

Q-11050/11/2018-Agri.
NITI AAYOG
(Agriculture Vertical)

NITI Bhavan, Sansad Marg,
New Delhi-110001
Date: 16.7.2018

OFFICE MEMORANDUM

SUBJECT: Petition of Shri Ashwani Mahajan, All India Co-Convener, Swadeshi Jagran Manch, Sector 8, Ramakrishna puram, New Delhi-110022.

The undersigned directed to refer to your letter no.PMOPG/D/2018/0133478 dated 10.4.2018 addressed to Secretary, Department of Agriculture, Cooperation and Farmers Welfare on the above subject and to say that the matter has been examined by the NITI Aayog. The self-explanatory views of Prof. Ramesh Chand, Member (Agriculture), NITI Aayog is as under:

MSP and Inflation

I have been a strong supporter of remunerative prices for farm produce. I have written many articles and stated repeatedly in media that MSP announced by the government is useful for the farmers when it is implemented. As a member of NITI Aayog, I have always emphasized the same in the process of policy formulations. Further, to extend the benefit of MSP to large number of farmers, I proposed the idea of Price Deficiency Payment.

I did not prepare any report on MSP in NITI Aayog recently, however, I contributed to preparation of a Note by NITI Aayog on "Ensuring MSP Benefits to Farmers". This note has been prepared by NITI Aayog as a follow up to the budget speech of Finance Minister for the year 2017-18, which says "NITI Aayog, in consultation with Central and State Governments, will put in place a fool-proof mechanism so that farmers will get adequate price for their produce". The budget 2017-18 proposed two types of changes in MSP. One, new basis for fixing MSP (ie MSP more than 50 percent of cost of production including imputed cost of farmers own family members) and two, MSP to be ensured for the MSP notified crops. I have strongly supported this initiative of the Government and termed it as historic. I have been actively working towards implementation of government announcements on MSP.

The decision of government to use new formula for MSP is expected to raise MSP of 12 crops by something like 4 to 47 per cent. We got questions from media about the effect of increase in farm harvest prices to the level of MSP, based on new formula, on open market prices, food inflation and consumers. We found a study by Reserve Bank of India which estimated that "1% increase in weighted MSP causes 0.34 per cent increase in food inflation.(Ref: Reserve Bank of India, Analytics of Food Inflation in India, RBI Working Paper Series, WPS (DEPR);10/2014.

To address such concerns, the note cautioned that if the effect of increase in farm level prices, as a result of government decisions on MSP, is transmitted to wholesale and retail level, it will have implications for inflation. To counter such possibility and to ensure the success of MSP initiatives without any problem, the note suggests that the inflationary effect of higher MSPs can be restrained if the price spread between farm level prices and prices paid by end users is compressed. This can be achieved by efficient and competitive markets. All this shows that I am supporting the decision of the government on MSP and trying to help in its successful implementation.

Option Trading and Future Trading:

Future trading in some commodities has been going on in the country for a long time and it has remained a hotly debated subject. The restrictions on agri commodity forward trade were lifted in April 2003. Since then the country has been some time allowing and sometime suspending/banning future trading in various agri commodities. It is well known that farmers in India suffer from price volatility. Some experts and Institutions argue that an important reason for this is that the country does not have effective mechanism for price discovery and agricultural futures markets can provide useful information to the farmers for taking more informed decisions for allocating acreage and inputs to their crops. Dr. Ashok Gulati has written couple of articles in support of this and many committees set up by the GoI also supported active derivative market for future trading.

Future trading can be beneficial and useful for the farmers if it is governed by strong and appropriate regulator and regulation.


(B Ganeshram)
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Copy to:

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