Q14

Elucidate the importance of buffer stocks for stabilizing agricultural prices in India. What are the challenges associated with the storage of buffer stock? Discuss.

UPSC Civil Services Mains 2024 · GS III · 15 marks · Farm Subsidies and PDS

Issues related to direct and indirect farm subsidies and minimum support prices; Public Distribution System - objectives, functioning, limitations, revamping; issues of buffer stocks and food security; Technology missions; economics of animal-rearing.

Core demand of the question

- Elucidate why buffer stocks stabilise agricultural prices in India
- Discuss the challenges of storing those stocks
- Keep FCI, MSP and the consumer together

Revision summary

Buffer stocks buy rice and wheat at MSP so harvest prices do not crash, and release them through PDS and open sale so retail prices do not spike.

FCI and State agencies hold the central cereal pool; a Price Stabilisation Fund is used for some pulses and perishables.

- **Storage challenges:** CAP exposure, rodents and fungus, high carrying cost, and stocks piled in a few surplus States.

A rice-wheat mountain does not automatically cool onion or tur inflation.

Silos, WDRA warehouses and a wider commodity set are the storage reforms that match the price-stability claim.

Introduction

A bumper harvest without a buyer is a **crash**. A drought without grain in a godown is a **riot of prices**. **Buffer stocks are how the Indian State sits between those two failures: buy when the farm-gate is weak, sell or ration when the kitchen is dear**. Wheat and rice, held mainly by the **Food Corporation of India** and State agencies, are still the core of that instrument.

Body

Why buffers stabilise prices

Under **MSP procurement**, a floor is put under rice and wheat in surplus belts. Grain that would have flooded the mandi is **lifted into the central pool**. That **supports farm prices** in the harvest window. In a lean or shock year, **open market sale**, **OMSS** and **NFSA / PDS issue** put grain back, which **caps retail spikes** for the cereal poor. The buffer is also a **war and pandemic reserve**: 2020 showed why a public pile matters when private trade panics. For pulses and onion the Union has used a **Price Stabilisation Fund** and smaller buffers, because those items often lead CPI. The logic is textbook **counter-cyclical stock**: absorb surplus, release deficit. It is also political: India does not leave cereal security only to a futures screen.

- **Peg:** FCI plus DCP State agencies are the operational arms of the cereal buffer.
- **Peg:** NFSA off-take is the regular release valve; OMSS is the extra valve when retail rice or wheat runs hot.

Storage challenges

The pile is **uneven**. Procurement is concentrated in **Punjab, Haryana and a few other States**, so grain must **travel and sit**. **Covered capacity** has often lagged the stock, forcing **Cover and Plinth (CAP)** storage that is vulnerable to **rain, rodents and theft**. Quality loss - **refraction, fungus, weevils** - is a fiscal and a food-safety cost. **Older grain** is harder to move before a new harvest arrives. **High carrying cost** (interest, storage, transit) sits on the food-subsidy bill. **Regional mismatch** means a deficit State may still see a local spike while a Punjab silo is full. **Nutritional narrowness is a policy challenge: a rice-wheat buffer does little for onion or tur** unless separate stocks exist. **Private warehouses and WDRA** receipts are the intended modernisation; uptake is still catching the political need to **show a mountain of grain**. Climate adds **heat and untimely rain** on CAP stacks. The challenge is therefore not the idea of a buffer. It is **where it sits, in what, and of which crop**.

- **Peg:** CAP versus silo is the physical quality fight; Punjab-Haryana concentration is the geographic fight.
- **Peg:** A cereal mountain can coexist with horticulture inflation; the buffer is only as wide as what is actually stored.

What a rice-wheat pile cannot do

Stabilisation is **crop-specific**. A full FCI godown does not cap **onion, tomato or tur** unless a **Price Stabilisation Fund** or a separate pulse buffer is actually used. **Export bans** on top of a pile can scare the next sowing. **Open-ended procurement** without a storage plan turns a price tool into a **quality and fiscal** problem. The buffer remains essential for **cereal security**. It is not a universal inflation switch.

- **Peg:** OMSS works when grain is moved in time to the deficit market, not when it only exists on a weekly stock statement.
- **Peg:** Diversifying buffers toward pulses, if storage exists, is how the instrument tracks the modern CPI kitchen.

Flow diagram

Harvest surplus -> MSP procurement

MSP procurement -> Central buffer

Central buffer -> PDS and OMSS and OMSS

PDS and OMSS -> Kitchen price cap

CAP pests cost -> Central buffer

Conclusion

Buffer stocks stabilise Indian farm and kitchen cereal prices by buying at MSP and releasing through PDS and open sale. Storage still leaks value through CAP, pests, cost and a narrow rice-wheat map. A modern silo in the right State is the missing half of the stabilisation story.

Facts & figures

FCI

Food Corporation of India, the main Central agency for procurement, storage and movement of rice and wheat.

MSP

Minimum support price, the procurement floor that fills the cereal buffer in surplus belts.

National Food Security Act (NFSA)

National Food Security Act, 2013, the statutory PDS off-take that regularly draws down the buffer.

OMSS

Open Market Sale Scheme, used to sell public grain into the market when retail prices rise.

CAP storage

Cover and Plinth: grain stacked under tarpaulin, cheaper than silos and more exposed to weather and pests.

Price Stabilisation Fund

A Union instrument for market intervention in pulses, onion and similar items that cereal FCI stocks do not cover.