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Report Highlights:
Higher food prices push up inflation, *Wheat support prices hiked*, *India, ASEAN likely to ink free trade pact on February 26*, *Indecision on imports to push sugar prices*, *EU's subsidy move may hurt dairy industry*, *Million lose jobs as world chooses food over clothes*.

Includes PSD Changes: No
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Trade Report
New Delhi [IN1]
[IN]

Welcome to Hot Bites from India, a weekly summary of issues of interest to the U. S. agricultural community. The report includes information that has been garnered during travel within India, reported in the local media, or offered by host country officials and agricultural analysts. Press articles are included and summarized in this report. Significant issues will be expanded upon in subsequent reports from this office. Minor grammatical changes have been made for clarification.

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HIGHER FOOD PRICES PUSH UP INFLATION

The rate of inflation inched up for the second week in a row to 5.64 percent for the week ended January 17 from 5.60 percent in the previous week, mainly owing to higher prices of essential food articles, certain manufactured goods, and non-administered petroleum products such as jet fuel and furnace oil. The marginal rise of four basis points in the wholesale price index-based inflation was on account of the after effects of the eight-day trucker's strike, which restricted the movement of the goods and led to shortages and consequent rise in prices. Even as the strike was called off on January 12, food articles such as corn, millet, sorghum, rice, and sugar turned dearer during the week. With the government recently lowering the prices of petrol, diesel and LPG, the inflation rate is expected to slide significantly. (Source: Hindu, 01/30/09)

WHEAT SUPPORT PRICES HIKED

After much dithering, the government has finally announced the minimum support price (MSP) for this year's rabi (winter) crops. The MSP for wheat was increased by 8 percent to Rs. 10,800 ($220) per ton. The revised price, approved by the Cabinet Committee on Economic Affairs (CCEA), is likely to aggravate the problem of overflowing public grain inventories. This could lead to a repeat of the 2000-02 situation, when overflowing government warehouses forced the government to export grain at highly subsidized prices. Wheat stocks hit a peak of 41.3 million tons on June 1, 2002. The projected stocks for the same date this year will be around 33 million tons. There are also concerns over the inflationary impact of higher MSPs in the run-up to national elections. The CCEA also hiked the MSPs for rapeseed/mustard, chickpeas, barley, and lentils (See: http://www.pib.nic.in/release/release.asp?relid=47083). (Source: Business Line, 01/30/09)

INDIA, ASEAN LIKELY TO INK FREE TRADE PACT ON FEBRUARY 26

Indian and the ASEAN, a grouping of ten southeast Asian nations, are expected to sign a free-trade agreement (FTA) on February 16 to eliminate tariffs on around 4,000 products traded between the two sides. Commerce and Industry Minister Kamal Nath has been invited by the economic ministers of ASEAN to sign the pact, provided it is approved by all ten ASEAN countries. The signing will take place at the Hua Hin beach resort, a day before he 14th ASEAN summit begins. The treaty will result in abolition of tariffs on a variety of manufactured items ranging from consumer electronics and farm products to metals and chemicals. "India will try its best to ensure that the FTA is signed next month as it will be the last chance for the current government to conclude the pact," a Commerce Ministry official said. The FTA provides for the elimination of tariffs on 80 percent of the items traded between the sides in a phased manner by 2015. For about 10 percent of additional items on the sensitive track, tariffs will not be eliminated, but brought down to 5 percent. India has 489 items, mostly farm products, on the sensitive list, which will not be subject to tariff cuts. (Source: Economic Times, 01/27/09)

INDECISION ON IMPORTS TO PUSH SUGAR PRICES

Retail price of sugar, currently at Rs. 23 (47 cents) per kg, is likely to rise to Rs. 26 (54 cents) per kg through the remaining 2008/09 (Oct/Sept) season if the decision on imports of duty free raw sugar is not taken within the next 15 days. The government indecision on allowing duty free imports of raw sugar has resulted in steep increase in sugar prices. Prices are high due to shortage of sugarcane during the season resulting in a sharp decline in sugar production estimated at 18.0 million tons compared to 26.3 million tons in 2007/08 season. (Source: Economic Times 01/29/09)

EU'S SUBSIDY MOVE MAY HURT DAIRY INDUSTRY

The reports on re-introduction of export subsidies on dairy products by the European Union (EU) could adversely affect the Indian dairy industry. Indian companies had made a significant impact in the world dairy market by exporting around 75,000 tons of skimmed milk powder (SMP) during the year ending September 2008. Much of the exports were facilitated by the dismantling of the EU's export subsidy regime. However, last week the EU has announced the reactivation of export subsidies, which were earlier suspended since June 2007. The EU has fixed new subsidy rates up to a maximum of €500 in the case of butter and €580 for butter oil. Additional support has also been offered to the EU dairy producers through intervention purchases at guaranteed prices. The annual limit of such intervention, effective from March 1, 2009, is 109,000 tons for SMP and 30,000 tons for butter. (Source: The Business Line, 01/28/09)

MILLION LOSE JOBS AS WORLD CHOOSES FOOD OVER CLOTHES

The highly labor intensive textile and garment industry in India is hard hit by the ongoing world wide recession. Current indications are that around 1.2 million workers in this industry are going to be without jobs by end of March. If one assumes that four others depend on each individual rendered jobless, the total number of people impacted would be in the region of six million. The government's economic 'stimulus package' especially the fiscal initiatives is now facing the brunt of the economic slowdown. A fluctuation in the external value of the Indian currency vis-à-vis U.S. dollar has hit hard on the labor intensive and export oriented industries. A recent study by Federation of Indian Chambers of Commerce and Industry (FICCI) pointed out that investments in this sector were falling and so its profitability. Exports of textiles and garments as a share of total exports from India has been steadily declining over the years: from 16 percent in 2005-06 to less than one percent at present. The fall has been relatively steep in the case of garments and jute textiles in comparison to the two other broad product categories in this sector namely, cotton textiles and textiles made out of wool, silk and man-made fibers. During the 11th Five Year Plan period that ends in March 2012, the industry was projected to more than double its turnover (from $52 billion to $115 billion) by growing at an annual average of 16 percent. This is certainly not going to happen. (Source: Asian Age, 01/25/09)

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REPORT #	SUBJECT	DATE SUBMITTED
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