SKM seeks legal backing for MSP, repeal of electricity Bill

Context:

The Samyukta Kisan Morcha - the umbrella body of farmer unions that is leading the agitation against the Prime Minister Narendra Modi's three contentious farm laws – demanded a legal guarantee of remunerative Minimum Support Price (MSP) and withdrawal of the draft of Electricity Amendments Bill, 2020/2021.

Relevance:

GS-III: Agriculture (Agriculture Pricing), GS-II: Governance (Government Policies & Interventions, Issues arising out of the design and implementation of policies), GS-III: Industry and Infrastructure (Energy Sector, Sources of Energy, Types of Resources and Sustainable use of Resources)

Dimensions of the Article:

1. What is Minimum Support Price (MSP)?
2. Why is there a need for MSP?
3. What are the issues related to MSP?
4. Highlights of the Draft Electricity (Amendment) Bill, 2020
5. Key Issues and Analysis of the Draft Electricity Amendment Bill
6. Way Forward regarding the draft Electricity Amendment Bill

What is Minimum Support Price (MSP)?

- Minimum Support Price is the price at which government purchases crops from the

farmers, whatever may be the price for the crops.
- Commission for Agricultural Costs & Prices (CACP) in the Ministry of Agriculture recommends MSPs for 23 crops. These include 14 grown during the kharif/post-monsoon season (see table) and six in rabi/winter (wheat, barley, chana, masur, mustard and safflower), apart from sugarcane, jute and copra
- CACP consider various factors while recommending the MSP for a commodity like cost of cultivation, supply and demand situation for the commodity; market price trends (domestic and global) and parity vis-à-vis other crops etc.
- MSP seeks to:
  - Assured Value: To give guaranteed prices and assured market to the farmers and save them from the price fluctuations (National or International).
  - Improving Productivity: By encouraging higher investment and adoption of modern technologies in agricultural activities.
  - Consumer Interest: To safeguard the interests of consumers by making available supplies at reasonable prices.

Why is there a need for MSP?

- The MSP is a minimum price guarantee that acts as a safety net or insurance for farmers when they sell particular crops.
- The guaranteed price and assured market are expected to encourage higher investment and in adoption of modern technologies in agricultural activities.
- With globalization resulting in freer trade in agricultural commodities, it is very important to protect farmers from the unwarranted fluctuation in prices.

What are the issues related to MSP?

- Low accessibility and awareness of the MSP regime: A survey highlighted that, 81% of the cultivators were aware of MSP fixed by the Government for different crops and out of them only 10% knew about MSP before the sowing season.
- Arrears in payments: More than 50% of the farmers receive their payments of MSP after one week.
- Poor marketing arrangements: Almost 67% of the farmers sell their produce at MSP rate through their own arrangement and 21% through brokers.
- According to NITI Aayog report on MSP, 21% of the farmers of the sample States expressed their satisfaction about MSP declared by the Government whereas 79% expressed their dissatisfaction due to various reasons. Although, majority of the farmers of the sample States were dissatisfied on MSP rates, still 94% of them desired that the MSP rates should be continued.

Highlights of the Draft Electricity (Amendment) Bill, 2020

- The Bill provides for the constitution of Electricity Contract Enforcement Authority (ECEA). The ECEA will have sole authority to adjudicate upon specified contract-related disputes in the electricity sector.
- A common selection committee will be constituted to select the chairperson and members of the Appellate Tribunal (APTEL), the central and state regulatory commissions (CERC, SERCs), and ECEA.
- Currently, SERCs are required to specify regulations to progressively reduce cross-subsidy. The Bill requires them to adhere to the National Electricity Tariff Policy while determining the cross-subsidy.
- Government subsidy will not be accounted for while determining the tariff. Such subsidy will be provided directly to consumers.
- The Bill adds that a franchisee will be authorised with the information given to the SERC. The Bill provides for a new entity called Distribution Sub-licensee. A distribution licensee can authorise a sub-licensee to distribute electricity on its behalf with the prior permission of the SERC.
- State and regional load despatch centres will not schedule or despatch electricity if the distribution licensee has not provided adequate payment security, as agreed in the contract.
- The Bill empowers the central government to notify a National Renewable Energy Policy in consultation with state governments and prescribe minimum renewable and hydro purchase obligation.

Key Issues and Analysis of the Draft Electricity Amendment Bill

- The proposed common selection committee will have chief secretaries of two states as members, by rotation. A concerned state may not have a representative in the committee when recommending appointments to its SERC. The question is whether this undermines a state's powers to appoint its regulator.
- The proposed selection committee will also recommend appointments to the Appellate Tribunal. The composition of the proposed selection committee is contrary to the principles laid out by the Supreme Court to safeguard the independence of tribunals.
- The Draft Bill requires the SERCs to adhere to the National Electricity Tariff Policy for determining cross-subsidy. The question is whether matters of cross-subsidy should be determined by a uniform National Policy or continue to be determined by the SERCs.
- A distribution licensee can authorise a franchisee as well as a distribution sub-licensee to distribute electricity on its behalf. There is a need for clarity on the role of a franchisee and a distribution sub-licensee.

Way Forward regarding the draft Electricity Amendment Bill

- The Bill will set the process of de-licensing power distribution after the monopoly of the state is dismantled and this will provide the consumers with an option of choosing the service provider, switch their power supplier and enable the entry of private companies in distribution, thereby resulting in increased competition. (Success Story example: privatisation of discoms in Delhi has reduced AT&C losses significantly from 55% in 2002 to 9% in 2020.)
- Open access for purchasing power from the open market should be implemented across States and barriers in the form of cross subsidy surcharge, additional surcharge and electricity duty being applied by States should be reviewed.
- Tariffs ought to be reflective of average cost of supply to begin with and eventually move to customer category-wise cost of supply in a defined time frame. This will facilitate reduction in cross subsidies.
- Electrical energy should be covered under GST, with a lower rate of GST, as this will make it possible for power generator/transmission/distribution utilities to get a refund of input credit, which in turn will reduce the cost of power.
- Another possible way forward is the use of technology solutions such as installation of smart meters and smart grids which will reduce AT&C losses and restore financial viability of the sector.

-Source: The Hindu