



## MSP and its Legalisation

**For Prelims:** [Cabinet Committee on Economic Affairs \(CCEA\)](#), [Rabi crops](#), [Agricultural Prices Commission \(APC\)](#), [National food security](#), [Food Corporation of India's \(FCI\)](#).

**For Mains:** Issue of MSP legalisation, Impact of MSP legalisation of Farmers.

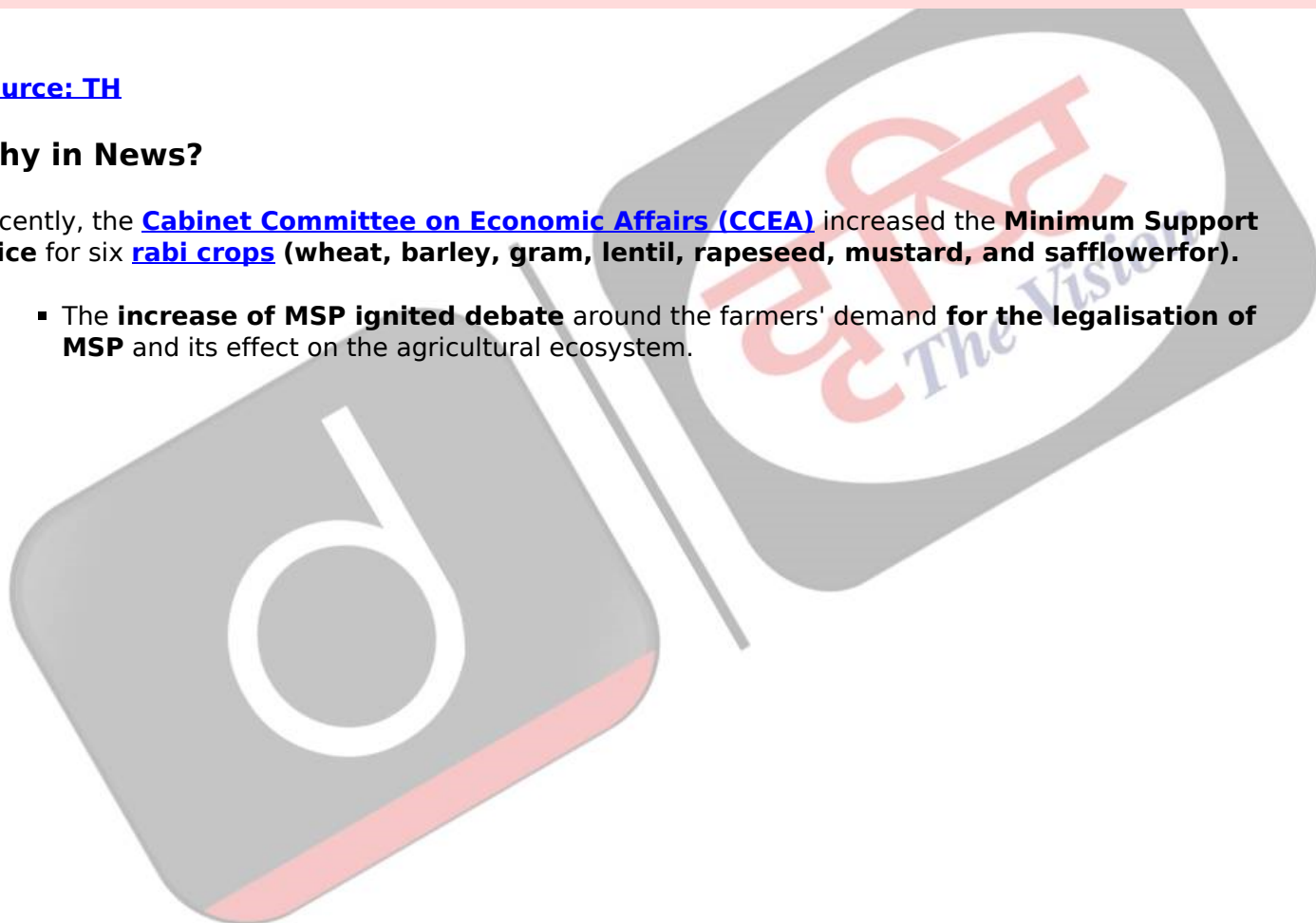
[Source: TH](#)

### Why in News?

Recently, the [Cabinet Committee on Economic Affairs \(CCEA\)](#) increased the **Minimum Support Price** for six [rabi crops](#) (wheat, barley, gram, lentil, rapeseed, mustard, and safflower for).

- The **increase of MSP ignited debate** around the farmers' demand **for the legalisation of MSP** and its effect on the agricultural ecosystem.

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# Better support



The Cabinet increased the minimum support prices for rabi crops

Crop	MSP for rabi 2025-26*	MSP for rabi 2024-25*	Increase in MSP
Wheat	₹2,425	₹2,275	₹150
Barley	₹1,980	₹1,850	₹130
Gram	₹5,650	₹5,440	₹210
Lentil (masoor)	₹6,700	₹6,425	₹275
Rapeseed & mustard	₹5,950	₹5,650	₹300
Safflower	₹5,940	₹5,800	₹140

(\*per quintal)

## Cabinet Committee on Economic Affairs (CCEA)

- It is chaired by **the Prime Minister**, and **sets priorities for public sector investments**.
- It continuously **reviews economic trends** to develop an integrated economic policy framework and oversees policies and activities in the economic field, including foreign investment, requiring high-level decisions.

## What is the Minimum Support Price?

- **About:**
  - The MSP **regime was established in 1965** by setting up the **Agricultural Prices Commission (APC)** (later renamed as CACP) as a form of market intervention to enhance **national food security** and protect farmers from significant decline in market prices.
- **MSP Calculation:**
  - **The CACP** calculates **three categories of production costs for each crop**, both at the state level and as all-India averages.
    - **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 an estimated value of unpaid family labour with A2.
    - **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.
  - The government maintains that the **MSP was fixed at a level of at least 1.5 times the**

**all-India weighted average Cost of Production (CoP)**, but it calculates this cost as 1.5 times the A2+FL cost.



# 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)

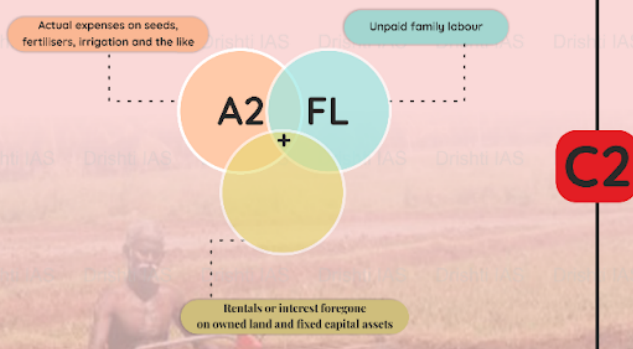
<b>7 CEREALS</b>	Paddy, Wheat, Barley, Jowar, Bajra, Maize And Ragi		
<b>5 PULSES</b>	Gram, Arhar/tur, Moong, Urad And Lentil		
<b>7 OILSEEDS</b>	Groundnut, Rapeseed/mustard, Soyabean, Sunflower, Sesamum, Safflower And Niger Seed		
<b>RAW COTTON</b>		<b>RAW JUTE</b>	<b>COPRA</b>

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 Coverage:** According to the **Shanta Kumar Committee's 2015 report**, only **6% of farmers benefit** from the MSP. Mainly those in regions with access to procurement infrastructure, such as Punjab and Haryana, while a large number of farmers in other states are left out.
- **Skewed Crop Focus:** The MSP system is **focused primarily on a few crops, especially rice and wheat**, leading to a **lack of incentive for farmers to grow other crops**, which affects crop diversification and can contribute to overproduction of these staple crops.
- **Overburdening Procurement System:** The MSP often leads to **large-scale government procurement**, especially of rice and wheat, **causing storage challenges and wastage**, and straining the **Food Corporation of India's (FCI)** resources.
- **Environmental Impact:** The **focus on certain water-intensive crops like rice** (supported by MSP) leads to **environmental concerns** such as groundwater depletion, particularly in regions like Punjab.
- **Dependence on Middlemen:** In some cases, even when MSP is declared, farmers face difficulties in **accessing procurement agencies directly**, leading to dependence on middlemen who may exploit them by offering lower prices.

## What are the Needs and Challenges for Legalising MSP in India?

- **Need:**
  - **Income Security for Farmers:** Legalising MSP would **ensure guaranteed income for farmers**, protecting them from fluctuations in market prices.
    - Ensured income is crucial as **many farmers face distress due to price crashes**, especially during bumper harvests .
  - **Boost to Agricultural Investment:** A legally guaranteed MSP can **encourage farmers to invest more in agricultural inputs**, modern technology, and sustainable farming practices.
    - With assured returns, **farmers are more likely to adopt measures that improve productivity and sustainability.**
  - **Reduction of Rural Poverty:** By offering a stable price, **legal MSP can reduce rural poverty** and improve the standard of living for small and marginal farmers.
  - **Stabilizing Agricultural Markets:** MSP serves as a price stabilization tool, preventing the volatility of crop prices in open markets and **reducing inflation burden on the consumer.**
    - The **legal backing of MSP** could smoothen supply chain and ensure consistent crop procurement.
  - **Mitigation of Distress Sales:** Farmers often resort to distress sales due to a lack of remunerative prices. The **legally enforcing MSP could prevent distress sale.**
- **Challenges:**
  - **Fiscal Burden on the Government:** Legalising MSP across all crops would **require the government to procure large quantities at assured prices**, significantly increasing the fiscal burden.
    - As per government, extending MSP to all farmers and crops could cost over **Rs 10 lakh crore annually**, which is financially unviable for the government.
  - **Market Distortion:** Legal MSP could distort free market mechanisms by discouraging private traders and businesses from participating in the agricultural market.
    - Excessive reliance on **MSP could disrupt competitiveness** in the domestic and export market and leads to **legal battle for India at WTO.**
  - **Storage and Infrastructure Constraints:** Legalising MSP would require large-scale procurement, which in turn necessitates substantial improvements in storage and logistics infrastructure.
    - The government faces storage limitations, with **existing infrastructure being insufficient to handle** an expanded procurement system for all crops .
  - **Implementation Challenges:** Implementing **MSP uniformly across India is challenging due to diverse agricultural practices and climates**, making it hard to set MSP levels that benefit all farmers,

- Differences in production costs across states further complicate uniform MSP enforcement .
- **Overproduction and Environmental Impact:** Legalising MSP might incentivize overproduction of certain crops like wheat and rice, which are already extensively procured under the MSP system.
  - This could lead to environmental degradation, including groundwater depletion and soil pollution.

## Way Forward

- **Correcting MSP Implementation:** Reform MSP to **ensure it targets crops based on regional needs** and market demand.
  - **Strengthen procurement infrastructure and encourage crop diversification** to reduce over-reliance on specific crops like wheat and rice.
- **Encourage Crop Diversification:** The government should incentivise crop diversification to address the environmental and economic issues.
  - MSP should be introduced or expanded for other crops, including **pulses, oilseeds, and millets**, to promote sustainable farming and reduce pressure on water resources.
- **Direct Benefit Transfers (DBT):** To reduce inefficiencies and **curb the dependence on middlemen, the government can explore direct benefit transfers for farmers.**
  - This could allow farmers to receive the difference between the MSP and market price directly into their bank accounts if they cannot sell at MSP.
- **Allied Activities for Farmers:** Promote allied agricultural activities like **horticulture, dairy farming, and fisheries** to provide farmers with additional income sources, making agriculture more sustainable and less dependent on MSP.
- **Skill Development for Manufacturing Jobs:** Expand skill development programs to equip rural populations, particularly youth and women, with manufacturing and technical skills.
  - This would create **employment opportunities outside agriculture**, supporting the transition to non-farm incomes.

### **Drishhti Mains Question:**

Critically analyse the concerns associated with the legalisation of Minimum Support Price system and suggest a way forward.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### **Prelims:**

#### **Q. 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)**

**Mains:**

**Q.** What are the reformative steps taken by the Government to make the food grain distribution system more effective? **(2019)**

PDF Refernece URL: <https://www.drishtias.com/printpdf/msp-and-its-legalisation>

