



Farmers Protest 2.0 and MSP

For Prelims: [Minimum Support Price \(MSP\)](#), Farmers Protest 2.0 and MSP, [Land Acquisition Act of 2013](#), [Electricity Amendment Bill 2020](#), Dr M S Swaminathan Commission's report.

For Mains: Farmers Protest 2.0 and MSP, Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Source: [IE](#)

Why in News?

Farmers from Punjab, Haryana, and Uttar Pradesh are marching towards Delhi in the 'Delhi Chalo' protest, demanding legal guarantees for the [Minimum Support Price \(MSP\)](#).

- In [2020, farmers protested](#) against three farm laws passed by the government, at Delhi borders, leading to their repeal in 2021.
- These laws were -- [The Farmers' Produce Trade and Commerce \(Promotion and Facilitation\) Act](#), [The Farmers \(Empowerment and Protection\) Agreement of Price Assurance and Farm Services Act](#), and [The Essential Commodities \(Amendment\) Act](#).

What are the Key Demands of Farmers?

- The headline demand in the farmers' **12-point agenda is for a law to guarantee Minimum Support Price (MSP)** for all crops, and the determination of crop prices in accordance with the **Dr M S Swaminathan Commission's report**.
 - The Swaminathan Commission Report states that the **government should raise the MSP to at least 50% more** than the weighted average cost of production. It is also known as the **C2+ 50% formula**.
 - It includes the **imputed cost of capital** and the rent on the land (called 'C2') to **give farmers 50% returns**.
 - **Imputed cost** is used to account for the opportunity cost of using resources like land, labour, and capital.
 - **The imputed cost of capital** accounts for the interest or returns that could have been earned if the capital invested in farming **were instead invested elsewhere**.
- **The other demands are:**
 - Full debt waiver for farmers and labourers;
 - Implementation of the [Land Acquisition Act of 2013](#), with provisions for written consent from farmers before acquisition, and compensation **at four times the collector rate**.
 - A **collector rate** is the minimum value at which a property can be registered when buying or selling it. They serve as a reference point to **prevent the undervaluation of properties and tax evasion**.
 - Punishment for the perpetrators of the October 2021 Lakhimpur Kheri killings;
 - India should withdraw from the [World Trade Organization \(WTO\)](#) and freeze all [free trade agreements \(FTAs\)](#).

- Pensions for farmers and farm labourers.
- Compensation for farmers who died during the Delhi protest in 2020, including a job for one family member.
- [The Electricity Amendment Bill 2020](#) should be scrapped.
- 200 (instead of 100) days' employment under [MGNREGA](#) per year, the daily wage of Rs 700, and the scheme should be linked with farming;
- Strict penalties and fines on companies producing fake seeds, pesticides, fertilisers; improvements in seed quality;
- National commission for spices such as chilli and turmeric.
- Ensure [the rights of indigenous peoples](#) over water, forests, and land.

What is the Government's Response?

- In November 2021, after repealing the three farm laws, the Indian Government announced to form a committee on MSP. Its purpose was to discuss MSP, promote [zero-budget natural farming](#), and decide on cropping patterns. This committee was formed in July 2022 and hasn't yet produced any report.
- During a recent meeting between Cabinet ministers and farmer union leaders the government offered to create a new **committee with representatives from agriculture, rural, and animal husbandry ministries**.
- This committee would address farmers' demand for MSP for all crops. The government promised that this new committee would meet regularly and work within a set timeframe.

What are the Challenges with the Legalisation of MSP?

- **Forced Procurement:**
 - Mandating the government to procure all produce at **MSP could lead to overproduction**, causing wastage of resources and storage problems.
 - It might also **distort cropping patterns as farmers might prioritise crops** with MSP over others, affecting biodiversity and soil health.
 - If the government has to buy the produce because there are no buyers offering the MSP, it doesn't have the **resources to store and sell large amounts of it**.
- **Discrimination Among Farmers:**
 - Such a law could create disparities between farmers growing supported crops and those growing others.
 - Farmers growing unsupported crops **may face disadvantages in terms of market access** and government support.
- **Pressure From Traders:**
 - During peak harvest times, prices for agricultural produce are typically at their lowest, benefiting **private traders who buy at these times**. Because of this, private traders resist any legal assurance of MSP.
- **Financial Burden:**
 - The government might face **financial strain due to the obligation** to procure all crops at MSP, leading to payment arrears and fiscal challenges.
- **Societal Implications:**
 - Distorted cropping patterns and **excessive procurement could have broader societal implications**, affecting food security, environmental sustainability, and overall economic stability.

What Initiatives can be Taken to Protect Income of Farmers instead of Legalising MSP?

- Experts suggest **giving money directly to farmers instead of just relying on MSP**. This way, farmers get a stable income no matter how the market is.
 - It's about fixing the bigger problem of farmers not having enough money, rather than just guaranteeing prices for certain crops.
- Implementing **direct income support could involve various strategies**, such as:
 - **Direct Cash Transfers:** Providing direct cash payments to farmers to supplement their

income and alleviate financial stress.

- The Government can think of **Expanding the [PM KISAN](#)** Scheme by rolling in the entire price support package and fertiliser subsidy and into much higher PM-KISAN payments to farmers in a revenue-neutral manner.
- This scheme currently provides farmers with Rs 6000 per year in direct cash payments.
- **Insurance Schemes:**
 - Introducing **insurance schemes that compensate farmers** for income losses due to factors like crop failure, price volatility, or adverse weather conditions.
 - Offering subsidies or grants to support agricultural inputs, equipment, technology adoption, and diversification into higher-value crops or alternative livelihoods.
- **Price-Difference Payment Option:** The government can also consider paying the price difference between the MSP and the rate at which the farmers sell.
 - Haryana and Madhya Pradesh have tried this option under a scheme called [Bhavantar Bharpai Yojana \(price-difference compensation scheme\)](#).
 - Under the MP's 'Bhavantar Bhugtan Yojana', the state government paid farmers the difference between MSP for crops and their average market rates. Farmers got money if they had to sell their produce in the open market below MSP.

What are the Concerns of Farmers Related to WTO and FTAs?

- **Market Access:**
 - Farmers are concerned that the FTAs and WTO regulations lead to increased competition **from cheaper agricultural imports**, which can undercut domestic prices and harm local producers.
 - Farmers perceive these agreements as favouring multinational corporations and **large-scale agribusinesses over small and medium-sized farmers**.
- **Imported Goods:**
 - These agreements lead to the **influx of subsidised agricultural products** from other countries, which can flood the domestic market and depress prices for locally produced crops.
 - This can make it difficult for **Indian farmers to compete and sustain their livelihoods**.
- **Impact on Farming Practices:**
 - International trade agreements also **impose regulations or standards on agricultural practices** that Indian farmers find burdensome or incompatible with their traditional farming methods.
 - This could include requirements related to pesticide use, [genetically modified organisms \(GMOs\)](#), or environmental standards.
- **Sovereignty and Autonomy:**
 - Some farmers view withdrawal from WTO and freezing of free trade agreements as a way to regain sovereignty and control over **India's agricultural policies**.
 - They argue that such agreements limit the government's ability to implement policies that **prioritise the interests of small-scale farmers** and ensure food security for the population.

What is the Current State of MSP and Farmers Demand?

- **Current MSP vs. Farmer Demands:**
 - The MSP for wheat set by the government for the Rabi Marketing Season 2024-25 is Rs 2,275 per quintal, which is higher than the **cost demanded by farmers, i.e., C2 plus 50%**.
 - However, the MSP is based on the **formula A2+FL**, which includes only paid-out costs incurred by farmers, **resulting in a lower MSP compared to C2 plus 50%**.
- **CACP Recommendations and Methodology:**
 - The [Commission for Agricultural Costs & Prices \(CACP\)](#) recommends MSP based on the **A2+FL formula**, which considers **only paid-out costs and imputed value of family labour**.
 - This is different from **the C2 formula**, which includes **additional factors** like rental value of owned land and interest on fixed capital.

▪ **Return over Cost of Production:**

- For wheat in Punjab, the cost of production (C2) is Rs 1,503 per quintal, and the Minimum Support Price (MSP) is Rs 2,275 per quintal.
 - This means farmers receive Rs 772 per quintal more than the cost of production, which is a return of 51.36% over C2.
- Similarly, for paddy, the return for Punjab farmers over C2 was 49%, and it was 152% over A2+FL

Why are Farmers Protesting Across the Globe?

▪ **South America:**

- Farmers are protesting due to factors such as **unfavourable exchange rates for exports, high taxes**, economic downturns, and natural disasters like droughts, which damage crops and reduce agricultural output.
 - In Brazil, protests are against unfair competition from genetically modified maize.
 - In Venezuela, farmers are seeking access to subsidised diesel.
 - Colombian rice growers are demanding higher prices.

▪ **Europe:**

- Farmers are protesting against low crop prices, rising costs, low-cost imports, and strict environmental regulations imposed by the **European Union**.
 - In France, protests are against low-cost imports, insufficient subsidies, and high production costs.

▪ **North and Central America:**

- Mexican farmers protest poor prices for corn and wheat, while Costa Rican farmers seek more government assistance for an industry burdened by debt.
- In Mexico's Chihuahua province, protests occurred over plans to export limited water supplies to the United States.

▪ **Asia:**

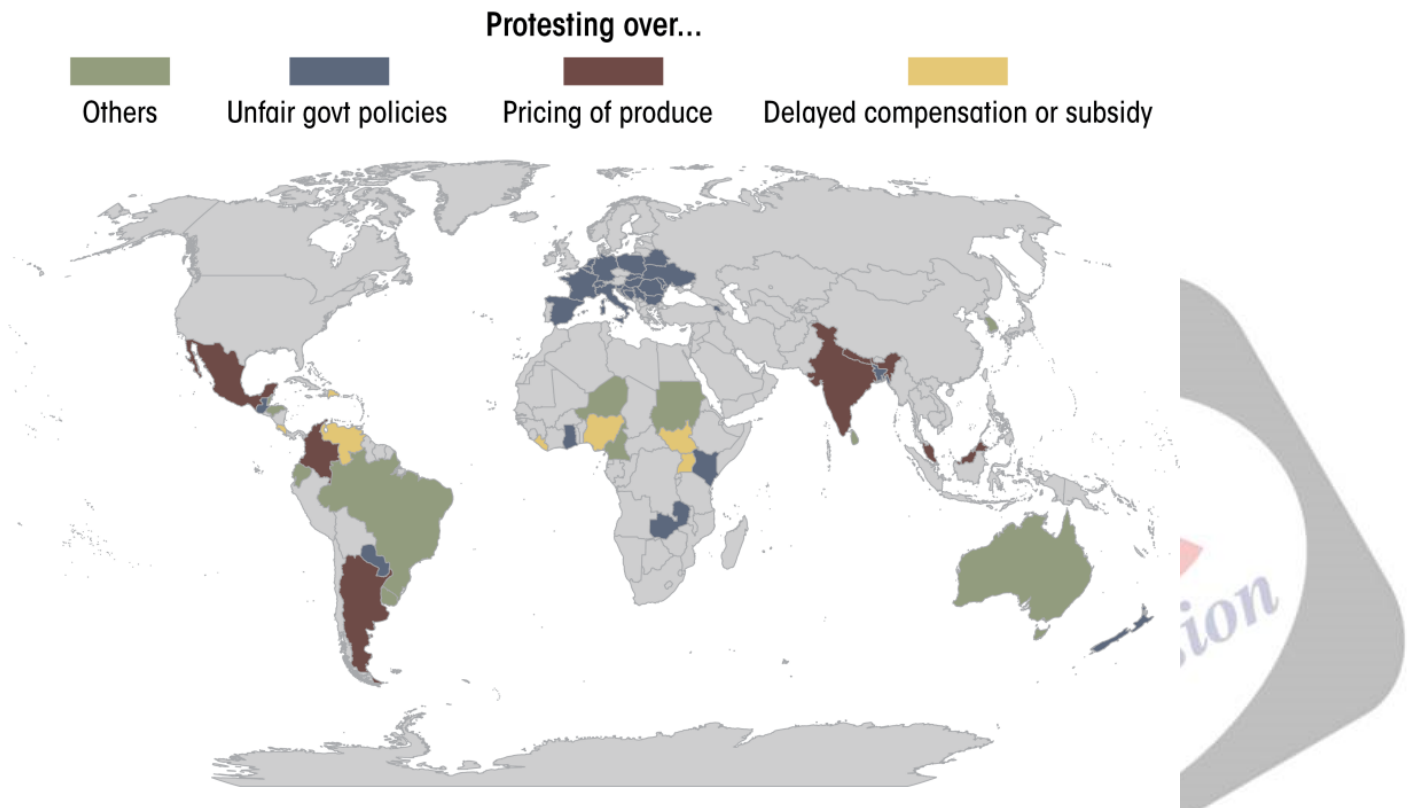
- Indian farmers are protesting for guaranteed crop prices, income doubling, and loan waivers.
- In Nepal, protests are due to unfair prices for imported Indian vegetables.
- Malaysian and Nepali farmers are protesting low rice and sugarcane prices, respectively.

▪ **Oceania:**

- New Zealand farmers protest against government regulations affecting food producers, while Australian farmers oppose high-voltage power lines passing through their land.

FARM PROTESTS GLOBALLY

Since 2023, at least 65 countries have reported protests organised by agricultural workers with reasons ranging from minimum support price like in India, to unfair governmental policies — like in Europe — to outright displacement or eviction of farmers as seen in Benin or Sudan in Africa



What is the Minimum Support Price?

▪ About:

- MSP is the guaranteed amount paid to farmers when the government buys their produce.
- MSP is based on the recommendations of the [Commission for Agricultural Costs and Prices \(CACP\)](#), which considers various factors such as cost of production, demand and supply, market price trends, inter-crop price parity, etc.
 - CACP is an attached office of the Ministry of Agriculture and Farmers Welfare. It came into existence in January 1965.
- The [Cabinet Committee on Economic Affairs \(CCEA\)](#) chaired by the Prime Minister of India takes the final decision (approve) on the level of MSPs.
- The MSP is aimed at ensuring remunerative prices to growers for their produce and encouraging [Crop Diversification](#).

▪ Crops Under MSP:

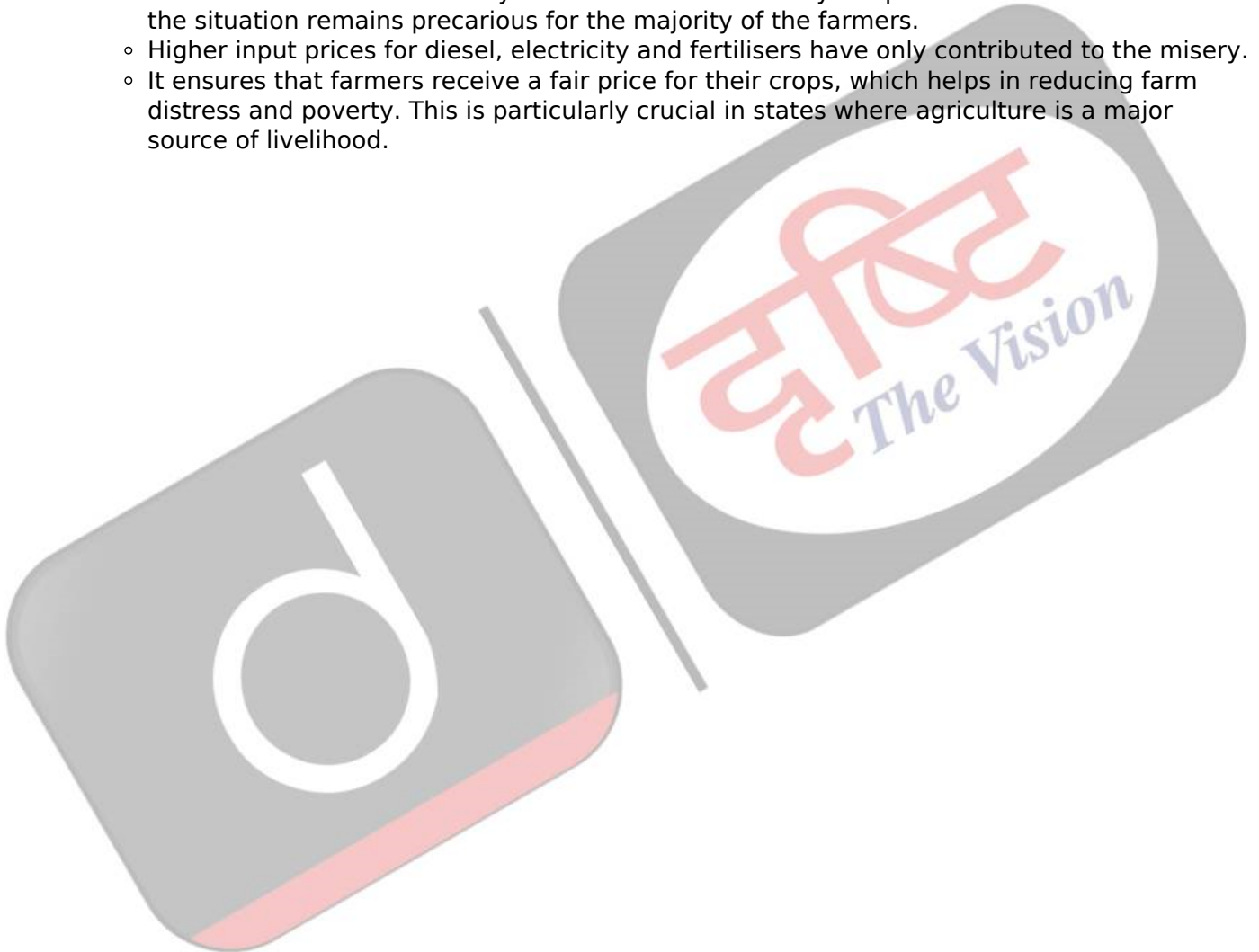
- The CACP recommends MSPs for [22 mandated crops](#) and [fair and remunerative price \(FRP\)](#) for sugarcane.
- The mandated crops include 14 crops of the kharif season, [6 rabi crops](#) and 2 other commercial crops.

▪ Three Kinds of Production Cost:

- The CACP projects **three kinds of production cost for every crop**, both at state and all-India average levels.
 - **'A2'**: 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.

- **'A2+FL'**: Includes **A2 plus an imputed value of unpaid family labour**.
- **'C2'**: It is a more comprehensive cost that factors in rentals and interest for owned land and fixed capital assets, on top of A2+FL.
- **CACP considers both A2+FL and C2 costs** while recommending MSP.
 - CACP reckons only A2+FL cost for return.
 - However, C2 costs are used by CACP primarily as benchmark reference costs (opportunity costs) to see if the MSPs recommended by them at least cover these costs in some of the major producing States.
- **Need for MSP:**
 - The twin droughts of 2014 and 2015 forced the farmers to suffer from declining commodity prices since 2014.
 - The twin shocks of [Demonetisation](#) and the [rollout of GST](#), crippled the rural economy, primarily the non-farm sector, but also agriculture.
 - The slowdown in the economy after 2016-17 followed by the pandemic further ensured that the situation remains precarious for the majority of the farmers.
 - Higher input prices for diesel, electricity and fertilisers have only contributed to the misery.
 - It ensures that farmers receive a fair price for their crops, which helps in reducing farm distress and poverty. This is particularly crucial in states where agriculture is a major source of livelihood.



MINIMUM SUPPORT PRICE (MSP)

The rate at which the govt. purchases crops from farmers; based on a calculation of at least 1.5x the cost of production incurred by the farmers

RECOMMENDED BY

Commission for Agricultural Costs & Prices (CACP) (recommends MSPs for 22 mandated crops and Fair and Remunerative Price for Sugarcane)

22 MANDATED CROPS

(14 Kharif, 6 Rabi and 2 Other Commercial crops)

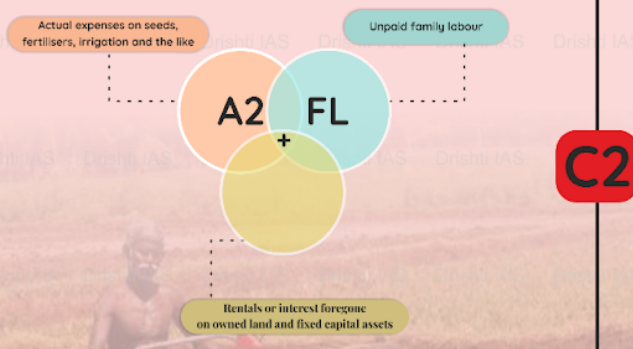
7	CEREALS	Paddy, Wheat, Barley, Jowar, Bajra, Maize And Ragi
5	PULSES	Gram, Arhar/tur, Moong, Urad And Lentil
7	OILSEEDS	Groundnut, Rapeseed/mustard, Soyabean, Sunflower, Sesamum, Safflower And Niger Seed
	RAW COTTON	
	RAW JUTE	
	COPRA	

MSP is the price at which the govt. is supposed to procure the mandated crops from farmers if the market price falls below it

FACTORS FOR RECOMMENDING MSP

- ▶ Cost of cultivation
- ▶ Demand-Supply situation for the crop
- ▶ Market price trends
- ▶ Inter-crop price parity
- ▶ Implications for consumers (inflation)
- ▶ Environment (soil and water use)
- ▶ Terms of trade b/w agri and non-agri sectors (ratio of farm inputs and outputs)

Considers both A2+FL and C2 costs



MSP has no statutory backing — a farmer cannot demand MSP as a matter of right



Drishti IAS

What are the Concerns Related to MSP in India?

- **Limited Extent:**
 - The MSP is officially announced for **23 crops**, but in practice, only two, rice and wheat, are extensively procured and distributed under the [National Food Security Act \(NFSA\)](#).
 - For the rest of the crops, the MSP implementation is ad-hoc and insignificant. This means that the majority of farmers growing non-target crops do not benefit from the MSP.
- **Ineffective Implementation:**
 - The **Shanta Kumar Committee, in its 2015** report, revealed that **only 6% of the MSP was actually received by farmers**.
 - This suggests that a significant portion of farmers, **around 94%, do not benefit from the MSP**. The primary reason for this is inadequate procurement mechanisms and market access for farmers.
- **Skewed Crop Dominance:**
 - The focus on MSP for rice and wheat has led to a **skewed cropping pattern** in favour of these two staples. This overemphasis on these crops can have ecological, economic, and nutritional implications.
 - It may **not align with market demands**, thereby limiting income potential for farmers.
- **Middlemen Dependency:**
 - The MSP-based procurement system often involves intermediaries such as middlemen, commission agents, and officials from [Agricultural Produce Market Committees \(APMCs\)](#).
 - Smaller farmers, in particular, may find it challenging to access these channels, leading to inefficiencies and reduced benefits for them.
- **Burden on Government:**
 - The government shoulders a significant **financial burden in procuring and maintaining buffer stocks** of MSP-supported crops. This diverts resources that could be allocated to other agricultural or rural development programs.

Way Forward

- To encourage crop diversification and reduce the dominance of rice and wheat, the government can gradually expand the list of crops eligible for MSP support. This will provide farmers with more choices and promote the cultivation of crops in line with market demand.
- Addressing the MSP issue requires a balanced approach that considers both the interests of farmers and the broader economic implications.
 - Revisiting the MSP calculation methodology and ensuring a fair and transparent process for determining MSP could help address some of the concerns raised by farmers.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims:

Q.1 Consider the following statements: (2020)

1. In the case of all cereals, pulses, and oil seeds, the procurement at Minimum Support price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (d)

Q.2 Consider the following statements: (2023)

1. The Government of India provides Minimum Support Price for niger (*Guizotia abyssinica*) seeds.
2. Niger is cultivated as a Kharif crop.
3. Some tribal people in India use niger seed oil for cooking.

How many of the above statements are correct?

- (a) Only one
- (b) Only two
- (c) All three
- (d) None

Ans: (c)

Mains:

Q.1 What do you mean by Minimum Support Price (MSP)? How will MSP rescue the farmers from the low income trap? **(2018)**

Q.2 How do subsidies affect the cropping pattern, crop diversity and economy of farmers? What is the significance of crop insurance, minimum support price and food processing for small and marginal farmers? **(2017)**

Q.3 What are the major factors responsible for making the rice-wheat system a success? In spite of this success how has this system become bane in India? **(2020)**

Q.4 In what way could replacement of price subsidy with direct benefit Transfer (DBT) change the scenario of subsidies in India? Discuss. **(2015)**

Q.5 WTO is an important international institution where decisions taken affect countries in a profound manner. What is the mandate of WTO and how binding are their decisions? Critically analyse India's stand on the latest round of talks on Food security. **(2014)**

PDF Reference URL: <https://www.drishtiias.com/printpdf/farmers-protest-2-0-and-msp>