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# MINIMUM SUPPORT PRICE ACTS AS A DEFACTO LAW ON FARM INCOME

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*This article discusses the Farmer's protest for Minimum support price and the measures of the Government towards it.*

## ABSTRACT

Agriculture is the backbone in food production of any society. There are many people who engage themselves in farming activities either on a commercial basis or for subsistence. This is very critical to the peasant farmers since they may be out of employment. Agriculture is the backbone of food security for any given society.

Agricultural Income earned by a tax payer in India is covered under exemption u/s 10(1) of the IN-COME TAX ACT, 1965 . And it is not subject to taxation without restriction. You can have agricultural income quite frankly even billions and not pay a single rupee in income tax. Agricultural income has served the purpose of laundering the black money for last 70 years.

Minimum Support Prices (MSP) have been a supportive factor for many Indian Farmers as they can gain back returns which are fair enough for their labor. Minimum Support Price (MSP) stands for the rate at which the crop is sold to government purchasing agencies at a minimum figure. It provides protection to farmers from the buyers' market so they have a steady income. MSP is fixed by Commission for Agricultural Costs and Prices(CACP). But declaring an MSP for any crop does not mean that it is a legal binding where the government will purchase all the 23 crops at the indicated MSP at any time farmers want to sell

**Keywords:** Agriculture, Farmers, Minimum support price, legal guarantee, Government

## **INTRODUCTION:**

Indian Agriculture has been grossly unremunerative for the most farmers for a long time. There have been a lot of talks about the Farmer's protest and their demands for legal guarantee backing Minimum Support Price.

In 2021, Present Prime Minister repealed a set of agricultural laws that the protesting farmers said it would hurt their incomes. In our country even though, Agricultural income is exempted from Tax, there are a lot of issues in the agricultural sector and between the farmers and even between the Government and the farmers.

The primary demand of the Farmer's protest is on Minimum Support Price, which is a price support price, which is a price support scheme covers 23 crops. Minimum Support price does not have statutory backing in law. They want Minimum Support Price as a legal guarantee.

### **What is Minimum Support Price (MSP)?**

India's Minimum Support Price (MSP) system is vital in guarantee's price support to the farmers for their produce, ensuring the farmers have a reasonable income.<sup>1</sup>

The CACP is responsible for fixing the MSP for all crops based on the cost of production, demand-supply, market prices and many other relevant factors.

Government procurement agencies pay out a Minimum Support Price (MSP) to farmers, which is the lowest price available for crops. Thus – it protects the farmers in the market by ensuring that they have a steady source of income.

Also, the farmers' fair prices are guaranteed with the help of the MSP which is set by CACP after taking into account the cost of farmers, market trends, and the balance of demand and supply.

CACP was created in 1965 and is attached to The Ministry of Agriculture and Farmers Welfare.

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<sup>1</sup>*Sonu Vivek, What is MSP and why are farmers protesting (Feb 14, 2024),*  
[www.indiatoday.in/business/story/explainer-what-is-msp-why-are-farmers-protesting-latest-news-2502108-2024-02-14](http://www.indiatoday.in/business/story/explainer-what-is-msp-why-are-farmers-protesting-latest-news-2502108-2024-02-14)

Minimum Support Price (MSP) is a tool applied by the Indian government to provide an assurance to agricultural producers against the rapid decline in prices of agricultural products. Minimum support prices are set out by the Central Government of India during the sowing period for selected crops as per the suggestions of MSP – CACP.

### **HISTORICAL PERSPECTIVE OF MSP:**

The Price Support Policy of the Government is directed at providing insurance to agricultural producers against any sharp fall in farm prices. The minimum guaranteed prices are fixed to set a floor below which market prices cannot fall. Till the mid-1970s, Government announced two types of administered prices:

- Minimum Support Prices (MSP)
- Procurement Prices

The government set the MSPs, which acted as floor prices, as a long-term guarantee for producers' investment decisions, ensuring that, even in the event of a bumper crop, the prices of their commodities would not drop below the government-set level. The prices at which public organizations (such as the FCI) were to domestically acquire kharif and rabi cereals for disbursement through PDS were known as procurement prices. Shortly after harvest started, it was announced. The procurement price was often greater than the MSP and lower than the open market price.

This policy of two official prices being announced continued with some variation up to 1973-74, in the case of paddy. In the case of wheat it was discontinued in 1969 and then revived in 1974-75 for one year only. Since there were too many demands for stepping up the MSP, in 1975-76, the present system was evolved in which only one set of prices was announced for paddy (and other kharif crops) and wheat being procured for buffer stock operations.

### **DETERMINATION OF MSP:**

In formulating the recommendations in respect of the level of minimum support prices and other non-price measures, the Commission takes into account, apart from a comprehensive view of the entire structure of the economy of a particular commodity or group of commodities, the following factors: -

- Cost of production
- Changes in input prices
- Input-output price parity
- Trends in market prices
- Demand and supply
- Inter-crop price parity
- Effect on industrial cost structure
- Effect on cost of living
- Effect on general price level
- International price situation
- Parity between prices paid and prices received by the farmers.
- Effect on issue prices and implications for subsidy

### **Factors Important for Minimum Support Price**

- India's agricultural policies are heavily influenced by the Commission for Agricultural Costs and Prices (CACP), especially when it comes to setting the Minimum Support Price (MSP). The CACP carefully examines the several aspects that affect MSP choices in order to protect farmers' interests. They are listed as follows:
- **Supply and Demand:** The Minimum Support Price (MSP) is determined by supply and demand dynamics. Policymakers establish an MSP that is in line with market forces by carefully examining market demand and the supply of a specific crop. Maintaining equilibrium between these variables guarantees that the MSP appropriately supports farmers and reflects the state of the economy.
- **Production Cost:** One of the main factors affecting MSP is the cost of production. This covers a range of prices, including labor, technology, and input costs. A thorough grasp of these costs aids in establishing an MSP that guarantees farmers meet their costs and encourages sustainable farming methods.

- **Effects of MSP on Consumers:** Although MSP helps farmers, it also affects consumers. End users may see higher pricing as a result of higher MSP. A sustainable and inclusive agricultural policy must strike a balance between helping farmers and not unduly burdening consumers.
- **Price Trends:** Determining MSP requires examining past price trends. It helps policymakers design an MSP that lessens the impact of market swings on farmers by shedding light on the cyclical nature of agricultural prices.
- **Over 50% Margin of Cost of Production:** It is essential for farmers' financial security to have an MSP with a margin greater than 50% of the cost of production. By serving as a safety net, this margin protects farmers against unanticipated difficulties and guarantees a just return on their investment.
- **Trade Terms:** MSP is impacted by both domestic and foreign trade terms. A sustainable and globally competitive agriculture industry is fostered by MSP's ability to compete domestically and in accordance with international standards thanks to its understanding of global market and trade dynamics.
- **Price Parity Among Crops:** A balanced agricultural environment depends on maintaining price parity among crops. It promotes variety and a well-rounded approach to agricultural sustainability by preventing an excessive focus on any one crop.

## **CROPS & PRICES ON MSP**

### **CROPS COVERED:**

Government announces minimum support prices (MSPs) for 22 mandated crops and fair and remunerative price (FRP) for sugarcane. The mandated crops are 14 crops of the kharif season, 6 rabi crops and two other commercial crops. In addition, the MSPs of Toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/mustard and copra, respectively. The list of crops are as follows.

- Cereals (7) - paddy, wheat, barley, jowar, bajra, maize and ragi
- Pulses (5) - gram, achar/tur, moong, urad and lentil

- Oilseeds (8) - groundnut, rapeseed/mustard, Toria, soyabean, sunflower seed, sesamum, un safflower seed and Niger seed
- Raw cotton
- Raw jute
- Copra
- De-husked coconut
- Sugarcane (Fair and remunerative price)
- Virginia flu cured (VFC) tobacco

#### **Latest Minimum Support Price - Kharif (2023-24); Rabi (2024-25)**

In India, sowing seasons differ from one state to the next, and crop variety also affects harvesting. As a result, a crop that is harvested during kharif may arrive at the market before October. Kharif Crops' 2023–24 MSP is effective as of September 1, 2023. MSP is for Rabi Marketing Season (RMS) 2024–2025 for all required Rabi crops.

In order to ensure that farmers receive fairly compensated compensation, the Union Budget 2018–19 announced that the MSP for Kharif Crops for the Marketing Season 2023–24 would be raised to at least 1.5 times the All-India weighted average Cost of Production.

According to estimates, bajra has the biggest predicted margin to farmers over their cost of production (82%) followed by tur (58%), soybean (52%), and urad (51%). It is projected that farmers will receive a margin of at least 50% above their cost of production for the remaining crops.

To ensure that growers receive fair prices for their produce, the government has raised the Rabi Crops MSP for the 2024–2025 marketing season. At Rs. 425 per quintal, lentil (masur) has the largest approved MSP rise, followed by rapeseed and mustard at Rs. 200 per quintal. An rise of Rs. 150 per quintal has been approved for safflower and wheat, respectively. An increase of Rs. 115 per quintal for barley and Rs. 105 per quintal for gram has been granted.

## Various Committees on Minimum Support Price (MSP)

### **Agricultural Prices Commission (APC):**

- To suggest MSPs for agricultural commodities, the Agricultural Prices Commission (APC) was established in 1965. Later, it was renamed the Commission on Agricultural Costs and Prices (CACP). The CACP recommends MSPs for 23 crops, including cotton, oilseeds, pulses, wheat, and rice.
- **National Commission on Farmers (NCF):** Led by M.S. Swaminathan, the NCF was founded in 2004 with the goal of addressing farmer issues and suggesting policies that would benefit them. The NCF suggested that MSP be at least 50% profit above manufacturing costs.
- **The Shanta Kumar Committee** was established in 2014 with the goal of reviewing the Food Corporation of India (FCI) and proposing changes. The committee suggested that farmers be supported on an income basis instead of a price basis.
- The **Justice DP Wadhwa Committee**, a panel established by the SC, stated in a 2009 report that the PDS system is corrupt and ineffective. The transporters, fair price store owners, and representatives of the department of food and civil supply have an unholy relationship.

According to a **National Sample Survey Office (NSSO)** report from 2012–13, fewer than 10% of Indian farmers sell their produce at the Center-set Minimum Support Price (MSP). Only 6% of Indian farmers are thought to have access to the MSP-based procurement system, according to India Today's research.

- Former Union Minister **Shanta Ku-mar** chaired a committee established by the **Narendra Modi administration** in 2014 to investigate the food procurement system. The committee suggested that the government switch from delivering foodgrains "in-kind" to a system of giving selected people direct cash transfers.
- Chief Economic Advisor (CEA) **Rd. Krishnamurthy Subramanian** proposed in June 2020 that the PDS's coverage be reduced from 70% to 20% and that a system of direct cash transfers to beneficiaries be implemented.

## **Is the MSP Different in different states?**

These concern the number of farmers who have used the MSP, the economic groups to which these farmers belong, and the states in which these advantages have been obtained.

The cost of a comparable crop varies from state to state due to variations in irrigation and wages. There is just one MSP for the entire nation, nevertheless, because there is no draft of the local MSP. There is a common misperception that the MSP exclusively benefits large farmers, that very few farmers gain from it, and that only farmers in Punjab and Haryana (and, to a lesser extent, western Uttar Pradesh) benefit.

The generalization of this information is that only a small percentage of agricultural households in the nation directly profit from the wheat and rice procurement operations that FCI [Food Corporation of India] is largely entrusted with. It follows that a significant portion of the purchases made by government organizations come from larger farmers in a few chosen states (Punjab, Haryana, Andhra Pradesh, and more recently, Madhya Pradesh and Chhattisgarh).

## **Current Status of MSP**

Because India has extensive storage facilities for rice and wheat and uses the produce for its public distribution system (PDS), the Union Government sets an MSP for 23 crops annually prior to the sowing season.<sup>2</sup>

It accounts for both paid-out costs like seeds, fertilizer, pesticides, fuel, irrigation, hired labor, and leased land, as well as the imputed value of unpaid family labor. Nevertheless, there is currently no statutory support for these prices, nor is there a law requiring their enforcement.

o A farmer cannot demand MSP as a matter of right.

## **DEMANDS OF FARMERS AND AN OUTLINE OF THREE REPEALED FARM LAWS**

- The farmers requested a formal guarantee for MSP and demonstrated against the new

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<sup>2</sup> Divya Goyal , Why farmers are protesting: Behind reluctant diversification in Punjab — and MSP law demand — a litany of loss (February 25, 2024 09:05 IST),[indianexpress.com/article/cities/chandigarh/farmers-protesting-diversification-punjab-msp-law-demand-litany-loss-9179474/](https://indianexpress.com/article/cities/chandigarh/farmers-protesting-diversification-punjab-msp-law-demand-litany-loss-9179474/)



farm law. The protest was withdrawn after the three farm laws were abolished by the administration. Farmers, however, continued to demand MSP's legal certainty. is calling for the adoption of the Swaminathan Committee's recommendations and a legal guarantee of MSP. Additionally, they are calling for loan relief, World Trade Organization withdrawals, and farmer pensions.

- A law guaranteeing the Minimum Support Price (MSP) for all crops and determining agricultural prices in accordance with the Dr. M S Swaminathan Commission's recommendations is the main demand in the farmers' **12-point agenda**.
- The government should increase the MSP by at least 50% over the weighted average cost of production, according to the Swaminathan Commission Report. Another name for it is the **C2+50%** formula. In order to provide farmers with 50% returns, it incorporates the imputed cost of capital and the land rent, or "C2."
- The opportunity cost of using resources like labor, capital, and land is taken into consideration using imputed cost.
  - **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**.

### **THREE FARM LAWS WHICH WERE REPEALED BY 2021 FARMER'S PROTEST:**

**The Farm Laws Repeal Bill, 2021** was introduced in Lok Sabha on November 29, 2021 by the Ministry of Agriculture.

**Repeal:** The Bill repeals the three farm laws passed by Parliament in September 2020.

These are:

- (a) **The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020,**
- (ii) **The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, and**

**(iii) The Essential Commodities (Amendment) Act, 2020.**

**These laws were enacted to:**

1. provide a framework for contract farming,
2. facilitate barrier-free trade of farmers' produce outside the markets notified under the various state Agricultural Produce Marketing Committee (APMC) laws, and
3. regulate the supply of certain food items (such as cereals, pulses, and onions) only under extraordinary circumstances such as war, famine, and extraordinary price rise. Note that, in January 2021, the Supreme Court had stayed the implementation of the three farm laws.

**INITIAL FARM PROTEST DEMANDS:**

They had **five fold demands**.

- First, a group of stakeholders, including representatives from the farmers, will determine the minimum support price (MSP) for agreed-upon items.
- Secondly, police cases against the protesting farmers were withdrawn in a number of states and locations.
- Third, payments to the farmer to make up for the losses incurred during the period of unrest.
- The farmer's electricity bill comes in at number four.
- And fifth, the government agreed to remove farmers from the law's criminal culpability regarding stubble burning that contributed to air pollution.

**Why MSP is needed to support farmers?**

The Indian government introduced the Minimum Support Price (MSP) to help farmers obtain just pricing for their goods. The Commission on Agricultural Costs and Prices (CACP),

formerly known as the Agricultural Prices Commission and renamed in 1985, is responsible for determining MSP.

The CACP, which is housed inside the Ministry of Agriculture and Farmers Welfare, submits its recommendations to the Prime Minister of India's Cabinet Committee on Economic Affairs (CCEA), which has the last say over MSP levels.

Currently, CACP recommends MSPs for 22 commodities: three commercial crops (copra, cotton, and raw jute), seven oilseeds (groundnut, rapeseed-mustard, soybean, sesamum, sunflower, safflower, and niger), five pulses (gram, toor or pigeon peas, moong or green gram, urad or black lentil, and lentil), and seven cereals (paddy, wheat, maize, sorghum, pearl millet, barley, and madua or Finger millet). In addition, fair and remunerative prices (FRP) for sugarcane are announced by the CCEA.

Additionally, MSP is provided for 87 small forest products (MFP) by the Union Ministry of Tribal Affairs (MoTA) under the "Mechanism for Marketing of Minor Forest Produce through Minimum Support Price and Development of Value Chain for MFP" program. This does not include tendu leaves, which are obtained in the majority of states by the forest department.

A press release by the Union Ministry of Agriculture & Farmers Welfare on June 7, 2023 shows that the government is already providing MSPs at 50 per cent or above over the production cost for all 23 crops.

### **Farmers requesting an MSP legal guarantee**

A legal assurance from the government to buy all 23 crops under MSP anytime the farmers choose to sell them is not the same as simply proclaiming MSP for crops. Farmers demonstrated against the new farm law in 2020–21 and called for a legal guarantee for MSP.

The protest was withdrawn after the three farm laws were abolished by the administration. Farmers, however, continued to demand MSP's legal certainty. Around 14,000 farmers gathered across Punjab, Haryana, and Uttar Pradesh in 2024 as part of a demonstration organized by a number of farmers' organizations, calling for the adoption of the Swaminathan

Committee's recommendations and a legislative guarantee of MSP. Additionally, they are demanding WTO withdrawals, loan waivers, and farmer pensions.

The farmers also want the government to keep its pledge to increase their earnings. If farmers are forced to sell their produce below MSP, the second alternative is to pay them directly. In that scenario, the government can pay the difference between the farmers' actual price and the MSP. Compared to 7.5 lakh crore, that would be significantly less. According to several estimates, the sum will be between Rs 30,000 and Rs 50,000 crores. Any of these latter two choices could result in a law requiring the government to take the required actions to guarantee MSP.

## **GOVERNMENT'S STANCE AND PROBLEMS BEHIND IMPLEMENTATION**

### **Country's refusal to accept true nature of Agriculture**

Regretfully, since independence, ruling regimes have rejected agriculture as a commercial enterprise and farmers as private producers, with no government responsibility to guarantee prices and profits to one group of private producers over another.

Because of this, the nation has continued to implement incorrect agricultural policies for far too long, creating a completely distorted market in which very few intermediaries are successful. Therefore, it is believed that criminalizing business activities and making MSP a legal right will be a regressive step.

A typical farmer has every right to demand a higher price for his produce. However, it is believed that giving MSP legal support to control the prices of agricultural products will have severe effects on the farming industry.

### **A look at a Fundamental rule of Economics**

There will always be excess production when a price floor is established, according to a basic principle of economics. The MSP will be precisely like this. The surplus **wheat and rice** generated each year is purchased at MSP. The price certainty provided by such guaranteed prices influences planting decisions because these crops are the ones for which MSP purchase is most effective. However, only a small portion of the food is apparently bought due to financial and

logistical limitations, benefitting just a small number of farmers—roughly 6%—mostly in Punjab and Haryana.<sup>3</sup>

### **If the Government decides to buy all crops?**

There will be issues with storage if the government chooses to purchase all of the crops as the protesters have demanded, and crop quality issues if MSP is made mandatory since the government will have to make the following decisions:

1. What quality will MSP purchase, and
2. Who will purchase it and what will be the price for the poor quality?

Even with the restricted procurement, FCI currently has an enormous excess of coarse grains. According to a research by the Rockefeller Foundation and Intellectap, a consultancy,

- post-harvest losses in cereals like rice and wheat have ranged from 3.9% to 6%, and
- Post-harvest losses of crops have been estimated at Rs 92,600 crore annually.

Among the demands of farmers protesting what they call the “Black Laws” are that MSP be declared a legal *entitlement*, and that it be set “at least 50 per cent over the weighted average cost of production” as per the recommendations of the M. S. Swaminathan-headed National Commission for Farmers (National Commission for Farmers 2006).

### **It is opined:**

1. Legalising MSP could be **the most disastrous policy that the country has ever adopted, with the biggest casualty being the farmers themselves;**
2. Once MSP is legalised, such procurement will increase in terms of quantities procured, forcing the FCI to dump even more stock, with the price getting depressed further. **Such**

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<sup>3</sup>Gopal Naik & Gopi Sankar G, Farmer’s protest, MSP and beyond, (Feb 27, 2024 )  
[www.iimb.ac.in/sites/default/files/2024-02/Farmers-protests-MSP-beyond.pdf](http://www.iimb.ac.in/sites/default/files/2024-02/Farmers-protests-MSP-beyond.pdf)

**sale of Agri-produce, combined with the ban on purchase below the MSP directly from the farmers, will then close all avenues for sale by the farmers.**

3. The private sector, including small traders, in the event of mandatory MSP, will have no option but to stay out of the market.<sup>4</sup>

In fine, if the government makes MSP mandatory by law, it will be applicable to all crops, not just paddy or wheat & if it were to procure all 23 crops at MSP, the government may have to spend about 85 % of the total budget for providing MSP. It has been indicated in this connection that, if an MSP guarantee law were to be introduced, the government will have to incur an additional expenditure of at least Rs. 10 lakh crores annually.

#### **CASE LAWS:**

- **Milan Anandan Son Of Sri A.K. vs States Of U.P., Through The Secretary**

This case was heard on September 29, 2005, and dealt with the purchase of wheat at a price below the MSP.<sup>5</sup>

- **M/S Sri Saikrupa Industries, Kaloor ... vs Food Corporation Of India, Regional**

This case was heard on September 23, 2014, and dealt with India recovering amounts on account of non-payment of MSP for non-FAQ paddy.<sup>6</sup>

- **Stubble burning**

On November 21, 2023, the Supreme Court suggested excluding farmers who burn stubble from the MSP. The court's reasoning was that people who violate orders and light fires should not be allowed to benefit monetarily.

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<sup>4</sup>Dr. Prashant Prabhakar Deshpande,( February 17, 2024, 8:06 AM IST)Analysing implications of SKM's demand for legalising MSP, in Truth, Lies and Politics, India, TOI timesofindia.indiatimes.com/blogs/truth-lies-and-politics/analysing-implications-of-skms-demand-for-legalising-msp/

<sup>5</sup> Milan Anandan Son Of Sri A.K. Anandan, ... vs States Of U.P., Through The Secretary, ... on 29 September, 2005

<sup>6</sup> M/S Sri Saikrupa Industries, Kaloor ... vs Food Corporation Of India, Regional ... on 23 September, 2014

- **MSP recommendations**

The Supreme Court requested a response from the government on a PIL seeking the implementation of the M.S. Swaminathan-led National Commission on Farmers' recommendations. The recommendations include that the MSP for farmers should be at least 50% more than the weighted average cost of production.<sup>77</sup>

### **CONCLUSION:**

In an effort to assist farmers in securing fair prices for their produce, the government of India implemented the Minimum Support Price (MSP). The determination of MSP falls under the purview of the Commission for Agricultural Costs and Prices (CACAP),

However, announcing MSP for crops is not the same as giving a legal guarantee by the government to procure all 23 crops in MSP whenever the farmers wish to sell them.

In 2020-21, the farmers protested against the new farm law and demanded a legal guarantee for MSP. After the government repealed the three farm laws, the protest was withdrawn. However, farmers kept on demanding legal assurance of MSP.

One opinion is that it is practically impossible to create a legal provision for MSP. The combined value of all crops covered under MSP, produced in 2020, was Rs 10 lakh crore. India's total budgeted expenditure in 2023-24 is around 45 lakh crores; so, it is practically impossible to spend 10 lakh crores only to buy crops from farmers.

Minimum Support Price is an effort made by the Government to assist farmers; it is opined on one side that it is impossible to declare it as a legal guarantee which would amount to huge spending.

Agriculture is the main source of food than infrastructure spending. Even MSP issue could not be solved in a whole, but minimal steps can be taken by the Government for at least major crops. Farmers should be prevented from committing suicides due to various factors of agrarian distress.

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<sup>77</sup> <https://www.livelaw.in/top-stories/supreme-court-stubble-burning-delhi-air-pollution-msp-242697#:~:text=The%20Supreme%20Court%20on%20Tuesday,financing%20their%20operating%20costs...>