

PRICE RISKS MAKE FARMERS WARY OF PRIVATE MARKETS

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

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Why are farmers more wary of pvt markets?

Over the last five years, low global and domestic commodity prices have taken a toll on [agricultural incomes](#). Many farmers already depend on private markets, and not the government, to sell their produce. In private agri markets, price risks are high and recurrent. Prices of commodities like cotton are determined by global trends, while those of perishables fluctuate depending on seasonal factors, weather and demand-supply dynamics. Due to their weak bargaining power in the private market—a result of their inability to store, process or time sales—farmers often dump their perishables or sell them dirt cheap.

How do the farmers counter these risks?

With price risks taking a toll on income, farmers often fall back on assured government purchase of cereals like rice and wheat, where prices are comparatively steady. This is why the Punjab farmer is addicted to paddy, even though its cultivation has depleted ground water tables. The same is true for sugarcane where the Centre announces a fair price. The lopsided price incentives, coupled with risks in alternative crops, force a water-stressed region like Marathwada to grow cane. Centre hopes that alternative marketing channels envisaged in the reform acts will lift farm-gate prices and align crop choices to demand.

Can competitive markets ensure a fair deal for them?

The evidence within India is thin. In Bihar, for instance, which abolished regulated markets in 2006, and where purchases at MSP are negligible, farmers sell paddy and maize at a large discount to support prices. In fact, private traders often purchase paddy and wheat cheap in Bihar and sell in Punjab and Haryana at MSP where the procurement infrastructure is robust.

What about contract farming and its risks?

One of the laws offers contract farming as a way to counter price risks. For some commodities such as poultry and organic crops, contracts have worked well. But potato growers complain that firms refuse to buy produce by raising quality concerns when market rates go below contracted price. Similarly, buyers run risks of farmers reneging on a contract when market prices shoot higher than the contracted price. Food firms say they are unable to hedge risks as crop derivatives market is not well developed in India.

How can the Centre ensure fair returns?

Globally, the norm is to provide direct cash support. In effect, a fixed upfront subsidy is granted based on the land holding size. No country has an entirely free market-driven agri marketing structure. The ongoing protest is a contestation about the nature of the subsidy regime and whether there is protection for the farmer from inevitable price risks. The cash support schemes beginning to be put in place aren't adequate to replace the MSP regime. And it is the fear of price risks which has brought farmers out on the streets.

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