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Date: 12/9/1998

GAIN Report #IN8089

India

Grain and Feed

Wheat Support Price Increased 1998

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Report Highlights:

The government support price for the 1999 wheat crop has been set at rs. 5,500 (\$129.5)/mt, rs. 400/mt over the 1998 effective support price of rs. 5,100/mt.

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

Wheat Support Price Jumps 8 Percent ...

The GOI's support price for the 1999 wheat crop (marketed April 99/March 00) has been set at rs. 5,500 (\$129.5)/mt, rs. 400/mt over the 1998 effective support of rs. 5,100/mt. (Although the support price for the 1998 crop was established at rs. 4,550/mt, the GOI later added a bonus of rs. 550/mt in order to maximize procurement -- taking the effective support to rs. 5,100 /mt.)

Supports for other rabi (winter season) grains and oilseeds such as chickpeas, barley and rapeseed have been raised 6-10 percent. However, except for wheat, the GOI's price is largely symbolic, as market prices for these commodities are typically above the supports. Even if prices should dip below support in a few locations, no effective mechanism exists on a national scale to purchase these crops.

Although farmers are not compelled to sell to the government at the support level, harvest prices usually fall below support in the major surplus states of Punjab, Haryana and Uttar Pradesh, prompting farmers to sell their wheat to the Food Corporation or other procurement agencies. Most procurement of wheat occurs in these states. In other areas, the prices rarely fall below the support level. Wheat produced in of Madhya Pradesh, Gujarat and Rajasthan is of generally higher quality, fetching a premium in the open market.

... But Will It Help Procurement?

Unlike last year, open market prices of wheat in major producing areas are currently well above the support level. Unless market prices drop significantly by April, the GOI will have problems in procuring wheat and will once again be compelled to announce a procurement bonus. The level of procurement will also depend on crop size. Barring weather problems, we expect a larger wheat crop, which should aid procurements. The following table shows procurement during the past few years and some of the parameters affecting procurement.

	Delhi Wholesale Price in Early April rs./mt	Support Price rs./mt	Production mmt	Procurement mmt
1991	3,200	2,150	55.1	7.75
1992	4,050	2,750	55.7	6.38
1993	3,550	3,300	57.2	12.84
1994	4,250	3,500	59.8	11.87
1995	4,300	3,600	65.8	12.33
1996	4,450	3,800	62.1	8.14
1997	6,150	4,750 1/	69.3	9.30
1998	5,300	5,100 2/	66.0	12.60
1999 3/	6,500	5,500	69.0	10.0 -11.0

1/ Includes a bonus of rs. 600/mt

2/ Includes a bonus of rs. 550/mt

3/ Forecast

Impact on Food Subsidy

The impact of the price hike on government food subsidies is going to be enormous unless the government increases the release price to state-run ration shops substantially. At the new support price of rs. 5,500/mt, the total economic cost for wheat, including market charges, transportation and incidentals, would be at least rs.8,500 (\$200)/mt against current release prices of rs. 4,500/mt (people above the poverty line) and rs. 2,500/mt (those below the poverty line). The last time the GOI raised the release price of wheat was June 1, 1997, when the dual pricing system was introduced. For Indian Fiscal Year 1998/99 (Apr/Mar), the budgeted food subsidy is rs. 90 billion (\$2.1 billion).