Is MSP relevant for cotton farmers in India

A R Reddy
M V Venugopalan
Isabella Aggarwal
Anuradha Narala

ICAR- Central Institute for Cotton Research
Nagpur

Minimum Support Price (MSP)

To protect farmers against excessive fall in price

A guarantee price for their produce from the Government
Assure remunerative and relatively stable price environment

Announced before crop season

In case the market price falls below the MSP and glut in the market, government agencies purchase the entire quantity offered by the farmers at MSP

Fixed based of the recommendations of the Commission for Agricultural Costs and Prices (CACP).

Criticism:

Cost of production varies from state to state but MSP is fixed

It will not cover total cost of production

Not based on current year costs

Examined the total cost of production (cost C 2) for the period 2000-01 t0 2014-15 and compared with MSP

- State level
- Country level (weighted average)

Data source: Directorate of economics and statistics, Dept. of Agriculture, Govt. of India

Cost C2: Total cost Rs/Q
(operational costs + Fixed costs):

All paid out costs (Value of hired human labour + attached labour, value of owned and hired bullock labour + charges on owned and hired machinery + value of seed (both farm produced and purchased) + value of owned and purchased manures + value of fertilizers + value of plant protection chemicals used + depreciation + repairs and maintenance of farm machinery and farm implements and farm buildings + land revenue, cesses + interest on working capital. +rent paid for leased-in-land)

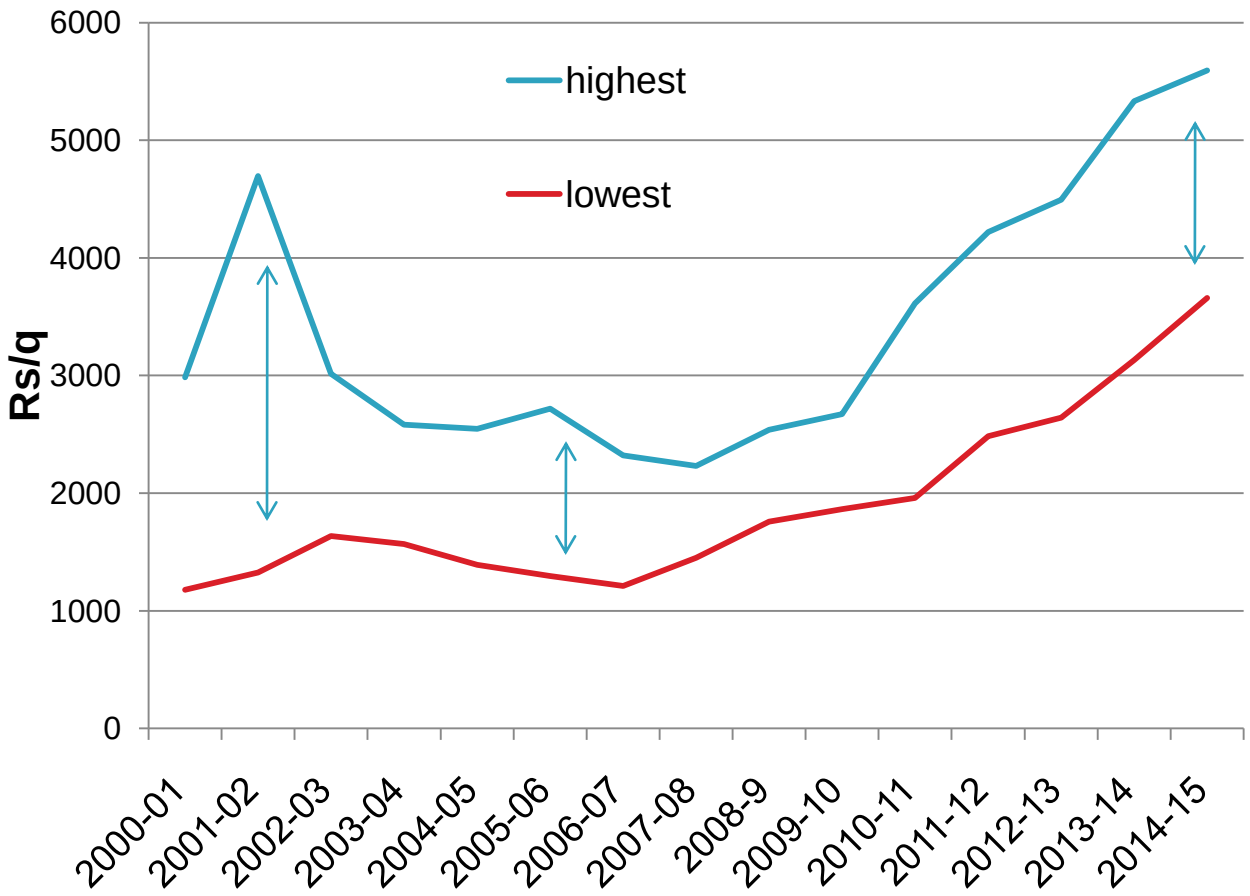
+interest on value of owned fixed capital
+rental value of owned land
+ imputed value of family labour

Cost of production of cotton in different states of India (Rs./Q)

Year	Andhra Pradesh	Gujarat	Haryana	Karnataka	Madhya Pradesh	Maharashtra	Punjab	Rajasthan	Tamil Nadu
2000-01	1718	2778	1562	2499	2817	2269	1968	1178	2985
2001-02	1751	2618	4696	2287	2688	2205	2622	1324	2381
2002-03	1634	1956	1874	2239	3015	2392	2606	2351	2592
2003-04	1720	1567	2008	2233	2581	2152	2228	1674	2491
2004-05	1814	1501	1479	1717	2546	2146	1601	1390	2274
2005-06	2291	1595	2166	2247	2022	2150	1612	1296	2718
2006-07	1598	1709	1924	1947	2321	2052	1630	1211	1958
2007-08	1709	1717	1876	1677	2035	2011	1826	1449	2231
2008-09	2510	2182	2127	2233	1758	2539	2004	1916	2015
2009-10	2407	2332	2414	2568	2014	2672	2354	1863	2575
2010-11	3306	2431	2801	2939	2391	3614	2947	1958	2854
2011-12	3559	3287	3229	2994	2484	3985	3759	2493	4219
2012-13	4089	4347	3796	3575	2642	4120	3745	2713	4494
2013-14	4253	3345	4183	3681	3130	4036	4073	3958	5333
2014-15	4669	3659	5573	4218	5593	4632	3891	3822	3770
Avg.	2602	2468	2780	2604	2669	2865	2591	2040	2993

Range of cost of production of cotton

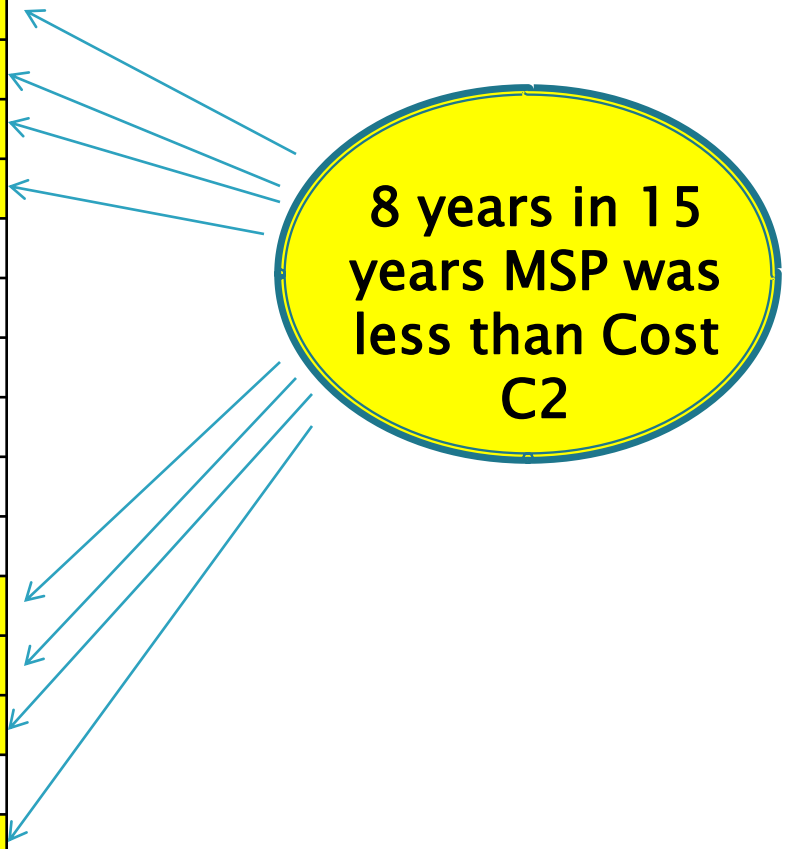
(Rs./Q)



Year	Difference
2000-01	1806
2001-02	3372
2002-03	1381
2003-04	1014
2004-05	1155
2005-06	1422
2006-07	1110
2007-08	782
2008-09	781
2009-10	809
2010-11	1656
2011-12	1736
2012-13	1852
2013-14	2204
2014-15	1933

Comparison of MSP with cost C2

Year	MSP Rs/Q	Cost C2 Rs/Q	Difference
2000-01	1825	2235	-410
2001-02	1875	2447	-572
2002-03	1895	2233	-338
2003-04	1925	1991	-66
2004-05	1960	1845	115
2005-06	1980	1968	12
2006-07	1990	1858	132
2007-08	2030	1846	184
2008-09	3000	2302	698
2009-10	3000	2438	562
2010-11	3000	3049	-49
2011-12	3300	3507	-207
2012-13	3900	3982	-82
2013-14	4000	3895	105
2014-15	4050	4419	-369



No of instances when cost of production is greater than MSP in cotton growing states of India

Rs/Q

Year	Rajasthan	Gujarat	Haryana	Andhra Pradesh	Karnataka	Punjab	Madhya Pradesh	Tamil Nadu	Maharashtra
2000-01	1178	2778	1562	1718	2499	1968	2817	2985	2269
2001-02	1324	2618	4696	1751	2287	2622	2688	2381	2205
2002-03	2351	1956	1874	1634	2239	2606	3015	2592	2392
2003-04	1674	1567	2008	1720	2233	2228	2581	2491	2152
2004-05	1390	1501	1479	1814	1717	1601	2546	2274	2146
2005-06	1296	1595	2166	2291	2247	1612	2022	2718	2150
2006-07	1211	1709	1924	1598	1947	1630	2321	1958	2052
2007-08	1449	1717	1876	1709	1677	1826	2035	2231	2011
2008-9	1916	2182	2127	2510	2233	2004	1758	2015	2539
2009-10	1863	2332	2414	2407	2568	2354	2014	2575	2672
2010-11	1958	2431	2801	3306	2939	2947	2391	2854	3614
2011-12	2493	3287	3229	3559	2994	3759	2484	4219	3985
2012-13	2713	4347	3796	4089	3575	3745	2642	4494	4120
2013-14	3958	3345	4183	4253	3681	4073	3130	5333	4036
2014-15	3822	3659	5573	4669	4218	3891	5593	3770	4632
C2>MSP	1	4	5	6	6	6	9	10	12

Comparison of FHP with MSP

Rs/Q

Year	FHP	MSP	FHP-MSP
2000-01	2011	1825	186
2001-02	1787	1875	-88
2002-03	1939	1895	44
2003-04	2217	1925	292
2004-05	1750	1960	-210
2005-06	2705	1980	725
2006-07	2916	1990	926
2007-08	3252	2030	1222
2008-9	3840	3000	840
2009-10	4388	3000	1388
2010-11	6025	3000	3025
2011-12	5572	3300	2272
2012-13	5709	3900	1809
2013-14	6810	4000	2810
2014-15	5788	4050	1738

Not based on current year costs

MSP is declared before the sowing season starts

Cost escalations due to increase in input prices

Decline in yield due to unforeseen conditions

Conclusions

MSP should be at least 50% more than the weighted average cost of production (as recommended by the National Commission On Farmers).

There should be separate MSP for each state

Cost escalation after the announcement of the MSP should be considered during its implementation

Thank you