

## MARKETING AND EXTENSION

### Agricultural marketing

7.94 Agricultural Produce Market Committee (APMC) Act: The Government of India has circulated model legislation titled “The State Agricultural Produce Marketing (Development and Regulation) Act, 2003” to bring about reforms in agricultural marketing. Contract farming, direct marketing and public-private partnership in management and development of agricultural markets are the major instruments of change among others. Twenty-five states/UTs have already amended their APMC Acts/ made varying provisions for the purpose, while other states are in the process of amending their respective APMC Acts. The position of states which have amended their APMC Act or have provision for bringing out reforms as on 31.03.09 is given in Table 7.20.

### Extension reforms

7.95 The Department of Agriculture & Cooperation supports transfer of agriculture technologies and information to the farming community through the following initiatives:

- A Centrally-sponsored scheme “Support to State Extension Programmes for Extension Reforms” was launched in May 2005 (Tenth Five Year Plan) with an objective to support the State Governments’ efforts on revitalization of their extension system. The scheme
- promotes a decentralized farmer-driven and farmer-accountable extension system through a new institutional arrangement for technology dissemination in the form of an Agriculture Technology Management Agency (ATMA,) a registered society under the Societies Registration Act, at district level. The scheme is in operation in 583 districts of 29 states & 2 Union Territories. The scheme supports state level activities like upgrading state level training institutions, HRD of extension functionaries, rewards & incentives; and monitoring & evaluation of the scheme. At the district level support is provided for farmer-oriented activities; farm information dissemination activities; and research-extension-farmer activities. Over 40.98 lakh farmers have benefited through exposure visits, trainings, demonstrations, krishi melas and farm schools during 2008-09. The scheme is being improved further by including ways to strengthen the manpower available with the State Departments, infrastructure support to State Agriculture Management and Extension Training Institutes (SAMETIs) and also to promote farmer facilitators.
- Agri Clinics and Agri Business Centres (ACABC) Scheme was launched in April 2002. The scheme encourages unemployed agri-graduates to set up agri-clinics and agri-business centres thereby supplementing the efforts of public extension system and serving as supplementary sources of input supply and services to the needy farmers. In the process the scheme provides gainful employment to agriculture graduates in the

**Table 7.20 : Progress of reforms in agricultural markets (APMC Act) as on 31.03.2009**

Sl. No.	Stage of reforms	Name of State/ Union territory
1.	States/ UTs where reforms to APMC Act has been done for Direct Marketing; Contract Farming and Markets in Private/ Coop Sectors.	Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Nagaland, Orissa, Rajasthan, Sikkim and Tripura.
2.	States/ UTs where reforms to APMC Act has been done partially.	a) Direct Marketing: NCT of Delhi. b) Contract Farming: Haryana, Punjab, and Chandigarh. c) Private Markets : Punjab and Chandigarh
3.	States/ UTs where there is no APMC Act and hence not requiring reforms.	Bihar*, Kerala, Manipur, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu & Lakshadweep
4.	States/ UTs, where APMC Act already provides for the reforms.	Tamil Nadu
5.	States/ UTs where administrative action is initiated for the reforms.	Mizoram, Meghalaya, Haryana, J&K, Uttarakhand, West Bengal, Puducherry, NCT of Delhi and Uttar Pradesh.

\* APMC Act repealed w.e.f. 1.9.2006.

emerging areas in agricultural sector. Capital subsidy to the extent of 25 per cent (33 per cent for North-east and hill areas and women graduates) and interest subsidy for first two years is provided to ACABCs through credit-linked and back-ended form to banks through NABARD.

- The mass media support to agriculture extension scheme has been aimed at utilizing the existing infrastructure of Doordarshan and All India Radio to produce and transmit programmes covering a wide spectrum of topics in agriculture and allied field for disseminating the latest information and knowledge to the farming community. A dedicated 24-hour channel on agriculture is under consideration of the DAC. A study has been commissioned for the purpose.
- The Kisan Call Centres scheme: This scheme was launched on January 21, 2004 to provide agricultural information to the farming community through toll-free, countrywide common number. The calls are answered and the replies are given in 21 local languages. Over 32.70 lakh calls were received up to March 2009 by the 25 KCCs located across the country. The Telecommunications Consultants India Limited, a public sector undertaking, is implementing the scheme through a private service provider. Kisan Knowledge Management System (KKMS) is being developed to provide instant information back up to the call centre agents for replying farmers' queries. The onus of updating and validating the KKMS at regular interval would be on State Agricultural Universities (SAUs). Information dissemination is enabled through participation or support of fairs like India International Trade Fair organized annually by India Trade Promotion Organization and five Regional fairs, one in each region, every year. The agriculture fairs at block, district and state levels are also being supported under the Extension Reforms (ATMA) Scheme.
- Support to Central Institutes: Under this scheme, support is provided to National Institute of Agricultural Extension Management, Extension Education Institutes and Model Training Courses. Four Extension Education Institutes at regional level provide HRD support to State Department officials on the extension methodology aspects. Model Training Courses aim at improving the professional competence and upgrading the knowledge and skills of subject matter specialists and extension workers of the state departments on subject matter areas. Courses on emerging topics like improved production technology

including varietal change, management of climate change, precision farming, conservation agriculture, organic farming etc. are organized.

### National policy for farmers, 2007

7.96: Based on the recommendations of the National Commission on Farmers and in consultation with the concerned Central Ministries/departments and the states, the Government of India has adopted the National Policy for Farmers, 2007. Major policy provisions include provisions for asset reforms, water use efficiency, use of technology, inputs and services like soil health: good quality seeds, disease free planting material, support services for women, credit, insurance etc. Provisions have also been made for National Agricultural Bio-security System, setting up of farm schools in the fields of outstanding farmers to promote farmer to farmer learning and to strengthen extension services and expanding food security basket to include nutritious crops like bajra, jowar, ragi and millets mostly grown in dry land areas. A comprehensive National Social Security Scheme for the farmers for ensuring livelihood security by taking care of insurance needs on account of illness, old age is included.

7.97 An Inter-Ministerial Committee has been constituted by the Department of Agriculture & Cooperation for operationalizing the National Policy for Farmers 2007. A plan of action has been formulated and circulated to all the concerned Central Ministries and departments and also to all the states for necessary follow-up action. The progress in the implementation will be monitored by an Inter-Ministerial Committee.

### Food management

7.98 Food management in India has three basic objectives viz. procurement of foodgrains from farmers at remunerative prices, distribution of foodgrains to the consumers particularly the vulnerable sections of the society at affordable prices and maintenance of food buffers for food security and price stability. The instruments for food management are the Minimum Support Price (MSP) and Central Issue Price (CIP). The focus is on incentivizing farmers by ensuring fair value for their produce through the Minimum Support Price mechanism, distribution of foodgrains at subsidized rates to 6.52 crore BPL families, covering all households at the risk of hunger under Antyodaya Anna Yojana (AAY), establishing grain banks in chronically food-scarce areas and strengthening the

Public Distribution System (PDS). The nodal agency which undertakes procurement, distribution and storage of foodgrains is the Food Corporation of India (FCI). Procurement at MSP is open-ended, while distribution is governed by the scale of allocation and its offtake by the beneficiaries.

### Procurement of foodgrains

7.99 Overall procurement of rice and wheat, predominant cereals, which reached 42.4 million tonnes in 2005-06, declined to 35.8 million tonnes in 2006-07 but improved marginally to 37.6 million tonnes in 2007-08. While the decline in wheat procurement in Rabi Marketing Season (RMS) 2006-07 is attributed to production of wheat falling short of targeted levels, lower market arrivals, high ruling market prices, negative market sentiments due to low stocks of wheat in the Central pool and aggressive purchases by the private traders, the marginal increase in 2007-08 was due to increase in MSP. To encourage farmers to increase production of wheat as well as to enhance procurement in RMS 2007-08, the Government announced MSP of Rs. 750 per quintal and an incentive bonus of Rs. 100 per quintal. Procurement of wheat, however, increased only in a limited way to 11.1 million tonnes, compared to 9.2 million tonnes in RMS 2006-07.

7.100 The MSP was further increased to Rs. 1,000 per quintal for the RMS 2008-09 which led to record procurement of 22.68 million tonnes of wheat.

To incentivize the procurement, MSP and incentive bonus, totaling Rs. 745 per quintal for common varieties of paddy and Rs. 775 per quintal for Grade 'A' varieties was declared for Kharif Marketing Season (KMS) 2007-08. MSP of Rs. 850 per quintal for common varieties of paddy and Rs. 880 per quintal for Grade 'A' varieties was announced for KMS 2008-09 and made applicable from 24.6.2008 in KMS 2007-08 itself. The total procurement of rice consequently rose to 28.49 million tonnes in KMS 2007-08 against the estimated 27.6 million tonnes, the increase mainly attributable to early application of MSP for the next crop season. The Government has also announced a bonus of Rs. 50 per quintal during KMS 2008-09. Procurement of rice in FY 2008-09 was 32.8 million tonnes as compared to 26.3 million tonnes in 2007-08 (Table 7.21).

7.101 Procurement of foodgrains by FCI continues to be higher in states such as Punjab, Haryana, Uttar Pradesh and Andhra Pradesh. These four states accounted for nearly 68.8 per cent of rice procured for the Central pool in KMS 2005-06, 69.7 per cent in 2006-07 and 69.46 per cent in 2007-08. Punjab and Haryana accounted for 99.5 per cent of wheat procurement in RMS 2006-07, which declined to 91.1 per cent in 2007-08 and 66.88 per cent in RMS 2008-09, indicating fairly improved procurement by other states. Andhra Pradesh, Orissa and West Bengal showed notable improvement in procurement in KMS 2007-08, while Punjab, Madhya Pradesh,

**Table 7.21 : Procurement and offtake of wheat and rice under the Central pool**

	2003-04	2004-05	2005-06	2006-07	2007-08	(million tonnes)	
						April- 2007-08	March 2008-09
<b>Procurement of wheat and rice under Central Pool</b>							
Rice	20.8	24.0	26.7	26.3	26.3	26.3	32.8
Wheat	15.8	16.8	14.8	9.2	11.1	11.1	22.7
<b>Offtake of wheat and rice for TPDS</b>							
						<b>April-February</b>	
Rice	13.4	16.6	19.2	21.2	22.6	20.4	20.4
Wheat	10.8	13.1	12.2	10.4	10.9	10.0	11.5
Total (A)	24.2	29.7	31.4	31.6	33.5	30.4	31.9
BPL (rice+wheat)	15.8	17.5	15.6	14.2	15.1	13.8	14.5
APL (rice+wheat)	4.2	6.7	8.3	8.7	9.0	8.0	8.6
AAY (rice+wheat)	4.2	5.5	7.4	8.7	9.4	8.6	8.8
<b>Offtake of wheat and rice for other schemes</b>							
Welfare scheme (B)	13.5	10.6	9.7	5.1	3.9	3.4	3.0
Open sales/ exports (C)	11.6	1.2	1.1	0.0	0.02	0.02	0.7
<b>Total (A+B+C)</b>	<b>49.3</b>	<b>41.5</b>	<b>42.1</b>	<b>36.7</b>	<b>37.4</b>	<b>33.8</b>	<b>35.6</b>

Source : Food Bulletin – Department of Food and Public Distribution

**Table 7.22 : Procurement of rice for Central pool (marketing year-wise)**

State/UT	Qty (lakh tonnes)			Percentage share		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Andhra Pradesh	49.71	53.28	74.17	18.0	21.2	26.0
Chhattisgarh	32.65	28.65	27.43	11.8	11.4	9.6
Haryana	20.54	17.77	15.72	7.4	7.1	5.5
Orissa	17.85	20.02	23.38	6.5	8.0	8.2
Punjab	88.55	78.29	79.08	32.0	31.2	27.8
Uttar Pradesh	31.51	25.59	28.91	11.4	10.2	10.2
West Bengal	12.75	6.42	15.08	4.6	2.6	5.3
others	23.00	21.05	21.14	8.3	8.4	7.4
<b>Total</b>	<b>276.56</b>	<b>251.07</b>	<b>284.91</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : Department of Food & Public Distribution

**Table 7.23 : Procurement of wheat (marketing year wise)**

State/UT	Qty (lakh tonnes)			Percentage share		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
Bihar	-	0.08	5	0	0.07	2.20
Haryana	22.29	33.5	52.31	24.16	30.11	23.06
Himachal Pradesh	-	-	0	0	0	0.00
Madhya Pradesh	-	0.57	24.1	0	0.51	10.63
Punjab	69.46	67.81	99.39	75.29	60.94	43.82
Rajasthan	0.02	3.83	9.35	0.02	3.44	4.12
Uttarakhandl	-	0.02	0.85	0	0.02	0.37
Uttar Pradesh	0.49	5.46	31.37	0.53	4.91	13.83
Chandigarh	-	-	0.1	0	0	0.00
Delhi	-	-	0.07	0	0	0.00
Gujarat	0	0	4.15	0	0	1.83
Maharashtra	0	0	0.1	0	0	0.04
Jharkhand	0	0	0.02	0	0	0.01
J&K	0	0	0.01	0	0	0.00
<b>Total</b>	<b>92.26</b>	<b>111.27</b>	<b>226.82</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : Department of Food & Public Distribution

Uttar Pradesh and Gujarat showed remarkable improvement in procurement of wheat in RMS 2008-09 (Table 7.22 and 7.23).

7.102 The MSP of maize was raised to Rs. 620 per quintal for KMS 2007-08 and a quantity of 60,301 MT was procured. The procurement of coarse grains generally improved in KMS 2007-08. The MSP of maize has been further increased to Rs. 840 per quintal for KMS 2008-09, resulting in procurement of 7,38,000 tonnes of maize in KMS 2008-09 (till 31.03.2009). The overall procurement of coarse grains in KMS 2008-09 till 31.03.2009 has increased to 11.18 lakh tonnes, due to highly remunerative MSPs of coarse grains.

7.103 Details of coarse grain procurement during last three years and the current kharif marketing season is given in Table 7.24.

**Table 7.24 : Procurement of coarse grain**

(lakh tonnes)	
Year	Procurement
2005-06	11.50
2006-07	0.002
2007-08	2.04
2008-09 (till March 2009)	11.18

Source : Department of Food & Public Distribution

#### *Decentralized procurement scheme*

7.104 Decentralized Procurement Scheme is in operation in 10 states, namely, West Bengal, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Uttarakhand, Gujarat, Orissa, Tamil Nadu, Karnataka and Kerala and the Union Territory of Andaman & Nicobar Islands since 1997. Under this scheme, the designated states procure, store and issue



foodgrains under the Targeted Public Distribution System (TPDS) and the welfare schemes of the Government of India. The difference between the economic cost fixed for the State and the Central Issue Price is passed on to the State Government as subsidy. The decentralized system of procurement has the objectives of covering more farmers under the MSP operations, improving efficiency of the PDS, providing foodgrains varieties more suited to local taste and reducing transportation costs. States under DCP operations have shown a healthy increase in procurement in rice. The downward trend in procurement of wheat has been arrested in RMS 2008-09 with procurement increasing to 6.05 million tonnes under DCP operations as against 0.61 million tonnes in the preceding year.

### Import of wheat

7.105 The decision to import wheat in 2006-07 and 2007-08 was taken to meet the deficit in the Central pool for meeting commitments under TPDS, other food-based welfare schemes and emergency relief measures. It also helped to augment domestic availability of wheat for maintaining food security, improvement in buffer stock and price stability. Government placed orders to import 5.5 million tonnes of wheat in 2006-07 at a weighted average price of US\$ 204.7 per tonne and 1.8 million tonnes in 2007-08 at weighted average price of US\$ 373.8 per tonne. The phenomenal increase in procurement of wheat in RMS 2008-09 and excellent procurement in RMS 2009-10 (till 20.4.2009) will ensure that imports will not be necessary in the ensuing year.

### Buffer stock

7.106 The years 2001-03 witnessed high levels of stock in the Central pool, reaching a peak of 64.7

million tonnes, an all-time record, in June 2002. The year 2003-04 witnessed a general easing in the foodgrains stocks with the FCI, because of lower procurement of rice and wheat following a bad agricultural year in 2002-03 combined with relatively high offtake of foodgrains, especially for drought relief operations (Table 7.25).

7.107 The steady reduction in stocks prompted the Government to stop fresh allocation of rice and wheat for export from August 2003. FY 2004-05 started with a much lower level of stock at 20 million tonnes on April 1, 2004, as compared to the stock level of 32.8 million tonnes on April 1, 2003. The foodgrains stocks, however, remained consistently higher than the buffer requirement during 2004-05 on account of good procurement of rice and wheat and relatively lower offtake than in the previous year. The stock of foodgrains, which was 15.7 million tonnes on April 1, 2006 against the buffer norms of 16.2 million tonnes, increased to 17.88 million tonnes on April 1, 2007. The stock position as on April 1, 2008 was comfortable at 19.64 million tonnes against buffer stock norm of 16.2 million tonnes. The stock position of foodgrains as on April 1, 2009 was 350.33 lakh tonnes comprising of 216.04 lakh tonnes of rice and 134.29 lakh tonnes of wheat against buffer norm of 122 lakh tonnes and 40 lakh tonnes respectively, and is adequate for meeting the requirements under TPDS and welfare schemes during the current financial year.

### Economic cost of foodgrains to FCI

7.108 The economic cost of foodgrains consists of three components viz, MSP (and bonus) as the price paid to farmers, procurement incidentals and the cost of distribution. The economic cost witnessed a significant increase for both wheat and rice in

**Table 7.25 : Stock position of wheat and rice in the Central pool vis-à-vis minimum buffer norms**

(in lakh tonnes)

ASON	WHEAT		RICE		TOTAL	
	Minimum buffer norms	Actual stock	Minimum buffer norms	Actual stock	Minimum buffer norms	Actual stock
January 2007	82	54.28	118	119.77	200	174.05
April	40	47.03	122	131.72	162	178.75
July	171	129.26	98	109.77	269	239.04
October	110	101.21	52	54.89	162	156.10
January 2008	82	77.12	118	114.75	200	191.87
April	40	58.03	122	138.35	162	196.38
July	171	249.12	98	112.49	269	361.61
October	110	220.25	52	78.63	162	298.88
January 2009	82	182.12	118	175.76	200	357.88

Source : Department of Food & Public Distribution

Table 7.26 : Economic cost of rice and wheat

(Rupees per quintal)					
Year	2004-05	2005-06	2006-07 (prov)	2007-08 (prov)	2008-09 (RE)
<b>Rice</b>					
Procurement incidentals	58.48	21.25	191.79	191.81	268.02
Distribution cost	256.51	281.37	300.59	331.81	294.67
Economic cost \$	1303.59	1350.67	1411.6	1563.70	1789.78
<b>% increase over previous year</b>					
Procurement incidentals	90.61	-63.66	*	0.01	39.73
Distribution cost	19.57	9.69	6.83	10.38	(-11.19)
Economic cost \$	5.46	3.61	4.51	10.77	14.45
<b>Wheat</b>					
Procurement incidentals	182.74	163.67	179.39	163.47	198.87
Distribution cost	222.8	226.96	280.19	282.76	228.54
Economic cost \$	1019.01	1031.51	1214.39	1353.24	1392.68
<b>% increase over previous year</b>					
Procurement incidentals	32.23	-10.44	9.60	(-8.87)	21.65
Distribution cost	31.30	1.87	23.45	0.91	(-19.17)
Economic cost \$	10.92	1.23	17.73	11.43	2.91

Source : Department of Food & Public Distribution.

\$ Weighted average of common and grade 'A' rice taken together;

\* For rice, from 2006-07, in the procurement incidentals weightage of levy rice incidentals is also being taken.

2007-08 due to increase in MSPs. The economic costs of wheat and rice for 2007-08 have been provisionally fixed at Rs. 1,353.24 and Rs. 1,563.70 per quintal respectively. The economic cost of wheat and rice in 2008-09 is estimated to be Rs. 1,392.68 and Rs. 1,789.78 per quintal respectively. The difference between the economic cost of foodgrains and the issue price is reimbursed to FCI (Table 7.26)

7.109 The incidence of taxation and levies on wheat and rice continues to be high in the major procurement states like Punjab, Haryana and Andhra Pradesh. They have been imposing state taxes and levies of over 10 per cent ad valorem on the procurement of foodgrains, thereby inflating the economic costs, which have a direct bearing on market prices. Huge expenditure is also incurred by the FCI, and reflected in economic costs, on payment of Dami/Arthia charges as per statutory notifications issued by some states notably, Punjab, Haryana, Uttar Pradesh and Rajasthan.

#### Offtake of foodgrains from the Central pool

7.110 The offtake of foodgrains is primarily under the Targeted Public Distribution System and other welfare schemes of the Government of India. Under TPDS the allocation is made on a scale of issue which is 35 kg. per family for BPL and AAY categories and is variable based on foodgrain availability for APL category. Offtake of foodgrains under TPDS and other welfare schemes has been increasing in the last five years and has gone up from 31.3 million tonnes in 2002-03 to 37.4 million tonnes in 2007-08.

#### Food subsidy

7.111 Provision of minimum nutritional support to the poor through subsidized foodgrains and ensuring price stability in different states are the twin objectives of the food security system. In fulfilling its obligation towards distributive justice, the Government incurs food subsidies. The difference between economic cost of foodgrains and the issue price is reimbursed to FCI. Food subsidy provided to FCI and states/UTs undertaking DCP operations showed an annual increase of above 30 per cent during each of the three years namely, 2000-01, 2001-02 and 2002-03. The same trend is discernible since 2007-08 (Table 7.27).

Table 7.27 : Growth of food subsidies in India

Year	Food subsidy * (Rs. crore)	Annual growth (per cent)
1998-99	8700	16.0
1999-00	9200	5.8
2000-01	12010	30.5
2001-02	17494	45.7
2002-03	24176	38.2
2003-04	25160	4.1
2004-05	25746	2.3
2005-06	23071	-10.4
2006-07	23828	3.3
2007-08	31260	31.2
2008-09 (Prov)	43668	40.0

Source : Department of Food & Public Distribution

\* The subsidy amount above is in respect of wheat and rice only.

Table 7.28 : Trends in minimum support price and Central issue price

Marketing season	(Rs/quintal)							
	Minimum support price		Central issue price					
	Wheat	Paddy	Wheat			Rice		
		APL	BPL	AAY	APL	BPL	AAY	
2004-05	630	560	610	415	200	795	565	300
2005-06	640	570	610	415	200	795	565	300
2006-07	700	620	610	415	200	795	565	300
2007-08	850	745	610	415	200	795	565	300
2008-09	1000	850	610	415	200	795	565	300

7.112 While the economic cost of wheat and rice has gone up continuously due to increase in MSP and incentive bonus, the issue price has been kept unchanged since July 1, 2002. This has resulted in increasing incidence of food subsidy, which is the difference between the economic cost and issue prices (Table 7.28).

7.113 The total amount of subsidy has continued to rise at the national level. The ratio of the percentage allocation of subsidies as given by the offtake of foodgrains under TPDS and the proportion of people below poverty line is less than one for many of the poorer states.

### Rationalization of wheat / rice allocation

7.114 Keeping in view the declining stock position in the Central pool, the Central Government rationalized allocation of wheat for APL category under the TPDS from June 2006 based on each state's average offtake during the earlier three years and allocation of rice from April 2007 based on offtake during earlier three years. Further, in view of lower procurement of rice during 2006-07 and 2007-08 than the estimates, the allocation of rice for APL category for 2008-09 has been made on the basis of its average offtake during 2006-07 and 2007-08. The decision has been made uniformly applicable for all the states excepting J&K, A&N Islands, Lakshadweep, Himachal Pradesh and the North-eastern States excluding Assam, for which allocations have been retained at last year's (2007-08) level. However, there was no change in the overall allocation/ entitlements for BPL and AAY categories. Thus, while the allocations for AAY and BPL categories are made at 35 kg per family per month, allocations for APL category are made depending upon the availability of stocks in the Central pool. Besides the normal monthly allocation for APL category, ad hoc additional allocations of 22.56 lakh tonnes of wheat and 4.28 lakh tonnes of rice was made to various states/UTs during 2008. Further, a quantity of 1.92 lakh tonnes

of wheat and 0.39 lakh tonnes of rice was also allocated to various States as festival allocations.

7.115 In order to check inflationary trends in food economy, the Government took a decision in August 2008 to release wheat into the open market under the Open Market Sale Scheme (Domestic) (OMSS). These releases have been made through allocation to state/UT Governments for distribution to retail consumers and sale to bulk consumers by FCI through open tenders.

7.116 Allocation of up to 10 lakh tonnes was made to the State/UT Governments for distribution to retail consumers during the months of September 2008 to March 2009. The lifting by State Governments against these allocations was only 0.79 lakh tonnes (as on 15.03.2009). State/UT-wise allocation has also been made for sale of wheat to bulk consumers by FCI. The tenders floated by FCI were accepted by the high level committee (HLC) constituted by the Government. The HLC accepted bids for 12.13 lakh tonnes of wheat. The release of wheat under OMSS has helped in stabilizing wholesale prices of wheat.

### Sugar

7.117 The sugar production is provisionally estimated at 263 lakh tonnes in 2007-08 sugar season (October-September) as compared to record sugar production of 282 lakh tonnes in 2006-07 sugar season. In 2008-09 sugar season, sugar production is presently assessed to be about 150 lakh tonnes. Consumption is estimated at about 225 lakh tonnes per year. The shortfall in sugar production as against estimated consumption is sought to be met by import of raw sugar permitted against advance licence and under OGL at zero rate of customs duty up to 1.8.2009 to supplement domestic availability as well as control prices. The Government has also allowed STC, MMTC, PEC and NAFED to import 10 lakh tonnes of white/refined sugar at zero rate of customs duty up to 1.8.2009. Stock holding limits have been prescribed and further interventions may be

**Table 7.29 : Production of oilseeds and net availability of edible oils**

(in lakh tonnes)					
Oil-year (Nov.-Oct.)	Production*	Net availability of edible oils from all domestic sources	Import of edible oils (financial year)***	Total availability/ consumption of edible oils (domestic & imports)	Estimated requirement/ demand for edible oil consumption
2007-08	297.55	86.54	56.08	142.62	142.62
2008-09#	281.27	80.49	70.69	151.18	151.18 **

Source : \* Ministry of Agriculture

\*\* Directorate of Vanaspati, Vegetable Oils & Fat

\*\*\* DGCI&S

# Estimated

considered, if required. Due to the concerted efforts of the Government to ensure clearance of cane price arrears, the arrears for the 2008-09 sugar season, as on February 15, 2009, are estimated at about Rs. 2,033.78 crore only as against the total cane price payable of Rs. 13,989.19 crore. The cane price arrears for the last season (2007-08) were only Rs. 134.91 crore as on 15.2.2009.

7.118 To help the sugar industry and sugarcane farmers the Government had taken the measures during 2006-07 and 2007-08 sugar season which helped the sugar industry to improve liquidity during this period. These measures inter alia included creation of buffer stock of 50 lakh tonnes for one year. The banks provided additional credit on creation of buffer stock. The buffer subsidy amount and the additional credit were used for payment of cane price arrears as first priority; export assistance to defray expenditure on internal transport, marketing and handling charges and ocean freight for a period of one year was introduced with effect from April 19, 2007 and extended further up to 30.9. 2008. Such assistance was also to be used for payment of cane price including cane price arrears as first priority; extension up to 5 years of the moratorium of two years on restructured term loans of Cooperative Sugar Factories which were outstanding on April 1, 2005, under the NABARD package; loans from the banks under special schemes to the sugar mills — private, public sector and cooperative — of an amount equivalent to the notional central excise duty payable on total production of sugar during 2006-07 and 2007-08 sugar years and to provide full interest subvention to the banks on account of this loan, subject to a cap of 12 per cent per annum. The loan amount was to be used for clearance of cane price arrears of 2006-07 sugar season and cane price of 2007-08 sugar season relating to the Statutory Minimum Price (SMP) of sugarcane fixed by the Central Government. As per available information, about Rs. 2,700 crore of loan has been extended under the scheme.

### Edible oils

7.119 Estimated production of oilseeds and net availability of edible oils from all domestic sources is as in Table 7.29.

7.120 In order to check the instances of under-invoicing of edible oil imports, the Government had fixed tariff value on import of certain edible oils with effect from August 3, 2001 after which tariff value on these oils has been revised from time to time. The import duty structure and tariff values of edible oils are given in Tables 7.30 and 7.31.

**Table 7.30 : Present import duty structure on edible oils \***

Item Description	Current rates of duty on Crude Edible Oils	Current rates of duty on Refined Edible Oils
Soyabean oil	20% **	7.5%
Palmolein	Nil	7.5%
Palm oil	Nil	7.5%
Groundnut oil	Nil	7.5%
Sunflower	Nil	7.5%
Safflower oil	Nil	7.5%
Coconut Oil	Nil	7.5%
Rapeseed/Mustard oil	Nil	7.5%

Source : Directorate of Vanaspati, Vegetable Oils and Fats

\* Import duty effective from April 1, 2008.

\*\* Effective from 18.11.2008.

### Commodity futures market

7.121 Commodities which were traded in the commodity futures market during 2008 included a variety of agricultural commodities, bullion, crude oil, energy and metal products. New agricultural commodities introduced for trading in 2008-09 were red areca nut, coriander seeds and garlic. The commodity futures market facilitates price discovery process and provide price risk management. Its



**Table 7.31 : Tariff values of edible oils**

Notification date	(in US\$ per tonne)						
	Crude Palm Oil	RBD Palm Oil	RBD Palmolein	Crude Palmolein	Crude Soyabean Oil	Others Palm Oil	Others Palmolein
15.9.2006	447	476	484	481	580	462	483

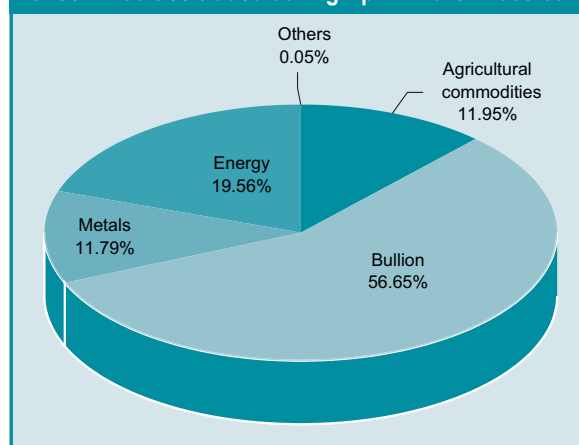
Source : Directorate of Vanaspati, Vegetable Oils and Fats

effectiveness depends on the wider participation of all the stakeholders categories. The daily average value of trade in the commodity exchanges improved from Rs. 13,287.55 crore during 2007-08 to Rs. 17,042.07 crore in 2008-09. Agricultural commodities, bullion and energy products accounted for a large share of the commodities traded.

7.122 During the year 2008-09, value of trade in agricultural commodities was about 12 per cent of total value of trade but in terms of volume of trade agricultural commodities accounted for 33.7 per cent of total volume of trade (Table 7.32).

7.123 Bullion accounted for the maximum share of the commodity groups to the total value of trade during 2008-09 (April-March) at 56.65 per cent followed by energy at 19.56 per cent. Agricultural commodities and metals accounted for 11.95 per cent and 11.79 per cent respectively of the total value of trade during 2008-09 (April- March) (Figure 7.2).

7.124 Special emphasis was given by FMC to broadbase the market and to take the benefits of futures trading to all the stakeholders of the commodity market, especially farmers. The initiatives taken in this regard, inter alia, include: promoting the participation of hedgers to counter-balance financial stakeholders with the commercial stakeholders for a balanced and liquid market and to strengthen the price discovery process; increasing the awareness level of farmers and other market participants to make them aware of the existence of as well as benefits from the futures market; working on various models of "aggregation" to enable small farmers to hedge on the commodity exchanges to

**Figure 7.2 : Per cent share of the major group of commodities traded during April - March 2008-09**

manage their price risk; permitting NCDEX to accredit warehouses of producers/processors/similar participants to widen the scope of physical delivery of bulk commodities.

### Restoration of futures trade – Chana, soy oil, rubber and potato

7.125 Considering the concerns of the Government of India about the inflationary expectations in the economy, the FMC, as a measure of abundant caution, had suspended futures trading in soya oil, rubber and potato w.e.f. May 7, 2008. However, with the easing of inflationary pressure, the suspension was allowed to lapse on November 30, 2008. Trading in these commodities resumed on December 4, 2008.

**Table 7.32 : Volume and value of agricultural commodities traded during last three years**

Group of commodity	VOT in lakh tonne					
	Value Rs. in crore					
	2006-07		2007-08		2008-09	
	VOT	Value	VOT	Value	VOT	Value
Agri. commodities.	5023.92 (81.96%)	1317125.21 (35.82%)	3139.03 (56.32)	941283.33 (23.15%)	2309.35 (33.65%)	627303.14 (11.95%)
<b>Grand Total</b>	<b>6129.29</b> <b>(100%)</b>	<b>3676926.67</b> <b>(100%)</b>	<b>5573.41</b> <b>(100%)</b>	<b>4065989.47</b> <b>(100%)</b>	<b>6863.49</b> <b>(100%)</b>	<b>5248956.18</b> <b>(100%)</b>

Source : Department of Consumer Affairs

7.126 The Government of India had appointed a committee under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission to study the impact of futures trading, if any, on agricultural commodity prices. The Committee was appointed on March 2, 2007 and submitted its report on April 29, 2008. The main findings and recommendations of the committee are: negative sentiments have been created by the decision to delist futures trades in some important agricultural commodities; the period during which futures trading has been in operation is too short to discriminate adequately between the effect of opening of futures markets, if any, and what might simply be the normal cyclical adjustments in prices; Indian data analyzed does not show any clear evidence of either reduced or increased volatility; the vibrant agriculture markets including derivatives markets are the frontline institutions to provide early signs of future prospects of the sector. The committee

recommended for upgradation of regulation by passing of the proposed amendment to FC(R) Act 1952 and removal of infirmities in the spot market.

7.127 The “Study on Impact of Futures Trading in Wheat, Sugar, Pulses and Guar Seeds on Farmers” was commissioned by the Forward Markets Commission and undertaken by the Indian Institute of Management, Bangalore. While the study was primarily intended to find out how futures trading is helping major stakeholders in the value chain of these commodities; it also dealt with the impact of futures trading on the prices of these commodities. The study did not find any visible link between futures trading and price movement and suggested that the main reason for price changes seemed to be changes in the fundamentals (mainly on the supply side) of these commodities, Price changes were also attributed to changes in government policies.