platform, and dispute resolution. It is quite easy for the government to bring back regulatory provisions of the repealed farm legislation, as well as the amendment to the essential commodities act that enables hoarding of food grains, camouflaging as domestic trade regulations and not as farm bills. The intent of the government to control trade in agricultural commodities and help private traders and exporters is clear in these repealed farm Acts. The existing agricultural produce market committee (APMC) regulated system is far from satisfactory¹⁵. As pointed out by

⁸ Lerche, J., 2021, April. Jat Power and the Spread of the Farm Protests in Northern India. In *The India Forum*. This paper analyses the socio-political back- ground of the protesting farmers

⁹ <https://www.thehindu.com/news/cities/Delhi/protesters-reiterate-demand-to-repeal-farm-laws/article35456116.ece>, July 22, 2021

¹⁰ <https://economictimes.indiatimes.com/news/politics-and-nation/supreme-court-suspends-implementation-of-three-farm-laws-forms-committee/articleshow/80226707.cms?from=mdr>

¹¹ <https://www.thehindu.com/news/national/president-ram-nath-kovind-gives-assent-to-three-farm-bills/article32708467.ece>

¹² <https://indianexpress.com/article/india/farm-laws-farmer-government-talk-protest-narendra-singh-tomar-supreme-court-7155148/>

¹³ <https://economictimes.indiatimes.com/news/india/government-notifies-farm-laws-repeal-act/articleshow/88037607.cms>

¹⁴ https://agricoop.nic.in/sites/default/files/APLM_ACT_2017_1.pdf f

¹⁵ Reddy, A. Amarendra, and Mehjabeen (2019) "Electronic National Agricultural Markets, Impacts, Problems and Way Forward." IIM Kozhikode Society & Management Review 8, no. 2 (2019): 143-155.

Jayati Ghosh,¹⁶ the fear is that the “modernizing” laws will pave the way for the predatory corporate commercialization of Indian agriculture, led by politically well-connected tycoons.” The Journalist P. Sainath opined that despite the pro corporate intent behind, the bills may enable the intermediaries to get a tighter grip on the farmer.¹⁷ In the nexus of patronage politics of political leaders, bureaucracy, and businesspeople,¹⁸ farmers fear that they will be short changed. The third repealed legislation enables hoarding of food grains. Those with deep pockets can buy food grains cheap soon after the harvest and hoard, get bank loans against the stocks, and then export them or sell in the domestic market for high price any time they want. So far, Essential Commodities Act prevented hoarding of food grains.¹⁹ Economists such as Ashok Gulati,²⁰ P. K Joshi,²¹ and Bharat Ramaswamy²² are in favour of farm reforms proposed by the repealed Acts, as they think that the Acts will release the farmers from the outdated APMC system and modernize agriculture and attract investments into the agricultural sector.

This article argues in favour of a minimum support price for (MSP) rice and wheat, explaining the link between MSP and national food security. The second argument is that dilution of price support through non-procurement and enabling hoarding to help trade and exports may have adverse impact on national food security. Section two elaborates the link between MSP, food production, food distribution, and food security. Section three gives the links of MSP to World Trade Organization conditionalities and export trade.

2.0 Minimum Support Prices, Food grain Production and Food Security

The Minimum Support Price declared for rice and wheat, benefit those who sell directly to the procurement agency. It also acts as a reference price or benchmark price in all the other transactions, inside and outside the markets. Farmers from Punjab, Haryana, Western Uttar

¹⁶ Niharika Sharma , [India's protesting farmers think new laws benefit Ambani, Adani — Quartz India \(qz.com\)](https://www.theindiaforum.in/article/three-farm-bills)
Sudha Narayanan, <https://www.theindiaforum.in/article/three-farm-bills> (December 8,2020)

¹⁷ <https://thewire.in/rights/farm-bills-agrarian-crisis-p-sainath-mitali-mukherjee>, September 2020

¹⁸ <https://qz.com/india/248685/raghram-rajana-explains-why-corrupt-politicians-win-elections-in-india/>

¹⁹ Essential Commodities Act 1955 section 3, and the annexed schedule that gives list of commodities includes food stuffs

²⁰ Gulati, Ashok (2021) Indian Express dated January 4, 2021,
<https://indianexpress.com/article/opinion/columns/farm-laws-2020-farmers-protest-msp-apmc-mandi-system-7125406/>

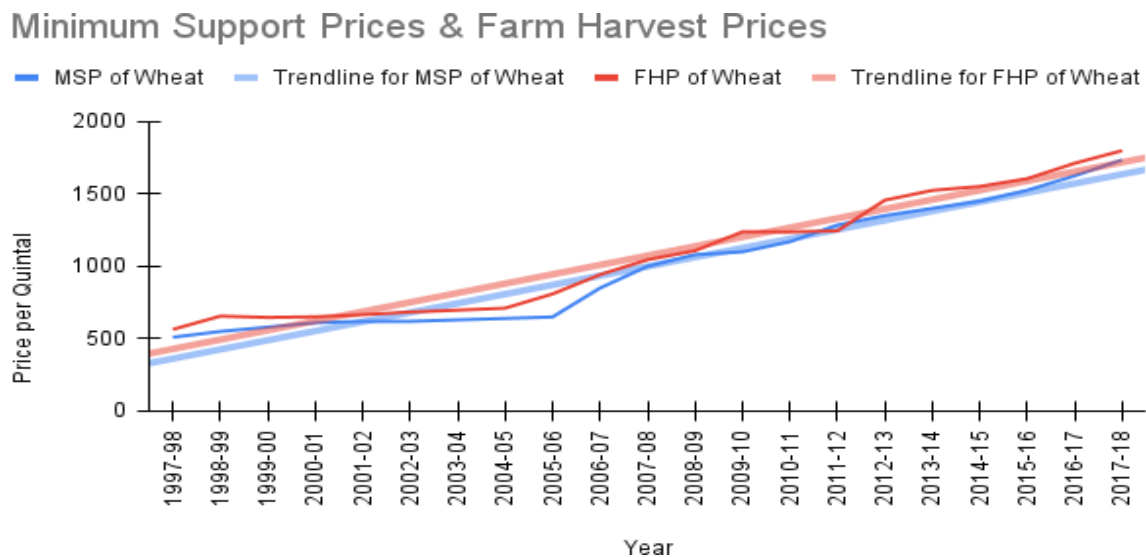
²¹ Joshi P. K and Arabinda K Padhee (2020) Financial Times, December 15, 2020

²² Bharat Ramaswamy,(2020) Farm laws: Liberalization Agricultural marketing is necessary, 12th Oct 2020
<https://www.ideasforindia.in/topics/agriculture/farm-bills-liberalisation-of-agricultural-marketing-is-necessary.html>

Pradesh, and Andhra Pradesh including Telangana benefited most, as a significant percentage of rice and wheat procurement came from these states.²³ At present, there is no legislation on MSP. As per the prevailing public policy, the government buys rice and wheat required for the public Distribution System (PDS) through procurement at minimum support price. Government announces MSP for twenty-three crops but does not procure all of them. Government selectively procures the crops other than rice and wheat in certain years to support farmers.

MSP is declared in advance before the sowing season. It helps the government to get sufficient stocks of food grains for the public distribution system (PDS) and farmers to get a remunerative price. This system is in place for decades and giving incentive to the farmers to produce and the government to distribute food grains to the poor. MSP ensures stability of prices and food security to Below Poverty Line (BPL) consumers as per the report of the Niti Aayog²⁴ The market price (the farm harvest price) and the declared MSP for Rice and Wheat move together (Figure 1 and Figure 2). It helps the farmers to keep producing rice and wheat as the MSP is constantly revised upwards and tied to the cost of production.

Figure 1



²³Ministry of Agriculture, “Agricultural Statistics at a Glance 2019” page 156 state-wise procurement indicates predominance of Punjab and Haryana for wheat and Punjab, Andhra Pradesh, and Telangana for rice in procurement. Kumar, P., Joshi, P.K., Johansen, C. and Asokan, M., 1998. Sustainability of rice-wheat based cropping systems in India: socio-economic and policy issues. *Economic and Political weekly*, pp.A152-A158.

²⁴ Govt. of India, Niti Aayog, “Evaluation Report on the efficacy of the MSP on Farmers.” January 2016 Page 81

Figure 2²⁵

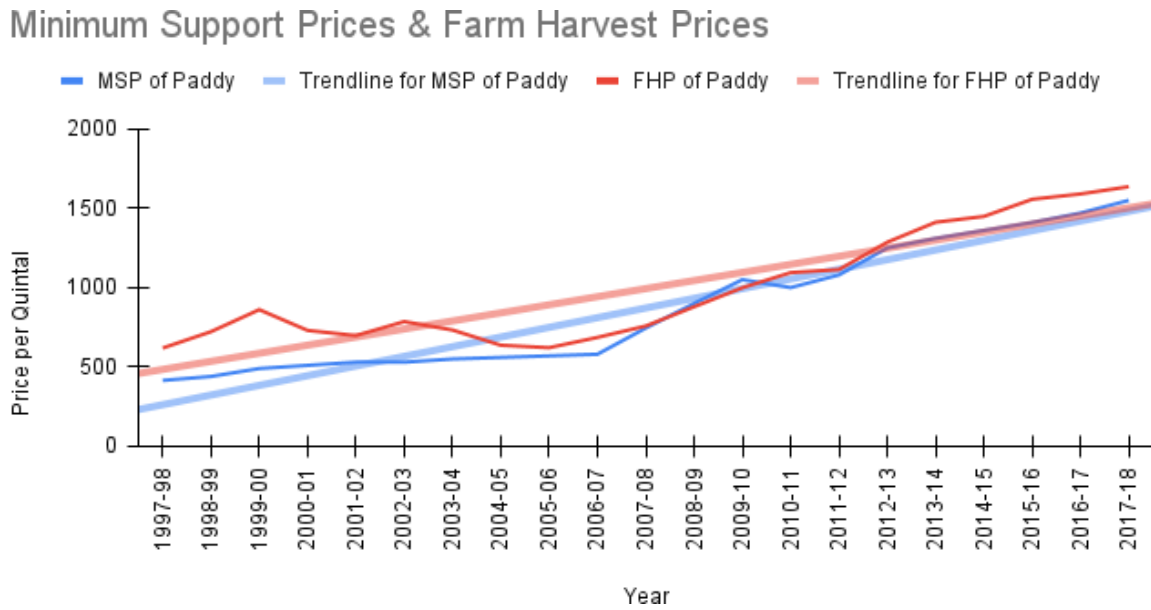
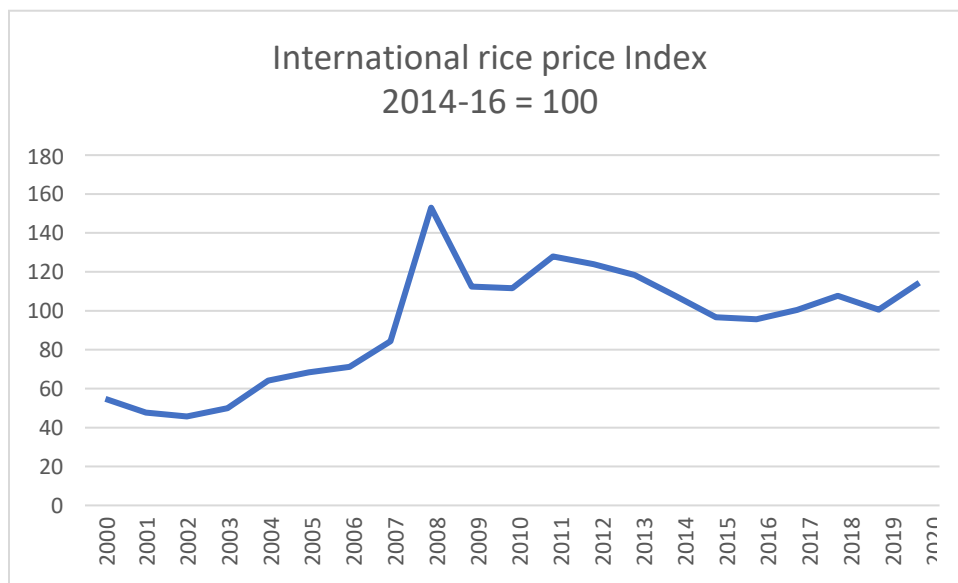


Figure 3²⁶



²⁵ Source: Figures 1 and 2 are based on the data from Govt. of India, Ministry of Agriculture Directorate of economics and statistics, Department of Agriculture, co-operation, and farmers welfare , [https://eands.dacnet.nic.in/FHP\(District\).htm](https://eands.dacnet.nic.in/FHP(District).htm)

²⁶ Source:<http://www.fao.org/economic/est/publications/rice-publications/the-fao-rice-price-update/en/>

Those who support reforms and skeptical about MSP,²⁷ argue that the volatility of international prices, do not enable the exporters to profit when domestic price is too high. As shown in the figure 3, the international rice price index varies more widely than domestic prices in figure 1. Government's refusal to legalize MSP, the silence of the repealed farm bills on MSP, the tone of trade liberalization in the repealed farm bills suggest that the government wants to keep the option of not procuring the food grains.²⁸

Domestic prices will have to be kept stable to avoid food price spike to the consumers. In 2008, the rice stocks in the international markets plummeted and international as well as domestic prices increased. Figure 3 shows that international rice prices had a steep peak in 2008. India banned export of non-basmati rice for some time,²⁹ declared higher MSP, and procured enough food grains for PDS.³⁰ The PDS off take also increased, as the open market prices of rice were remarkably high. International observers acknowledge that India escaped severe food inflation in 2008, faced by some of the other countries.³¹ Though they point out that actions of various countries to protect their own interest, lead to speculation in the international agricultural commodity markets and push up prices. As per the kharif policy report, of the Ministry of Agriculture, the international trade in non-basmati rice became competitive only in 2020, and the whole sale prices are below MSP at present.³²

²⁷ Joshi P. K and Arabinda K Padhee (2020) Financial Times, December 15, 2020.

Ashok Gulati on "wire" discussion with Karan Thapar dated December 11, 2020, said that making MSP mandatory is not good for exporters.

²⁸ Government may contract procurement from open market to the lowest bidders of this operation of procurement and supply to the ration shops to reduce the government expenditure.

²⁹ Ministry of Agriculture, Price policy for Kharif crop – Marketing season 2021-22 – Page 94 reproduced below. "Export of non-basmati rice from India was banned on 15th October 2007. However, the ban on export was replaced with Minimum Export Price (MEP) of US\$425 per tonne on 31st October 2007, which was revised from time to time. Export of non-basmati rice was prohibited from Central Pool in March 2008 and on private account in April 2008 in view of tight position of rice in the domestic market. This ban continued till July 2011 when export of one million tonnes of non-basmati rice on private account was allowed with a MEP of US\$425 per tonne. In September 2011, export of non-basmati rice was allowed under the Open General License (OGL) by private parties, out of privately held stocks and this has continued thereafter"

³⁰ <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=home> -RBI Data base on Indian economy MSP Table 25 on Minimum support price shows that MSP for common variety of Paddy went up from Rs. 580 per quintal in 2006-07 to 785/- in 2007-08 and to 900/- in 2008-09

³¹ Anderson, K. & Nelgen, S. 2012. Updated national and global estimates of distortions to agricultural incentives, 1955 to 2010. Data spreadsheet available at www.worldbank.org/agdistortions. Accessed March 2015.

³² <https://cacp.dacnet.nic.in/ViewReports.aspx?Input=2&PageId=39&KeyId=773>, Govt. of India, Ministry of Agriculture Kharif Crop Policy Marketing year 2021-22, March 2020 Page 94, chart 4.1

2.1 Production, Distribution, Procurement and Minimum Support Price

Minimum Support Price at present is 50% above the cost “A2” which is the operational cost, plus imputed cost of labour,³³ whereas Prof. M.S. Swaminathan³⁴ recommended double the total cost “C”, which includes imputed rental values and depreciation on assets. Prof. M.S. Swaminathan in the Report of the farmers’ commission argued that farmers lose incentive to produce, if they do not get remunerative prices.³⁵ So far Prof. Swaminathan’s recommendation has not been implemented. In the past twenty years, after the price hike in 2008, after the enactment of Food Security Act of 2013, and after the adoption of decentralized procurement and distribution of food grains, both the farmers and poor consumers benefited. Under Food security Act, the below poverty line (BPL) card holder’s issue price of rice stands at Rs. 3/- per Kg. Wheat price was fixed at Rs. 2/-, and that of coarse cereals stands at Rs.1./- .³⁶ Some states went ahead and distributed more food grains at subsidized rates. For example, Tamil Nadu distributes 35kg of rice for Antyodaya Anna Yojana (Poorest of the Poor) card holder family and 20 Kg of rice for BPL card holder family of four, free of cost.³⁷ Andhra Pradesh distributes 20 kg, per family at Rs.1/- per kg, at the rate of 4 kg per person, to BPL card holders. Antyodaya Anna Yojana card holders get 30 Kg per family at Re.1 per kg.³⁸

While southern states have been distributing PDS more efficiently, states such as West Bengal, Madhya Pradesh, Chhattisgarh, slashed issue prices and reaching out to more BPL consumers than

³³ Ramesh Chand, “New farm Acts and Understanding the Implications” NITI Aayog Working paper 1/ 2020, page 15

³⁴ M .S. Swaminathan, Chairman, National Commission on Farmers, Serving Farmers and saving Farming, Third Report 2006

³⁵ National Commission on Farmers report 2006 <https://agricoop.nic.in/sites/default/files/NCF3%20%281%29.pdf> (same as the foot note no. 17

³⁶ The Gazette of India no.29, Tuesday, September 10, 2013, Ministry of Law and Justice, Legislative department SCHEDULE I [See sections 3(1), 22(1), (3) and 24 (2), (3)] SUBSIDIZED PRICES UNDER TARGETED PUBLIC DISTRIBUTION SYSTEM

³⁷ The Hindu dated 29th April, <https://www.thehindu.com/news/national/tamil-nadu/all-rice-cardholders-in-tamil-nadu-to-get-double-their-free-rice-quota-for-three-months/article314605> also see <http://www.tncsc.tn.gov.in/PDS.html>

³⁸<http://www.apscscl.in/pds.php> gives the details. Also see <https://www.thehindubusinessline.com/economy/pds-rice-in-ap-at-re-1kg/article20338907.ece1>, March 12, 2018.

before after rice prices went up in the open market.³⁹ Decentralized procurement, started in 1997-98 and as of now about 17 States adopted it.⁴⁰ With decentralized procurement, states procure within the state, and distribute within the state, give excess to the central pool and deficit states take it from the central pool. Food Corporation of India warehouses store the grain. Central government department of food and civil supplies manages the stocks, while the finance department pays the agreed upon food subsidy to the states.⁴¹ More farmers are directly benefiting from MSP after the decentralization of procurement by the government, especially in Madhya Pradesh and Chhattisgarh.⁴² In view of the Covid 19 Pandemic, central government announced free food grains distribution at the rate of 5 kg, per person per month for three months to all BPL card holders throughout India.⁴³ The government also hiked MSP recently for rice and wheat after the second wave of the corona pandemic as an incentive for sufficient production of food grains to meet the needs of the public distribution system.⁴⁴

India's food security revolves around the rice and wheat production and distribution and the farmers, big and small who produce them. No doubt, the PDS outlets, Food corporation of India, procurement agencies and distributing outlets engage in corruption. There are problems of miss-targeting, errors of commissions and omissions.⁴⁵ Despite all the limitations, household food security is related to public distribution system and to keep it going MSP is imperative. Former FAO economist advocates diversification of grain production saying that India is producing too

³⁹ Drèze, J., and R. Khera. 2013. "Rural Poverty and the Public Distribution System." *Economic and Political Weekly* 47 (45–46). Also see

Avinash Kishore Suman Chakrabarti, *Is More Inclusive More Effective? The "New-Style" Public Distribution System*, IFPRI Discussion Paper 01421 March 2015

⁴⁰ <https://dfpd.gov.in/mechanismforProcurement.html> (Govt. Of India, Department of food and public distribution web site)

⁴¹ <https://dfpd.gov.in/mechanismforProcurement.html>

⁴² Gupta, Prankur, Reetika Khera, and Sudha Narayanan(2021) "Minimum Support Prices in India: Distilling the facts." Available at SSRN 3791859 (2021).

⁴³ <https://dfpd.gov.in/public-distribution-reforms.html> - "PRADHAN MANTRI GARIB KALYAN ANNA YOJANA - Additional allocation of food grains to all the beneficiaries covered under Targeted Public Distribution System (TPDS) free of cost for a period of three months."

⁴⁴ <https://www.livemint.com/news/india/cabinet-approves-hike-in-msp-for-kharif-crops-details-here-11623231583858.html>

<https://indianexpress.com/article/business/govt-hikes-paddy-msp-by-rs-72-per-quintal-to-rs-1940-for-2021-22-crop-year-7351144>

⁴⁵ Reetika Khera (2011), 2011a. "Trends in Diversion of Grain from the Public Distribution System." *Economic and Political Weekly* 46 (21): 106–114

Himanshu, and A. Sen. 2011. Why Not a Universal Food Security Legislation? *Economic and Political Weekly* 46 (12): 38–47.

Avinash Kishore Suman Chakrabarti, *Is More Inclusive More Effective? The "New-Style" Public Distribution System*, IFPRI Discussion Paper 01421 March 2015

much of wheat and rice.⁴⁶ Erring on the higher side is better than erring on the lower side and producing too little. India exports the surplus production. India imposes limits on export of rice and wheat.⁴⁷ Agriculture is a state subject under the Constitution.⁴⁸ Despite the policy making by the central government, the entire MSP operation is executed by the state machinery under decentralized PDS. Thus, National Food Security is closely tied to the implementation of MSP, procurement, buffer stocks, and public distribution system. Disturbing the system and toppling this system is not desirable, at this point in time.

2.2. Implications of abolition of MSP and procurement from farmers

MSP is discredited by the supporters of the farm reforms, on the ground that only a small percentage of farmers benefit from MSP. Ashok Gulati claims that only 6% of the farmers benefit⁴⁹, Reetika Khera and others say that the figure is about 13% for Paddy farmers and 16% for wheat farmers, based on the figures given in the 70th report of the National Sample Survey (NSS) of 2013.⁵⁰ As per the 77th report of National Sample Survey of 2019⁵¹, 14% of the paddy farmers cultivating the crop in rainy season (July -December 2018) and 18.5% of the paddy farmers growing Paddy in winter season (January- June 2019) sold the crop to procurement agencies. 9.7% of the Wheat farmers sold their output to the procurement agencies. As per the 2019 NSS report about 24% of the paddy output and 20% of the wheat output of those with marketed surplus was sold at MSP, though it may not have been sold to the procurement agencies. Further a sizable percentage of agricultural households sold Paddy and Wheat in a local market or to a cooperative or government agency (Table 1). As per the Niti Aayog survey report on MSP, in 2016, about 67% of the farmers in the eleven sample states sold their produce at MSP rate

⁴⁶ Prabhu Pingale, India must abandon policies that prioritize staple food grains above all other crops. It must diversify its food systems, op-ed The Daily Pioneer on July 18, 2020

⁴⁷ http://apeda.gov.in/apedawebsite/six_head_product/cereal.htm

⁴⁸ Shahnawaz Ali (LLM), Constitutional Validity of Farm Act 2020, “A Study vis-a-vis Federalism”, National Law University, Mumbai Preprint · November 2020, DOI: 10.13140/RG.2.2.23886.48962
According to Chapter 11 & 7th Schedule of the Constitution, Agriculture and its related matters come under the State List.

⁴⁹ Gulati, Ashok (2021) Indian Express dated January 4, 2021,
<https://indianexpress.com/article/opinion/columns/farm-laws-2020-famers-protest-msp-apmc-mandi-system-7125406/>To help farmers, right approach is through Farmer Producer Organisations, not APMC mandis
<https://indianexpress.com/article/opinion/columns/farm-laws-2020-famers-protest-msp-apmc-mandisystem-7125406/>

⁵⁰ Discussions on farm bills on Wire with Karan Thapar. The figures are based on NSS 70th survey of 2013

⁵¹ National Sample Survey Report No. 587: Situation Assessment of Agricultural Households and Land and Livestock Holdings of Households in Rural India, 2019, pages 74 and 75

through their own arrangement.⁵² This clearly indicates that MSP is a benchmark price at which farmers sell their produce. The benefits of MSP clearly go beyond those who directly sell to the procurement agencies.

Ag. Households selling Paddy and Wheat by type of sale agency			
	(July-Dec 2018)	(Jan- July 2019)	(Jan- July 2019)
Type of sale agency	Paddy	Paddy	Wheat
Local markets	751	698	810
APMC markets	32	17	57
co-operatives	54	34	18
Govt. agency	73	133	40
All market and govt. sale	910.00	882	925
Ag H.holds reporting sale	1000	1000	1000
Source: NSS report no. 587, 2019, pages 74 and 75			

MSP is a reference price to the farmers. Local markets may pay a lower price or a higher price than MSP, but close to it. On-farm sale prices of small and marginal farmers would be lower, and we do not have any reliable data on the exact price received. Data on farm harvest prices pertain to prices in selected markets.

As per the 77th round of National Sample Survey report of 2019, both for rabi Paddy and Wheat (January -July), there was no sale through Farmer Producer Organizations (FPOs) or contract farming sponsor companies. About 0.01% of the agricultural households growing kharif paddy (July-December) reported sale through Farmer Producer Organizations and 0.04% of the households sold rice through contract farming sponsor companies.⁵³ It suggests that contract farming in rice and wheat is not attractive to the private companies, judging from the 2019 data, though this was the main focus of the repealed farm legislations of 2020. A meagre 5.7% of wheat growing households and 3.4% of kharif and 1.7% of Rabi paddy growing households sold their produce in the discredited APMC markets. Most of the sale occurs in local markets.

The public distribution of food grains can go on as usual, even after the abolition of MSP, closing down of procurement and buffer-stock operations. Open market purchase from traders through

⁵² Govt. of India, Niti Aayog, "Evaluation Report on the efficacy of the MSP on Farmers." January 2016 PEO Report 231Page 80, 81.

⁵³ National Sample Survey Report No. 587: Situation Assessment of Agricultural Households and Land and Livestock Holdings of Households in Rural India, 2019, Appendix A, table 18 page

tenders or entrusting the distribution to a private sector company are possible. Without an MSP, and public procurement operations, the situation gets complex. All big players, big landlords, wholesale traders, corporates, exporters, millers, retail supermarket chains, buy rice and wheat from traders, who collect the produce from the farmers and farmers' groups with or without farming agreements, in the harvest season while prices are low. If profit margins are low, big players do not come into the sector. Monopolies and cartels may depress farm harvest prices, especially if hoarding is allowed. If farmers do not get remunerative prices, the production falls, increasing food insecurity in the country at all levels. We may have to depend upon imports. Big landowners and organized farmers groups benefit. Only 0.04% of the rice farmers sold through farmer producer groups (FPOs) in 2019.⁵⁴ Given the predominant role of the government at present, sale of paddy and wheat may be made compulsory on an electronic platform, for modernization and better targeting. The electronic sale may go up just as the payments on mobile phones went up in recent years, but it does not necessarily mean a better price to farmers.

3.0 World Trade Organization, Support to Farmers and Minimum Support Price

One may argue that government is refusing to legislate MSP, to avoid controversy with World Trade Organization on minimum support price. The MSP provision per se is not illegal under WTO as long as the support is below the 'de minimis' level for India. The reason for exclusion of MSP from Farm Acts is seen as the desire of the government to discontinue it in future.⁵⁵ MSP comes under the WTO's Amber Box of price distorting measures. Countries such as USA and Canada complain that Market Price support (MPS) as a percentage of Volume of Production (VP) is far higher than 10% in India.⁵⁶ On the other hand, Government of India says that India's MSP operations are within the limits prescribed by WTO.⁵⁷ The problem arises as to the interpretation of rules of WTO and the method of calculation. For example, India calculates the Aggregate Measure of Support in US \$, while the fixed external reference price of 1986-88 in the agreement

⁵⁴ As observed by Radhakrishna, it takes years of social mobilization effort to nurture effective groups of small and marginal farmers. R. Radhakrishna, Towards Inclusive Agricultural Development: Growth, Performance, Welfare Challenges and Policy Innovations, PRESIDENTIAL ADDRESS, Ind. Jn. of Agri. Econ. Vol.75, No.1, Jan.-March 2020, Page 18

⁵⁵ <https://theprint.in/opinion/dont-get-caught-up-in-msp-battle-india-must-move-to-end-inequality-in-wto-laws/565240>, Ameya Pratap Singh who expressed this opinion in Print is an International Trade Lawyer in UK.

⁵⁶ <https://www.hindustantimes.com/business-news/us-canada-move-wto-against-india-on-under-reporting-of-msp-for-five-pulses/story-W7p19aWyMWYrGcSyEr1MqO.html>, dated February 16, 2019

⁵⁷ <https://economictimes.indiatimes.com/news/economy/agriculture/indias-msp-operations-are-wto-compliant-piyush-goyal/articleshow/80771499.cms?from=mdr>

was in Indian rupees. The eligible production, the currency of calculation, the exchange rate, the adjustment for inflation, the interpretation of fixed external reference price, and the like, make the calculated percentage to vary widely.⁵⁸ For example India rightly takes the procured amount as eligible production, while USA takes the entire production, as eligible production as MSP is applicable to all, while blaming India. The non-product specific aggregate measure of support was mostly negative for India.⁵⁹ However, product specific aggregate measure of support for rice, has been increasing, though it is below 10% now. In 2016, Market Price Support (MPS) as a percentage of volume of production calculated as per the WTO methodology for rice was 6.67% and for wheat it was -2,02%. The deflated support was negative both for rice and wheat in India.⁶⁰ WTO's ministerial decision in 2013 and 2014 gave temporary conditional relief for the developing countries to exceed the limit of 10%, for food security reasons (Peace clause). While MSP comes under WTO amber box, purchase of food grains by the government from the open market for PDS would conform to Annex 2 criteria⁶¹ and hence will not be considered as price distorting operation. At present India is comfortable with WTO compliance and it can invoke peace clause, if it exceeds the limit, there is no compelling reason to ignore MSP in the Farm legislations.

The argument against MSP is that it distorts the market prices. The OECD (Organization of economic cooperation and development) countries which are high income countries, cleverly put the direct support to agriculture in the WTO defined Green and Blue Boxes under farmer's welfare and claim that they do not distort prices. It is informative to compare the farm income support given by other countries with that of India. To achieve sustainability of food production and agricultural production, in the twenty first century, support to agriculture through policy interventions is not only inevitable but justifiable both in the developed and developing world.⁶² There are several types of supports in the developed countries - direct budgetary allocation to farming, restrictions on land use, quotas on production, payments for not producing, making the domestic consumer pay a higher price for the produce. In this scenario, other countries are

⁵⁸ Marothia, Dinesh, Will Martin, A. Janaiah, and C. L. Dadhich. *Front Matter-Re-Visiting Agricultural Policies in the Light of Globalization Experience: The Indian Context*. No. 1920-2017-3292. 2016. Pages 73-78.

⁵⁹ *Ibid* page 79

⁶⁰ Sharma, Sachin Kumar, WTO and policy space for agriculture and food security: issues for China and India, *Agricultural Economics Research Review* 2018, 31 (2), 207-219, DOI: 10.5958/0974-0279.2018.00038.1, pages 214-216

⁶¹ *Ibid* page 79

⁶² C. Peter Timmer and Selvin Akkus, (2008) "Structural Transformation as a way out of Poverty: Analytics, Empirics and Politics", working paper 150, Centre for Global development

protecting their agriculture, but Indian farmers do not receive adequate protection. Table 2 gives the agricultural producer support estimates for selected countries. The table gives estimated support as a percentage of farm receipts. Negative support estimate means that the government support is far from sufficient to cover their total cost. Farmers lose potential revenue. The implication is that there is no surplus generated to invest in agriculture.

As FAO puts it, “the common linchpin of the price component of the PSE (Producer Support Estimate), calculations, and of the DAI (Distortions to Agricultural Incentives) measures, is the calculation of output price distortions.” All types of policy interventions and protection measures distort prices of Agricultural commodities,⁶³ both in the domestic and international markets. Countries, in which the share of agricultural population to the total population is relatively small, protect their farmers. In India 43.6% of the work force is engaged in Agriculture.⁶⁴ It is doubtful whether India could give non-crop specific direct support to all its farmers.

Table 2	
Agricultural Producer Support Estimates in the World	
Agricultural Producer Support Estimates(PSE)	
Support as % of gross farm receipts -2019	
Country	% of support
Norway	57.63
Switzerland	47.38
Japan	47.3
Korea	46.17
Indonesia	23.25
Phillippines	27
USA	12.08
China	12.16
Russia	9.2
South Africa	4.6
India	-4.97
Source: OECD Data	
https://data.oecd.org/agrpolicy/agricultural-support.htm	

⁶³ FAO The state of agricultural commodity markets in depth, 2015-16, Page 2

⁶⁴ Biswanath Goldar, K. L. Krishna, Suresh Chand Agarwal, Deb Kusum Das, Abdul Azeed Erumban, Pilu Chandra Das, “ Productivity growth in India since, the 1980s, The KLEMS approach, Indian Economic Review, 2017 52:37 - 71

At present, the direct support given by the central government under “PM Kisan” scheme is only Rs. 6000/- per farm family, per year, in three installments. Eligibility criteria exist. The scheme underwent revision since its inception in 2018. Initially the marginal and small farmers operating less than 2 hectares were eligible.⁶⁵ Later the revised scheme in June 2019 included more farmers with specified eligibility criteria.⁶⁶ State governments in some states give additional direct support, which increases the total direct benefit transfers to 12,500/- per eligible farm family per annum as in Andhra Pradesh.⁶⁷ The cost of cultivation was more than Rs 80,000 per hectare of rice in Andhra Pradesh and more than Rs 70,000 per hectare for wheat in Haryana⁶⁸ in 2016-17 and it will be far higher now. It is nowhere near the support required for rice and wheat farmers, given the escalating costs of production. Hence MSP for paddy and wheat production must stay along with other measures of support to give production incentives. If MSP is inefficient, and distorts domestic prices, so be it. MSP helps to stabilize the farm harvest prices and helps food security in India.

The prospect of India consistently getting profitable prices in the international market through large rice exports in a big way is low. As and when India enters the international grain markets in a big way as an exporter, the prices invariably slump, and when India enters as an importer in a big way the prices spike. India (producing for about 1.4 billion population) accounts for 10% of the world production.⁶⁹ Even now, Indian rice exports receive lower price than that of the other countries such as Thailand and Vietnam for similar varieties of 5% broken or 25% broken varieties of rice (Table 3). At present exporters buy rice at farm harvest prices, which is loss making price for Indian farmers by international standards, as shown in the table 2. Squeezing the farmer’s profits further and paying them less to be internationally competitive is not desirable for India. The export price of other countries has no relation to the cost of production or income to the farmer.

⁶⁵ <https://pmkisan.gov.in/>

⁶⁶ <https://www.thehindu.com/news/national/government-lifts-landholding-limit-extends-pm-kisan-scheme-to-all-farmers/article27697207.ece>

⁶⁷ <https://www.financialexpress.com/economy/andhra-pradesh-roll-out-direct-benefit-transfer-for-farmers-on-october-15/1715293/>

⁶⁸ Govt. of India, Agricultural Statistics at a glance 2019, Page 147

⁶⁹ M. S. Swaminathan and Swarna S. Vepa (2012), “How can India help prevent Food Price Volatility?” IDS Bulletin, Institute of Developmental Studies, Brighton, U. K, Volume 43, July 2012, Special issue

Table 3				
Price of Rice in the international markets (Jan-May 2021) USD /MT				
Country	India	Pakistan	Vietnam	Thailand
Rice variety				
Rice (5% broken)	402	438	498.7	511
Rice (25% broken)	373	391	-	-
Source: FAO Rice price update				

The price Index (base 2014-16 =100) of non-Basmati rice variety, Indica, increased in the international markets from 95.7 in 2016 to 114.7 in 2020. In the past one year during the pandemic the same index increased from 115 in July 2020 to 124.6 in February 2021.⁷⁰ The index fell again 106.5 in July 2021 and further to 104.9 in October 2021. As per the FAO, brief, Indian rice quotations slipped to an eleven-month low due to the weakness of rupee against US Dollar and increased supply of kharif (July- October) harvest. Multiple factors beyond the control of the producers and exporters, impact exports. Price fluctuations and logistic constraints limit India's export potential of non-basmati rice.

Conclusions

Implications of repealed farm laws is twofold. First, the intent of the legislations to enable the central government to control trade at farm level and the complete absence of the mention of MSP in the laws created a fear that government will abolish MSP and procure food grains for PDS from the open market. Second, the farm agitation and the refusal of the government to repeal the legislations till the elections are round the corner in the key states, and refusal to talk about MSP, hardened the stand of the farmers on their demands. The third implication to the national food security lies in the future threat of the amendment to the Essential Commodities Act, which enables hoarding by traders. Food insecurity concerns intensify if MSP is diluted and the production falls below requirement. Even with MSP, food insecurity concerns surface with the hoarding of food grains by traders.

⁷⁰ <http://www.fao.org/economic/est/publications/rice-publications/the-fao-rice-price-update/en/>