

FOOD MANAGEMENT

7.63 Food management in India has three basic objectives: 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 nodal agency which undertakes the procurement and distribution and storage of foodgrains is the Food Corporation of India (FCI). The procurement under the current system is open-ended at MSP, while the distribution is governed by the scale of allocation and its offtake by the beneficiaries.

Procurement of foodgrains

7.64 Rice and wheat are predominant cereals in procurement of foodgrains. Overall procurement which reached 42.4 million tonnes in 2005-06 declined to 35.8 million tonnes in 2006-07. The decline in wheat procurement in RMS 2006-07 and 2007-08 is attributed to less than the targeted production of wheat, 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. To encourage farmers to increase production of

wheat as well as to enhance procurement in RMS 2007-08, the Government announced MSP of Rs. 850 per quintal (inclusive of bonus). Procurement, however, increased only in a limited way to 11.1 million tonnes, compared to 9.2 million tonnes in RMS 2006-07. However, procurement of wheat was substantially less than the targets in Uttar Pradesh, Madhya Pradesh and Bihar. Rice procurement also fell marginally to 26.3 million tonnes during 2006-07 from 26.7 million tonnes during 2005-06. MSP, inclusive of bonus, for paddy was raised for the 2007-08 kharif marketing season by Rs. 125 per quintal. To incentivise the procurement, MSP (plus bonus) was fixed at Rs. 745 per quintal for common varieties of paddy and to Rs. 775 per quintal for Grade 'A' varieties. Further, to maximize procurement of rice, a ban on export of non-basmati rice was imposed on October 9, 2007. However, on October 25, 2007, a decision to reverse the ban was taken on non-basmati rice above the Minimum Export Price (MEP) of \$425 per tonne (FoB), which was raised to \$500 per tonne on December 27, 2007. It is expected that the estimated procurement of 26 million tonnes for the current year will be achieved. In KMS 2007-08, procurement up to December 31, 2007, is 17.19 million tonnes compared to 16.76 million tonnes in the corresponding period last year (Table 7.23).

Table 7.23 Procurement and offtake of wheat and rice (million tonnes)

	2003-04	2004-05	2005-06	2006-07	April-Dec	
					2006-07	2007-08
Procurement of wheat and rice under Central pool						
Rice	20.8	24.0	26.7	26.3	19.1	17.2 ^b
Wheat	15.8	16.8	14.8	9.2	9.2	11.1
Total ^a	37.2	41.6	42.4	35.8	28.3	28.3
Offtake of wheat and rice for TPDS						
Rice	13.4	16.6	19.2	21.2	15.9	16.5
Wheat	10.8	13.1	12.2	10.4	7.7	8.2
Total	24.2	29.7	31.4	31.6	23.6	24.7
BPL	15.8	17.5	15.6	14.2	10.6	11.2
APL	4.2	6.7	8.3	8.7	6.6	7.0
Antyodaya	4.2	5.5	7.4	8.7	6.4	6.5
Offtake of wheat and rice for other schemes						
Welfare schemes	13.5	10.6	9.7	5.1	3.8	2.6
Open sales/exports	11.6	1.2	1.1	0.0	0.0	0.0
Total	49.3	41.5	42.1	36.7	27.4	27.3

Source : Food Bulletin- Department of Food and Public Distribution.

^a Includes the procurement of coarse grains. ^b Procurement in KMS 2007-08.

7.65 The 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 71 per cent of rice procured for the Central pool in KMS 2004-05, 68.8 per cent in 2005-06 and 69.7 per cent in 2006-07. Punjab and Haryana accounted for more than 91 per cent of wheat procurement in RMS 2005-06 (Table 7.24) which increased to 99.5 per cent in 2006-07 but declined to 91.1 per cent in 2007-08. In some of the major rice and wheat producing States, procurement by the State agencies, however, remained poor. Procurement of wheat in Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh was significantly lower relative to their production. Similarly, for rice, the ratio of procurement to production was significantly lower in West Bengal, Tamil Nadu, Bihar, Karnataka, Maharashtra and Jharkhand. There may be a need to strengthen the procurement machinery in these States.

Decentralized Procurement Scheme

7.66 The Decentralized Procurement Scheme (DCP) scheme is in operation since 1997 in 10 States and a Union Territory, namely, West Bengal, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Uttarakhand, Gujarat, Orissa, Tamil Nadu, Karnataka and Kerala and the Union Territory of Andaman & Nicobar Islands. Under this scheme, the designated States procure, store and also issue foodgrains under the Targeted Public Distribution

System (TPDS). The difference between the economic cost of the State Government and the Central Issue Price is passed on to the State Government as subsidy. The decentralized system of procurement helps to cover more farmers under the MSP operations, improves efficiency of the PDS, provides foodgrain varieties more suited to local taste and reduces the transportation costs of the FCI. There was a record procurement of 10.9 million tonnes of rice under this scheme by these States in KMS 2005-06. In case of rice, States under DCP operations have shown a healthy trend of increase in procurement. In case of wheat, however, the procurement in DCP States, particularly Uttar Pradesh and Madhya Pradesh, has shown a declining trend in the last few years, primarily due to aggressive purchases by private companies, lower rates of taxes and levies than in Punjab and Haryana and the proximity to markets in southern and western States of the country.

Import of wheat

7.67 The decision to import wheat 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 was also necessitated to augment the domestic availability of wheat for maintaining food security and price stability. Government imported 5.5 million tonnes of wheat in 2006-07 at a weighted average price of US\$ 204.7 per tonne. During 2007-08 also, the Government has decided to import wheat

Table 7.24 State-wise procurement of rice and wheat (lakh tonnes)

	Rice (October-September)			Wheat (April-March)		
	2004-05	2005-06	2006-07	2005-06	2006-07	2007-08
Punjab	91.1	88.6	78.3	90.1	69.5	67.8
Andhra Pradesh	39.1	49.7	53.3			
Chhattisgarh	28.4	32.7	28.6			
Uttar Pradesh	29.7	31.5	25.5	5.6	0.5	5.5
Orissa	15.9	17.9	19.9			
Haryana	16.6	20.5	17.7	45.3	22.3	33.5
Tamil Nadu	6.5	9.3	10.8			
West Bengal	9.4	12.8	6.4			
Bihar	3.4	5.2	4.8	0.0	-	0.1
Uttarakhand	3.2	3.4	1.8			
Kerala	0.3	0.9	1.5			
Maharashtra	2.1	1.9	1.0			
Madhya Pradesh	0.4	1.4	0.7	4.8	-	0.6
Rajasthan	0.2	0.2	0.1	1.6	0	3.8
Total	246.9	276.6	250.8	147.9	92.3	111.3

for the Central pool and orders have already been placed for import of 1.8 million tonnes. These imports are at weighted average cost of US\$ 325.6 per tonne (5.1 lakh tonnes), US\$ 389.5 (8 lakh tonnes), US\$ 400.2 (3.4 lakh tonnes) and US\$ 396.9 (1.5 lakh tonnes).

Buffer stock

7.68 The years 2001-03 witnessed high levels of stock build up in the Central pool. The foodgrains stocks reached 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 relatively 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).

7.69 The steady reduction in stocks prompted the Government to stop fresh allocation of rice and wheat for export from August 2003. The year 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. As on April 1, 2005, the

stock was 17.4 million tonnes against the buffer norms of 16.2 million tonnes. The stock of foodgrains as on April 1, 2006, was 15.7 million tonnes against the buffer norms of 16.2 million tonnes. The present stock position of foodgrains as on January 1, 2008, is 19.2 million tonnes comprising of 11.5 million tonnes of rice and 7.7 million tonnes of wheat which along with projected arrivals of wheat imports will be adequate for meeting the requirements under TPDS and welfare schemes during the current financial year.

Economic cost of foodgrains to FCI

7.70 The economic cost of foodgrains consists of three components: MSP as the price paid to farmers, procurement incidentals and the cost of distribution. The economic cost has witnessed a significant increase for both wheat and rice in 2007-08. While in part it is due to an increase in MSP for wheat and rice, it has also been due to an increase in procurement incidentals, particularly for rice. Economic cost of wheat for 2007-08 (RE) is Rs. 1,371.3 per quintal as against Rs. 1,214.4 per quintal in 2006-07 (Prov). Similarly, economic cost of rice in 2007-08 (RE) was Rs. 1,572.6 per quintal as against Rs. 1,411.6 per quintal in 2006-07 (Prov). The substantial increase in the MSPs of rice and wheat and bonus are the main reasons for increase of economic cost of foodgrains. The

Table 7.25 Buffer norms and actual stock of wheat and rice

Beginning of the month	Wheat		Rice		Total (wheat and rice)	
	Buffer norms	Actual stock	Buffer norms	Actual stock	Buffer norms	Actual stock
January, 2004	8.4	12.7	8.4	11.7	16.8	24.4
April	4.0	6.9	11.8	13.1	15.8	20.0
July	14.3	19.2	10.0	10.8	24.3	29.9
October	11.6	14.2	6.5	6.1	18.1	20.3
January 2005	8.4	8.9	8.4	12.8	16.8	21.7
April	4.0	4.1	12.2	13.3	16.2	17.4
July	17.1	14.5	9.8	10.1	26.9	24.5
October	11.0	10.3	5.2	4.9	16.2	15.1
January 2006	8.2	6.2	11.8	12.6	20.0	18.8
April	4.0	2.0	12.2	13.7	16.2	15.7
July	17.1	8.2	9.8	11.1	26.9	19.3
October	11.0	6.4	5.2	6.0	16.2	12.4
January 2007	8.2	5.4	11.8	12.0	20.0	17.4
April	4.0	4.7	12.2	13.2	16.2	17.9
July	17.1	12.9	9.8	11.0	26.9	23.9
October	11.0	10.1	5.2	5.5	16.2	15.6
January, 2008	8.2	7.7	11.8	11.5	20.0	19.2

Table 7.26 Economic cost of wheat and rice (Rs. per quintal)

Year	2003-04	2004-05	2005-06(P)	2006-07(P)^a	2007-08(QE)
Rice					
Procurement incidentals	25.6	58.5	30.1	191.8	207.6
Distribution cost	215.4	256.5	273.5	300.6	328.0
Economic cost ^b	1231.3	1303.6	1337.3	1411.6	1572.6
Wheat					
Procurement incidentals	145.5	182.7	171.2	179.4	175.8
Distribution cost	165.3	222.8	234.9	280.2	286.7
Economic cost	928.7	1019.0	1044.5	1214.4	1371.3

^a For rice, from 2006-07 in the incidentals, weightage of levy rice incidentals is also taken.

^b Weighted average of common and Grade A rice is taken together.

difference between the economic cost of foodgrains and the issue price is reimbursed to FCI. The incidence of taxation and levies on wheat and rice continues to be high in large procuring States like Punjab. The major procurement States, namely, Punjab, Haryana and Andhra Pradesh, have been imposing State taxes and levies of over 10 per cent *ad valorem* on the procurement of foodgrains, thereby inflating the economic cost (Table 7.26).

Offtake of foodgrains from the Central pool

7.71 The offtake of foodgrains is primarily under the Targeted Public Distribution System and for other welfare schemes. Under TPDS the allocation is made in terms of scale of issue which is 35 kg. per family. Offtake of the foodgrains, however, is lower than the allocation because some of the beneficiaries under the TPDS may not take the delivery of foodgrains as per their entitlement. Total offtake of foodgrains, however, has been in line with the procurement in the last four years.

Food subsidy

7.72 The difference between the economic cost of foodgrains and the issue price is reimbursed to

FCI. 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. By fulfilling the obligation towards distributive justice, the Government incurs food subsidies. Food subsidy showed an annual increase of above 30 per cent during each of the three years namely, 2000-01, 2001-02 and 2002-03 but it is relatively stable since 2003-04 (Table 7.27).

7.73 Food subsidy being the difference between the economic cost of wheat and rice and their issue prices for different groups of beneficiaries are linked to the increase in the economic cost and the issue prices. While the economic cost of wheat and rice has gone up due to an increase in MSP, the issue price has been kept unchanged since July 1, 2002 (Table 7.28).

7.74 Though the total amount of subsidy has continued to rise, State-wise allocations of subsidies do not seem to be related to the poverty levels. 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 (Table 7.29).

Table 7.27 Growth of food subsidy in India (other than sugar)

Year	Food subsidy (Rs. crore)	Annual		Year	Food subsidy (Rs. crore)	Annual
		Growth (%)	Year			
1997-98	7500	45.2	2003-04	25160	4.1	
1998-99	8700	16.0	2004-05	25746	2.3	
1999-00	9200	5.8	2005-06	23071	-10.4	
2000-01	12010	30.5	2006-07	23828	3.3	
2001-02	17494	45.7	2007-08(BE)	25425	6.7	
2002-03	24176	38.2				

Table 7.28 MSP and issue price for wheat and rice under TPDS

Marketing season	Minimum support Price		Central issue price					
	Wheat	Paddy	APL	Wheat	AAY	APL	BPL	AAY
2002-03	620	550	610	415	200	795	565	300
2003-04	630	550	610	415	200	795	565	300
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							

From April 1, 2002 to June 30, 2002, Issue price for APL for both wheat and rice was reduced by Rs. 100 per quintal.

MSP and CIP (for APL families) for paddy/rice are for common grade.

Table 7.29 Allocation of subsidies and population below poverty line

State	Food subsidy for TPDS			Per cent of total food subsidy	Percentage of people below poverty line	Ratio of per- centage of subsidies/ percentage of persons below poverty line
	2005-06	2006-07	Average			
Bihar	975.1	625.1	800.1	3.5	12.2	0.3
Punjab	119.2	49.6	84.4	0.4	0.7	0.5
Jharkhand	678.1	429.4	553.7	2.4	3.9	0.6
Rajasthan	882.4	388.5	635.4	2.8	4.5	0.6
Madhya Pradesh	1571.4	949.0	1260.2	5.5	8.3	0.7
Uttar Pradesh	4024.3	2766.3	3395.3	14.8	19.6	0.8
Maharashtra	2183.5	1499.6	1841.6	8.0	10.5	0.8
Haryana	275.0	139.1	207.1	0.9	1.1	0.9
Orissa	1111.8	1130.9	1121.4	4.9	5.9	0.8
Gujarat	744.4	438.7	591.6	2.6	3.0	0.9
Goa	18.6	8.3	13.5	0.1	0.1	1.0
Chhattisgarh	787.9	663.4	725.7	3.2	3.0	1.1
West Bengal	1903.2	1593.4	1748.3	7.6	6.9	1.1
Karnataka	1611.9	1409.0	1510.5	6.6	4.6	1.4
Delhi	373.0	239.4	306.2	1.3	0.8	1.8
Kerala	821.6	674.7	748.1	3.3	1.6	2.0
Tamil Nadu	2636.1	2595.2	2615.7	11.4	4.8	2.4
Andhra Pradesh	2415.3	2243.0	2329.1	10.2	4.2	2.4
Total of all states	25813	19945.5	22879.3	100	100	

Note: 1. Subsidies have been calculated on the basis of offtake and difference between economic cost and issue price.

2. Share of BPL population is as per Planning Commission 2004-05.

3. Totals cover all States and UTs including the ones not specifically mentioned.

Rationalization of wheat/rice allocation

7.75 Keeping in view the declining stock position in the Central pool, the Central Government has taken several steps to mitigate the shortage of wheat, such as, rationalization of allocation of wheat for APL category under the TPDS and import of wheat. The allocation of wheat under TPDS for the APL category has been rationalized from June 2006 based on each

State's average offtake during the earlier three years or the last year's offtake, whichever was lower. A 25 per cent cut was imposed in respect of rice consuming States. However, there has been no change in the overall allocation/entitlements for BPL and AAY categories. Thereafter, in view of the improved stock position and to keep prices of wheat in the open market under check, the Department of Food and Public Distribution has released about 1 lakh tonnes of

wheat under APL category for all the States/UTs every month from September 2006 to July 2007 and further from September 2007 to March 2008. A quantity of 1.24 lakh tonnes of wheat and 0.40 lakh tonnes of rice was also allocated as festival allocation to States/UTs during October and December 2007. Similarly, keeping in view the stock position of rice in the Central pool, allocation of rice made for the APL category under the TPDS has been rationalized from April 2007 for all the States/UTs on the basis of their offtake during 2003-04, 2004-05 and 2005-06. 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.

Sugar

7.76 The sugar production is provisionally estimated at 280 lakh tonnes in 2006-07 sugar season (October-September) as compared to sugar production of 193 lakh tonnes in 2005-06 sugar season. In 2007-08 sugar season, sugar production is preliminarily estimated at about 270 lakh tonnes. The consumption is estimated at 200 lakh tonnes. Taking into account the opening stock of about 110 lakh tonnes at the beginning of the current sugar year (October 1, 2007), there would be enough availability of sugar in the season. Due to better open market realization over a cycle of three sugar years from 2003-06, the total sugarcane dues paid to farmers as on October 15, 2006, for 2005-06 sugar season were Rs. 20,686.26 crore. Accordingly cane arrears were at a historic low of 0.32 per cent for the sugar year 2005-06. The prevalence of sellers market in these sugar seasons for sugar cane resulted in additional incremental income to the sugarcane farmers, besides creating a healthy investment climate for sugar industry. The position changed thereafter on account of high production of sugar in 2006-07 sugar season and anticipated higher production in the current 2007-08 season resulting in decline in sugar prices with the consequent effect on payment of cane price to farmers. The cane price arrears for the 2006-07 sugar season, as on November 15, 2007, are estimated at about Rs. 1,825.75 crore. The total cane price pertaining to 2006-07 season (October-September) by November 15, 2007 was Rs. 27,629.33 crores and the cane arrears constituted 6.2 per cent of the total value of cane. The cane arrears percentage had increased on account of overwhelmingly excess production and cane crushed as well as low sugar price realization due to excess production, but were significantly lower

in percentage terms compared to previous peak production year 2002-03. The volume of payment made and sugar produced in 2006-07 (280 lakh tonnes) have been at an all-time high.

7.77 To help the sugar industry and sugar cane farmers the Government has taken the following measures:

- (i) Creation of buffer stock of 50 lakh tonnes for one year. The banks provide additional credit on creation of buffer stock. The buffer subsidy amount and the additional credit are to be used for payment of cane price including cane price arrears as first priority.
- (ii) Export assistance to defray expenditure on internal transport, marketing and handling charges and ocean freight for a period of one year with effect from April 19, 2007. Such assistance is also to be used for payment of cane price including cane price arrears as first priority.
- (iii) Facilitation of sugar exports – requirement of release orders for export has been dispensed with from July 31, 2007, to facilitate sugar exports and improve their liquidity position.
- (iv) Extending moratorium on outstanding term loans as on April 1, 2005, for cooperative sugar factories in the country.
- (v) To give loans from the banks under special guidelines to the sugar mills — private, public sector and cooperative — of an amount equivalent to the notional central excise duty payable on total production 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 is 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.
- (vi) 5 per cent blending of ethanol with petrol has been made mandatory across the country, except in Jammu and Kashmir, North-Eastern States and Island Territories and 10 per cent blending optional from October 2007 and mandatory from October 2008

The above measures, will improve the financial position of sugar factories enabling them to clear the outstanding cane price arrears.