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GAIN Report #IN2081

## India

### Grain and Feed

## Large Exports Help Reduce Grain Stocks

### 2002

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#### Report Highlights:

**Exports helped the GOI to contain grain stocks build-up. Nonetheless, large stocks should prompt the government to continue its subsidized grain export program.**

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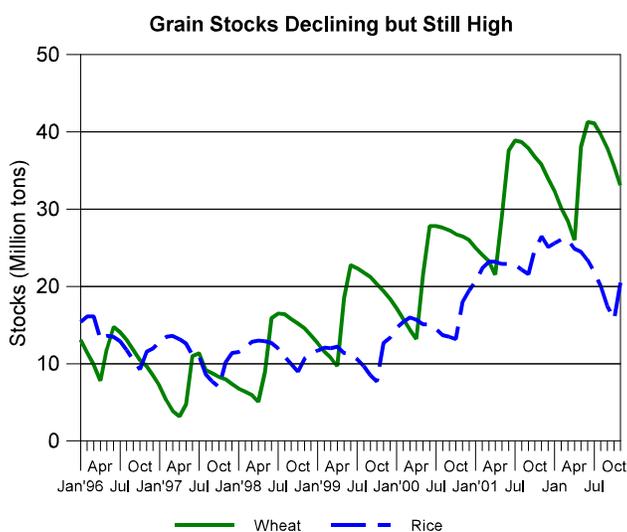
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## Grain Stocks Declining But Still High

Following a record procurement of rice (20.9 million tons) in MY 2001/02 and near record procurement of wheat (19 million tons) in MY 2002/03, India's government-owned foodgrain stocks reached a record 64.7 million tons (41.3 million tons of wheat and 23.4 million tons of rice) on June 1 of this year compared with the previous record stocks of 61.7 million tons on July 1, 2001. Stocks would have been much higher but for the large allocations of wheat and rice for exports at highly subsidized rates since November 2000. Continued large allocations of grains for exports resulted in government grains stocks declining to 51.4 million tons (35.6 million tons of wheat and 15.8 million tons of rice) on October 1, 2002 compared with 58.3 million tons (36.8 million tons of wheat and 21.5 million tons of rice) a year ago. Stocks are still high, almost three times the official desired buffer stock level, which should prompt the government to continue its subsidized grain export program, despite lower rice production this year. To date the government has reportedly allocated about 15 million tons of wheat and rice for exports (9 million tons of wheat and 6 million tons of rice).



## How Did the Stocks Build Up Happen?

India's massive, government-owned, grain stocks were created largely by two policy decisions: (1) the decision to boost farm minimum support prices (also known as procurement prices) substantially in recent years; (2) the decision to target the Public Distribution System (PDS) and to increase the price of wheat and rice supplied to both the Above Poverty Line (APL) and Below Poverty Line (BPL) clientele of the PDS in early 1999 in order to reduce the food subsidy. These two policies helped to increase production and procurements while slowing offtake. (**Table 1 and Table 2**)

**Table 1: Production, Procurement, Support Price and Issue Price of wheat/Metric Ton**

Marketing Year (Apr-Mar)	Support Price rs./mt (% change)	Issue Price APL rs./mt	Issue Price BPL rs./mt	Production mmt	Procurement mmt	Offtake mmt
1990/91	2,150	2,340 1/		49.9	11.1	8.4
1991/92	2,250 (4.7)	2,800 2/		55.1	7.8	9.8
1992/93	2,750 (22.2)	3,300 3/		55.7	6.4	8.0
1993/94	3,300 (20.0)	4,020 4/		57.2	12.8	9.1
1994/95	3,500 (6.1)	4,020		59.8	11.9	10.6
1995/96	3,600 (2.9)	4,020		65.8	12.3	12.7
1996/97	3,800 (5.6)	4,020		62.1	8.1	13.3
1997/98	4,750 (25.0)	4,500 5/	2,500 5/	69.3	9.3	7.8
1998/99	5,100 (7.4)	6,500 6/	2,500	66.4	12.7	8.9
1999/00	5,500 (7.8)	6,820 7/	2,500	70.8	14.1	10.6
2000/01	5,800 (5.5)	9,000 8/ 8,300 9/	4,500 8/ 4,150 9/	76.4	16.4	7.7 *
2001/02	6,100 (5.2)	6,100 10/	4,150	68.8	20.6	16.0 **
2002/03	6,200 (1.6)	5,100 11/	4,150	71.5	19.0	7.3 ***

1/ Effective May 1, 1990

2/ Effective December 28, 1991

3/ Effective November 1, 1993

4/ Effective February 1, 1994

5/ Effective June 1, 1997

6/ Effective January 29, 1999

7/ Effective April 1, 1999

8/ Effective April 1, 2000

9/ Effective July 25, 2000

10/ Effective July 12, 2001

11/ Effective April 1, 2002

\* Includes 1.5 million ton exports

\*\* Includes 2.7 million ton exports

\*\*\* April -August, includes 1.7 million tons for exports

Note: APL - Above poverty line clientele; BPL - Below poverty line clientele

**Table 2: Production, Procurement, Support Price and Issue Price of Rice/ Metric Ton**

Marketing Year (Oct-Sep)	Support Price of paddy rs./mt * (% change)	Issue Price of rice APL * rs./mt	Issue Price of rice BPL * rs/mt	Production of rice mmt	Procurement of rice mmt	Offtake of rice** mmt
1990/91	2,250	3,700 4,580 1/		74.3	11.7	8.0
1991/92	2,500 (11.1)	4,580		74.7	9.2	10.3
1992/93	2,900 (16.0)	4,580		72.9	11.8	9.9
1993/94	3,500 (20.7)	5,180 2/ 6,480 3/		80.3	13.7	9.5
1994/95	3,800 (8.6)	6,480		81.8	13.4	8.8
1995/96	3,950 (3.9)	6,480		77.0	10.0	14.0 +
1996/97	4,150 (5.1)	6,500 4/	3,500 4/	81.7	12.2	12.3
1997/98	4,450 (7.2)	7,000 5/	3,500	82.5	14.3	11.2
1998/99	4,700 (5.6)	9,050 6/	3,500	86.1	11.8	11.8
1999/00	5,200 (10.6)	11,800 7/ 11,300 8/	5,900 7/ 5,650 8/	89.7	17.3	12.4
2000/01	5,400 (3.8)	8,300 9/	5,650	84.9	19.1	10.2 ++
2001/02	5,600 (3.7)	7,300 10/	5,650	91.6	20.9	15.3 +++
2002/03	5,800 (3.6)	7,300	5,650	78.0		10.9 ***

1/ Effective December 28, 1991

2/ Effective November 1, 1993

3/ Effective February 1, 1994

4/ Effective June 1, 1997

6/ Effective December 1, 1997

7/ Effective January 29, 1999

8/ Effective April 1, 2000

9/ Effective July 25, 2000

10/ Effective July 12, 2001

11/ Effective April 1, 2002

\* For Superfine/Grade A varieties

\*\* On a Fiscal Year Basis (Apr-Mar)

+ Includes 1.5 million ton for exports

++ Includes 18,000 tons for exports +++ Includes 1.95 million tons for exports

\*\*\* April to August, includes 3.92 million tons for exports

### What the Government Is Doing?

The Indian government, concerned about the high wheat and rice stocks, took various measures for reducing them. These include:

## 1. Exports:

### A. Wheat

In October 2000 the GOI decided to export its wheat stocks at a highly subsidized price of rs. 4,150 per ton (delivered at port cities) through government parastatals such as State Trading Corporation (STC), Minerals & Metals Trading Corporation (MMTC) and Project and Equipment Corporation (PEC). An export quota of 2 million tons was established for IFY 2000/01 (Apr-Mar), which was later increased to 5 million tons, and the deadline extended to June 30, 2001. The government set an export ceiling of 5 million tons for IFY 2001/02 and allowed private trade participation along with designated government parastatals. Although the sales price was raised marginally to rs. 4,300 per ton for Apr-May, 2001, it was later reduced to rs. 4,200. Effective April 1, 2002 the export price for wheat was set at rs. 4,310/ton for old wheat and rs. 4,350 per ton for new wheat and all quantitative ceilings were abolished. Luster lost wheat (rain-damaged wheat procured from Punjab and Haryana in 2001) was offered at a discounted price of rs. 3,960/ton. Effective October 1, prices were further increased by rs. 250 per ton for both new and old wheat to rs. 4,600 and rs. 4,560 per ton respectively. The government has decided to further increase the sales price of wheat effective January 1, 2003 to rs. 4,810 (\$99.8) for old crop and rs. 4,950 (\$102.7) for the 2002 crop, still significantly below the economic cost of rs. 8,792 (\$182.4) per ton. Luster lost wheat (mostly feed grade) will continue to be supplied at rs. 3,960 (\$82.2) per ton. Total wheat exports since October 2000 have totaled 6.8 million tons through October 2002.

In December 2001, the GOI notified to flour mills the subsidized wheat supply scheme linked to export of wheat products. The effective sales price of wheat to flour millers under this initiative is rs. 4,750 (\$98.5) per ton, and millers are required to export wheat products equivalent to at least 65 percent of the wheat issued to them. However, exports were negligible.

### B. Rice

The GOI authorized subsidized exports of 3 million tons of rice in April 2001. Rice was made available to exporters at rs. 5,650 (\$118) per ton for white and rs. 6,000 (\$125) per ton for parboiled, delivered to port. The price was increased marginally to rs. 5,760 (\$88.5) per ton for white milled and rs. 6,115 (\$125.6) per ton for parboiled effective April 1, 2002. Effective August 1, export sales prices were increased to rs. 5,910 (\$122.6) per ton for white rice and rs. 6,265 (\$130) per ton for parboiled rice. Recently the government decided to further increase the sales price of rice for exports to rs. 6,260 (\$129.9) for white rice (old crop) and rs. 6,510 (\$135.1) for new crop effective January 1, 2002, but still substantially below the economic cost of rs. 12,064 (\$250.3) per metric ton. Sales price of parboiled rice will be rs. 6,615 (\$137.2)/ton for old rice and rs. 6,865 (\$142.4) per ton for new crop. The government has so far released around 6 million tons for exports. However, in view of the decline in stocks and likely lower production and procurement this year, there is a possibility that the government might tighten rice export allocations. CY 2003 export forecast ranges from 4 to 5 million tons.

## 2. Measures to Increase Domestic Consumption

### A. Lower the Domestic Sales Price

The GOI has drastically reduced the sales price of wheat and rice to the APL clientele to boost domestic consumption. The sales price of wheat was gradually reduced from rs. 9,000/ton in April 2000 to rs. Rs. 5,100 per ton in April 2002 and that of rice from rs. 11,800 per ton to rs. 7,300 per ton. Although the sales price of wheat and rice for the BPL were not reduced, the quantity allocated per family was increased from 25 kg to 35 kg. (**Table 1 and Table 2**).

### B. Special Scheme for the "Poorest-of-the-Poor":

In December 2001, the GOI introduced a "Antyodaya Anna Yojana" scheme, which provides 25 kg of wheat or rice per month to India's 10 million poorest households at a highly subsidized rate of rs. 2/kg for wheat and rs. 3/kg for rice. The quantity was further increased to 35 kilograms per month recently. In addition to these schemes, government makes wheat and rice available to various welfare programs such as Jawhar Rojgar Yojana (rural employment generation scheme), food-for-work, nutrition, and school feeding programs.

### C. Enlarge Open Market Sale Program:

Under this program, the government sells wheat to flour millers/traders at below wholesale prices and a quantity of 5 million tons have been allocated for this year 2002/03 (Apr-Mar). Sale prices currently range from rs. 7,000 (\$145.2)/ton in Punjab to rs. 7,700 (\$159.8)/ton in the southernmost state of Kerala. "Luster lost" wheat is supplied at a discount of rs. 900/ton.

**Table 3** shows offtake of wheat and rice from government stocks under various programs in 2001/02 compared with 2000/01.

**Table 3: Offtake of Wheat and Rice from Government Stocks, in tmt**

	Wheat			Rice		
	2000/01	2001/02	2002/03 1/	2000/01	2001/02	2002/03 1/
<b>BPL</b>	3,646	3,825	1,649	5,875	5,729	2,761
<b>APL</b>	308	629	701	1,849	1,419	597
<b>Antyodaya</b>	17	612	550	18	820	701
<b>Open Sale</b>	909	4,984	1,740	343	401	182
<b>Other programs</b>	1,186	2,432	1,001	2,112	4,806	2,724
<b>Export</b>	1,663	2,736	1,686	21	1,949	3,921
<b>Total</b>	7,729	15,218	7,328 (4,297)	10,218	15,124	10,886 (4,465)

1/ April - August, 2002

Note: Figures in parenthesis show April -August 2002 data

**Table 4** shows the current administered prices of grains under various schemes.

**Table 4: Current Administered Prices of Wheat and Rice**

Wheat	rs (\$)/ton	Rice	rs. (\$)/ton
Minimum Support Price	6,200 (128.6)	Support Price for Paddy Common varieties Grade A	5,500 (114.10) 5,800 (120.30)
Economic Cost	8,792 (182.4)	Economic Cost	12,064 (250.3)
Domestic Sales Price APL BPL Poorest-of-the-Poor Food-for-Work Open Market Sale 2/	5,100 (105.8) 4,150 ( 86.1) 2,000 ( 41.5) Free 7,000 (145.2) to 7,700 (159.8)	Domestic Sales Price APL BPL Poorest-of-the-Poor Food-for-Work Open Market Sale	7,300 (151.5) 5,650 (117.2) 3,000 ( 62.2) Free 9,500 (248.7)
Export Sales Price Wheat Wheat products	4,600 ( 95.4) 1/ 2/ 4,750 ( 98.5)	Export Sales Price White Rice Parboiled Rice	5,910 (122.6)2/ 6,265 (130.0)2/

1/ rs. 4,560 (\$94.6)/ton for old wheat and rs. 3,960 (\$82.2)/ton for luster lost wheat.

2/ Sales price of wheat effective January 1, 2003 will be rs. 4,810 (\$99.8) for old crop, rs. 4,950 (\$102.7) for the 2002 crop, and rs. 3,960 (\$82.2) for luster lost wheat. Sales price of white rice for exports effective January 1, 2003 will be rs. 6,260 (\$129.9) for old crop and rs. 6,510 (\$135.1) for new crop; for parboiled rice prices will be rs. 6,615 (\$137.2)/ton for old rice and rs. 6,865 (\$142.4) per ton for new rice.

### 3. Long-term Measures

#### A. Decentralization of Procurement:

Although last year the GOI proposed the decentralization of the wheat and rice procurement operations which would entrust price support operations and management of the grain distribution program to the states, major grain surplus states have opposed the move. The government constituted a High Level Committee for formulating a long-term grain policy. The Committee recently submitted its report, which contains both long and short-term recommendations for tackling the grain crisis. One of the major recommendations regarding exports is that the government's current export drive should be reviewed as soon as stocks come down to 17 million and 22 million tons of rice and wheat, respectively. The full report is available at the website: [http://fcamin.nic.in/hlc\\_contents.htm](http://fcamin.nic.in/hlc_contents.htm)

#### B. Privatization of Grain Storage and Handling

The GOI has also approved a new national foodgrain storage policy which seeks to attract private sector investment (both domestic and foreign) to build and operate the country's grain storage, handling, and transportation system. To encourage foreign investment, the sector has been accorded the status of "infrastructure" industry, which will facilitate automatic approval for 100 percent direct foreign investment. However, previous experiments with bulk handling, including the construction of several silos using World Bank funds, have not been highly successful.

### **Is India's Subsidized Wheat & Rice Exports WTO Compatible?**

Prima facie India's subsidized wheat and rice exports would appear to violate its WTO commitments as it did not apply for reduction commitment. However, GOI officials claim it is not a violation as they are supplying wheat to the poorest segments of the population at below the export price, citing Part V, Article 9.1.b of the UR Agricultural Agreement. However, recently the GOI seems to be sidetracking its export subsidy justification from the price argument and toward the purportedly WTO-compliant "reimbursement for internal transport" after charging exporters the government's open market sales price (which itself is subsidized).