

improve productivity, increase warehousing and cold storage facility, improve other logistics including transportation, reduce wastage and reform the physical market structure to include private/co-operative markets, direct marketing, retail chains etc., the supply side structural constraints can be mitigated to meet the growing demand. Therefore, the question of putting a ban on forward/futures trading in essential commodities does not arise.

#### **Ban on future trading**

3473. SHRIMATI BRINDA KARAT: Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

(a) whether Government is aware that during discussion on price rise in Parliament there was a demand to ban all future/forward trading in essential commodities to prevent speculation led food inflation; and

(b) if so, the steps taken in this regard?

THE MINISTER OF STATE IN THE MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION (PROF. K.V. THOMAS): (a) Yes Sir.

(b) There is no evidence to prove that futures trading in essential commodities has fueled speculative price-rise. This has been demonstrated from the post-suspension price movement in 8 essential commodities, viz., rice, wheat, tur, urad, chana, soy oil, potato and sugar (apart from rubber) which were suspended from futures trading on 4 different occasions over the last 4 years (2007-10) to address the apprehensions that futures trading may, in some way, have contributed to price rise in these commodities. But, despite the suspension of futures trading in these commodities, prices of these commodities except potato continued to rise in the physical markets on the back of erratic supply and constantly rising demand. The prices of sugar, for example, almost doubled after suspension of futures trading. Prices of tur and urad have risen by over 100% post-suspension.

This goes to prove once again that since Indian commodity futures trading is regulated conservatively and effectively, as is evident from its successful weathering of the 2008-09 global financial crisis, and that it has not caused any price distortion or supply distortion. This has been corroborated by the RBI in its Annual Report of 2009-10 on the basis of detailed analysis of the futures market data of all essential commodities since 2004, *i.e.*, when the market opened up. The

comprehensive study by the RBI has, inter alia, noted that the price rise has been maximum in perishable essential commodities, viz., fruits and vegetables which are not traded in the futures market, and quite high in commodities, viz., tur, urad and sugar, post-suspension of futures trading, due to severe supply side constraints and rising demands. On the other hand, the study shows that the price rise in some of the essential commodities traded on the commodity futures market has been moderate or negative. Hence, RBI has rejected, after detailed statistical analysis, the hypothesis that futures market is responsible for price rise. It has attributed the price rise mainly to structural constraints in augmenting supplies in the face of rising demand in a rapidly growing economy. Thus, stopping of derivative trading in commodities will in no way address the issue of price rise, the reasons for which lie in the demand-supply gaps in the physical market.

In fact, the futures market price signals help the policy makers to realign policies to meet these supply-demand gaps, plan procurement activities and run the public distribution system and also to initiate the major reforms to improve productivity, increase warehousing and cold storage facility. To blame the futures market inspite of contrary evidence without addressing the real causes of price rise will yield no tangible results in curbing inflation as has been proved by repeated suspension of futures trading. Therefore, the question of putting a ban on forward/futures trading to prevent food inflation in essential commodities does not arise.

#### **Betting on prices of essential commodities**

†3474. DR. PRABHA THAKUR: Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

- (a) whether the prices of essential commodities are increasing due to daily telecast of the rates of food items under Multi Commodity Exchange (MCX) on the commercial T.V. news channels;
- (b) whether on the basis of the information provided by MCX, many people bet on lakhs and crores of rupees everyday due to which a lot of people even commit suicide;
- (c) whether it is essential to stop telecasting the prices by the MCX so that the dearness of foodgrains and essential commodities can be contained;
- (d) if so, the plan of Government in this regard; and
- (e) if not, the reasons therefor?

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†Original notice of the question was received in Hindi.