

### **Problems posed by surplus stocks of foodgrains**

5.28 The basic objectives of the agricultural price policy are to assure remunerative prices to the farmers, to even out effects of seasonality and to provide price and market incentives for diversification of agricultural products to meet consumer needs, besides ensuring stability in consumer prices. Food supply management has been the cardinal element of agricultural price policy, and the Government has been fairly successful in achieving self-sufficiency in basic staple food - rice, wheat and sugar.

5.29 Announcing Minimum Support Price (MSP) for farm produce, particularly rice, wheat and sugarcane from mid sixties, and creation of the Food Corporation of India as the Government's operational arm for entering the market to guarantee price support to farmers, have been the main anchor of food security policy of the country. MSP provided price as well as income security to the farm producer. The seed-water-fertiliser technology, together with assured farm support prices, ensured higher productivity. Rice production increased by about 38 per cent in the eighties and 18 per cent in the nineties. Wheat production also rose by about 52 per cent and 25 per cent during the two periods.

5.30 The entire edifice of Public Distribution System depended on the premise that the public would receive foodgrains at prices that were substantially lower than the free market price, that periodical scarcity or short crop year would push up market prices and PDS would then be a source of cheaper foodgrains. Two things have now happened. There is no shortfall in supplies as domestic production has reached a level which is much more than what the market or PDS can absorb. The second is that the market prices are lower than the APL price under PDS. Therefore, on the one hand Government is faced with the problem of carrying large surplus stocks, on the other hand,

the offtake of foodgrains, particularly of wheat under the PDS has been low during the last two years on account of the narrowing differential between the PDS and open market prices. There is therefore a need to rationalise the present policy on setting procurement prices.

5.31 In recent years annual increases in MSP have been substantial and unrelated to actual costs of production. This has led to serious mis-alignment between MSP, the consequent acquisition cost of FCI and the PDS issue price.

5.32 The annual increases in MSP since 1995-96 have even been much above the inflation rate. A serious re-thinking on the rationale of raising the minimum support prices of certain crops like wheat and rice well above the levels at which the FCI's procurement can be balanced by offtake is called for. The rise in stocks means a rise in storage costs as also loss due to deterioration in quality and, therefore a rise in the food subsidy bill of the Government.

5.33 So far, Government's food policy framework has been evolved against the background of inadequate or uncertain supply situation. The main anchor of this policy framework was (i) raising production through incentives to farmers (through input subsidies, MSP and institutional support), (ii) consumer protection through PDS (food subsidy) and (iii) open market sale to influence market prices. It was an effective and reasonably successful policy. However, the situation has now reversed and the country is faced with a large volume of surplus food stock. A temporary glut can be dealt with, through unorthodox measures such as raising BPL quota and attempting to export if possible. But, if the surplus situation persists because of higher MSP and inability of the domestic market to adjust to each year's change in MSP, apart from India becoming internationally uncompetitive, there may be a need to re-formulate the policy framework to make it more relevant in terms of the present domestic and global market realities.

### FCI's Economic Cost

5.34 The costs incurred by the FCI in procuring, paying state taxes, transporting, handling, and storing of foodgrains constitutes FCI's acquisition cost which in 2000-01 accounted for 84 per cent of the economic cost of wheat. The balance 16 per cent of cost was distribution cost. The two together i.e., the acquisition cost and distribution cost constitute the economic cost. The economic cost of rice and wheat from 1991-92 onwards may be seen in Table 5.10.

5.35 The MSP and the issue price under PDS provide a benchmark for the market prices of foodgrains. However, the economic costs of the FCI incurred for procurement, storage, distribution, drriage and wastage of foodgrains have been rising in recent years and are now much above the free market prices. The MSP of paddy and wheat which are being consistently increased every year currently account for 57 per cent of the economic cost and 64 per cent of the acquisition cost in case of rice while in case of wheat the MSP is 70 per cent of the economic cost and 80 per cent of the acquisition

cost. This is a cause for concern, and if not checked, it may keep on raising the burden of food subsidy.

5.36 As a result of the acceptance of changes by the Government in the methodology of allocation of costs recommended by the Expenditure Reforms Commission (ERC), the economic cost of rice and wheat to be distributed through PDS has been downwardly revised in July 2000. The revised economic cost of rice and wheat are as follows:

Economic Cost of rice and wheat (Rs./quintal)		
	Earlier	Revised (w.e.f. 25.7.2000)
Rice	1180	1130
Wheat	900	830

### Central Issue Price for PDS

5.37 Wheat and rice are issued by the Central Govt. at uniform Central Issue Prices (CIPs) to the States/Union Territories for distribution under TPDS. The policy is to fix issue price for supply to BPL families at 50 per cent of of FCI's

**TABLE 5.10**  
**Economic Cost and Consumer Subsidy**

(Rs/Quintal)

Fiscal year	Economic cost		FCI's/ Average Sales Realization		Consumer Subsidy	
	Wheat	Rice	Wheat	Rice	Wheat	Rice
1991-92	390.79	497.04	251.68	365.58	139.11	131.46
1992-93	504.10	585.27	279.36	442.40	224.74	142.87
1993-94	532.03	665.10	355.88	500.42	176.15	164.68
1994-95	551.17	694.71	407.89	600.75	143.28	93.96
1995-96	583.95	762.82	411.94	613.34	172.01	149.48
1996-97	640.16	847.69	433.20	610.57	206.96	237.12
1997-98BPL	786.35	939.33	250.00	450.00	536.35	589.33
APL			450.00	673.68	336.35	265.65
1998-99 BPL	797.16	1026.67	249.57	401.81	547.59	624.86
APL			449.57	751.81	347.59	274.86
1999-2000(RE)						
BPL			261.29	366.77	563.45	728.26
APL			693.29	921.77	131.45	173.26
APL(NE)	824.74	1095.03	824.74	716.77	-	378.26
2000-01(BE)	830.00	1130.00	415.00	565.00	BPL* 450.00 BPL** 415.00	590.00 565.00

\* upto 24.7.2000

\*\* w.e.f. 25.7.2000

economic cost and for APL at 100 per cent of FCI's economic cost (earlier 90 per cent). The periodical revisions in Central Issue Prices of rice and wheat under the PDS/TPDS is listed in Table 5.11.

<b>TABLE 5.11</b>				
<b>Issue Price of Wheat and Rice (Rs./quintal)</b>				
<b>Year</b>	<b>Wheat</b>	<b>%change</b>	<b>Rice</b>	<b>%change</b>
1990-91	234		289	-
1991-92	280	19.7	377	30.4
1992-93	280	0.0	377	0.0
1993-94	330	17.9	437	15.9
1994-95	402	21.8	537	22.9
1995-96	402	0.0	537	0.0
1996-97	402	0.0	537	0.0
<b>1997-98</b>				
BPL	250	-	350	-
APL	450	-	700	-
<b>1998-99</b>				
BPL	250	0.0	350	0.0
APL	650	44.4	905	29.3
<b>1999-2000</b>				
BPL	250	0.0	350	0.0
APL	682	4.9	905	0.0
<b>2000-01</b>				
BPL	415	66.0	565	61.4
APL	830	21.7	1130	24.9
<b>Economic cost</b>				
1997-98	786.35	-	939.33	-
1998-99	797.16	-	1026.67	-
1999-00	824.74	-	1095.03	-
2000-01	830.00	-	1130.00	-