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Last Modified: Fri, Mar 03 2017. 05 26 AM IST

Farmers are using futures contracts to counter price risks

According to NCDEX, over 25,000 small and marginal farmers from 13 FPOs have successfully hedged their crops on its trading platform in the past 10 months

Sayantan Bera

Currently rules do not allow futures trading in pulses and rice over fears it may lead to speculation or stoke inflation, but experts suggest a rethink. Photo: Mint

New Delhi: In a bumper crop year when farmers across the country have been battered by lower crop prices, farmers' groups are using futures contracts to hedge against price dips during the harvest season.

For instance, Samriddhi Mahila Crop Production Co. Ltd, a farmer-producer organization (FPO) for women in Bundi district of Rajasthan with 2,300 members, used the futures market to sell produce at prices that were higher than what wholesale markets offered two months later.

In September, it sold 100 quintals of soybean on the NCDEX (National Commodities and Derivates Exchange) futures platform at Rs3,300 per quintal. By November, when markets were flooded with soybean following a record crop, prices had fallen to Rs3,000 per quintal—and the FPO made a tidy profit of Rs30,000.

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This was a revelation for farmers like Savitri Goad, chairperson of the FPO. "We did not know that a standing crop can be sold at a price decided by us even before the harvest," she said.

The experience prompted the group to take more positions: since January the FPO has sold 400 quintals of mustard on NCDEX for delivery in April, at Rs3,900 per quintal. The current *mandi* or spot price for mustard is Rs3,500 per quintal and a record harvest means prices may dip further.

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"We used futures to minimize price risks for our farmers which is severe during good harvest years," said Souvik Dhar from the non-profit Srijan, which helps the Bundi-based FPO in its operations. "We wish pulses were allowed too. *Urad* prices have halved compared to last year and our farmers are selling at lower than government support prices," he added.

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"We need to allow futures and forward markets for a wider variety of crops and promote it aggressively," said Pravesh Sharma, former head of the Small Farmers' Agribusiness Consortium, a specialized agency of the agriculture ministry tasked with creating FPOs and linking them to markets.

"The government has to understand that while individual farmers cannot take positions (due to limited scale of produce) groups of farmers registered as FPOs will be attracted when more crops are allowed. State agencies can procure only in limited quantities (like in pulses) and the futures market can efficiently signal prices and help farmers make better crop choices," Sharma added.

A change may not be far off. The Union budget presented last month has signalled the government's intent to radically reform agriculture marketing.

Planned reforms include a new model law on contract farming that states can adopt, and the establishment of a committee to find ways to integrate spot and derivatives market for trading in agricultural commodities.

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First Published: Fri, Mar 03 2017. 01 19 AM IST