GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
STARRED QUESTION No. *297

TO BE ANSWERED ON: 5TH AUGUST, 2016
FOOD INFLATION

***297: SHRI RAHUL SHEWALE**

SHRI BHARTRUHARI MAHTAB

Will the **Minister of Finance** be pleased to state:

(a) whether trading in Commodity Market and black marketing of food commodities have played a significant role in high food inflation in the country and if so, the details thereof;

(b) whether cases of irregularities in the functioning of Commodity Market have come to the notice of the Securities and Exchange Board of India (SEBI) since 2015 and if so, the details thereof; and

(c) the steps taken by the Government to regulate commodity market, check black-marketing of food items and curb high food inflation in the country?

ANSWER

MINISTER OF FINANCE
(SHRI ARUN JAITLEY)

(a) to (c): A statement is placed on the Table of the House.

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STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. *297 RAISED BY SHRI RAHUL SHEWALE AND SHRI BHARTRUHARI MAHTAB, MEMBERS OF PARLIAMENT DUE FOR ANSWER ON 5TH AUGUST, 2016 REGARDING "FOOD INFLATION"

(a) to (c):

Commodity futures market provides a platform for discovery of prices and hedging price risk. Several studies have pointed out that future trading per se does not lead to any price rise. For instance, Abhijit Sen Committee set up by the Government in 2007 in this regard concluded that there is no causal relationship between futures trading and inflation. Similar view has been echoed in the RBI's Annual Report of 2009-10 also.

Besides, an independent study in 2012 by Dr. Ashok Gulati concluded that during 1995-96 to December, 2012, fiscal deficit, global food inflation and domestic wages were instead the primary reasons for food inflation in India.

Fifteenth Report (2011) of the Parliamentary Standing Committee on Food, Consumer Affairs and Public Distribution states that futures trading does not impact the prices of agricultural commodities and that the Committee do agree with the views of various cooperatives and farmers organisations that commodity futures market is useful to the real economy and small / marginal farmers.

Black Marketing is only one of the many reasons for inflation of food or essential commodities. Rise of prices of any essential commodity depends on various factors, such as, demand and supply mismatch, trend of prices in international markets, etc.

Securities and Exchange Board of India (SEBI) took over regulatory functions of commodity derivatives markets on September 29, 2015 and no case of irregularities in the functioning of commodity derivative exchange has come to its notice. In so for as the trading in futures contracts is concerned, an instance of suspension of the trading in all the running futures contracts in Castor Seed at the close of business by the National Commodity and Derivatives Exchange Limited on January 27, 2016 was noticed by SEBI, in response to which, it took effective remedial measures.

SEBI has taken various measures and has prescribed specific norms for strengthening of the commodity derivatives market in the areas of Risk Management framework, position limits, daily price limits, governance of exchanges, registration of brokers, arbitration mechanism, investor grievance redressal mechanism, etc. Exchanges have to comply with all such norms prescribed by SEBI within the specified timeframe, compliance of which is monitored by SEBI by way of periodic inspections. SEBI also carries out integrated monitoring and surveillance of commodity derivatives market.

The Government has, inter alia, undertaken the following measures to check black marketing of food items and curb inflation, in particular, food inflation:

i. Issued advisories to States / Union Territories to take strict action against hoarding and black marketing under the Essential Commodities Act, 1955 and the Prevention of Black-Marketing and Maintenance of Supplies of Essential Commodities Act, 1980.

ii. Imposition of stock holding limits and coordinated dehoarding operations to increase the availability of pulses in the market.

iii. Approved buffer stock of pulses under the Price Stabilization Fund. Increased allocation of Rs. 900 crore for Price Stabilization Fund in the Budget 2016-17 to check volatility of prices of essential commodities, in particular of pulses.

iv. Imposed 20 per cent duty on export of sugar and extension of "zero import duty" on pulses.

v. With the objective to safeguard the interest of farmers, the Government, on the recommendations of Commission for Agricultural Costs and Prices, increased the Minimum Support Prices (MSP) for kharif pulses for 2016-17 season. In order to further incentivise farmers to increase the acreage under pulses so as to tame prices of pulses, Government has decided to give a bonus of Rs. 425/- per quintal for kharif pulses, namely Arhar (Tur), Urad and Moong, payable over and above the MSP recommended by CACP.

vi. To facilitate procurement of pulses, Government has designated Food Corporation of India as the nodal agency for procurement of pulses and oilseeds, due to its pan-India presence. Small Farmers' Agribusiness Consortium and National Agricultural Cooperative Marketing Federation of India also supplement the efforts of Food Corporation of India on the procurement of pulses and oilseeds.
