



Voluntary Report - public distribution

Date: 7/22/1999

GAIN Report #IN9042

India

Grain and Feed

Government Announces Paddy Support Prices 1999

Prepared by:

Weyland Beeghly

U.S. Embassy, New Delhi

Drafted by:

A. Govindan

Report Highlights:

A record increase in paddy support prices is likely to reduce India's competitiveness in the world rice market.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1], IN

The GOI has raised support prices for paddy rice for the 1999/00 marketing year (Oct/Sep) by a record rs. 500 (\$11.60)/ton. Prices will be rs. 4,900 (\$114)/ton for common varieties and rs. 5,200 (\$121)/ton for Grade A varieties (earlier classified as fine and superfine). The price hike, significantly above the increase recommended by the Commission on Agricultural Costs and Prices, is considered by some to be a pre-election bonus to farmers.

While farmers are not required to sell their paddy to the government at the support price, harvest prices typically fall below the support in the major surplus rice growing states of Punjab and Haryana, prompting farmers to sell to the Food Corporation of India or other government procurement agencies. The procured paddy is custom milled, then distributed through the government-run Public Distribution System (PDS). However, the bulk of the procurement typically comes from millers who must sell a portion (ranging from 75% in Punjab and Haryana to 50% in Andhra Pradesh) of their milled production at a government established rate or "levy." Levy prices, which vary from state to state, are linked to the procurement price (support price) and milling costs. With the increase in the support price, levy prices are also likely to be increased by at least 10 percent which, in the major surplus state of Punjab, could range from rs. 8,630 (\$201)/ton for common paddy to rs. 9,130 (\$212)/ton for Grade A varieties.

Prices of monsoon season coarse grains (sorghum, corn and millet) have also been increased by 6.4 percent to rs. 4,150 (\$96.5)/ton and pulses by 15 percent to rs. 11,050 (\$257)/ton. However, except in the case of rice, the gesture is only symbolic, as domestic market prices are typically higher than the announced supports. Support prices for kharif grains during the past several years are shown below (rs./ton):

Crop	MY 1995/96	MY 1996/97	MY 1997/98	MY 1998/99	MY 1999/00
Paddy (Common)	3,600	3,800	4,150	4,400	4,900
Paddy (Fine) 1/	3,750	3,950	4,450	4,700	5,200
Paddy (Superfine)1/	3,950	4,150	4,450	4,700	5,200
Corn	3,100	3,200	3,600	3,900	4,150
Sorghum	3,000	3,200	3,600	3,900	4,150
Millet	3,000	3,200	3,600	3,900	4,150
Exchange Rate rs./US\$	33.45	35.50	37.16	42.50	43.0

1/ Since MY 1997/98, fine and superfine varieties have been combined as Grade A.

Comment: By raising the support price the government has increased its budgetary food subsidy unless there is an offsetting increase in the release price of rice to state-run ration shops. The increase in the support price will likely lead to higher open market prices, further eroding the competitiveness of Indian rice in the world market.