



Australian Government
Department of Agriculture
ABARES

Indian agricultural policy

A brief summary

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Research by the Australian Bureau of Agricultural
and Resource Economics and Sciences

Report to client prepared for
DFAT Public Sector Linkages Program
April 2014



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Cataloguing data

Mobsby, D 2014, Indian agricultural policy–A brief summary, ABARES, Report to client prepared for DFAT Public Sector Linkages Program, Canberra, April.

ABARES project: 43215

Internet

Indian agricultural policy–A brief summary is available at: daff.gov.au/abares/publications.

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Acknowledgements

The author gratefully acknowledges the feedback on the draft provided by Jammie Penm and Caroline Gunning-Trant.

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1 Indian agricultural policy

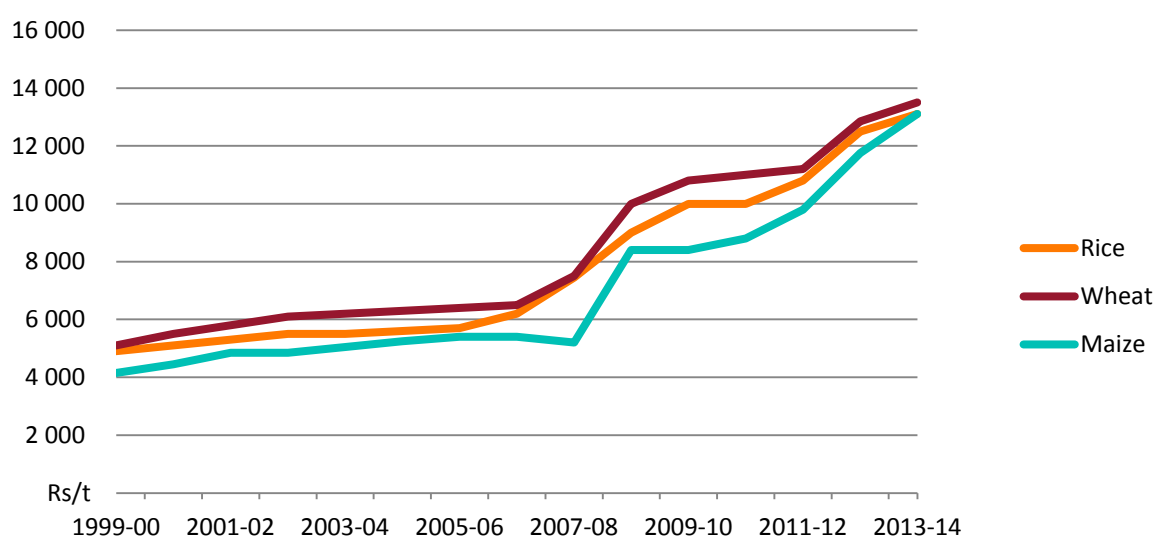
The objectives of the Indian Government's agricultural policy are to support farmers' incomes and India's food security and food self-sufficiency goals (USITC 2009). For grains, including wheat, rice and coarse grains, the instruments used by the government to achieve these objectives include input subsidies and minimum support prices to producers and subsidised food prices for consumers (WTO 2011).

Indian domestic grains policy

Grain producers in India are eligible to receive minimum support prices, which are underpinned by procurement from the Food Corporation of India (FCI), state governments and other state agencies. Producers are able to sell as much as they wish to procurement agencies at set prices, subject to meeting quality standards (DPFD 2014a, FCI 2014a). Grains procured by the FCI and state governments are stored in government held stocks.

The minimum support prices (MSP) for wheat, rice and coarse grains (maize, barley, grain sorghum and millet) have generally been raised each year from 1998–99 to 2013–14 (Figure 1). MSPs are set by the Commission for Agricultural Costs and Prices. When determining MSPs the commission takes into account factors such as the costs of production and the condition of domestic and world markets (CACP 2013).

Figure 1 Minimum support prices

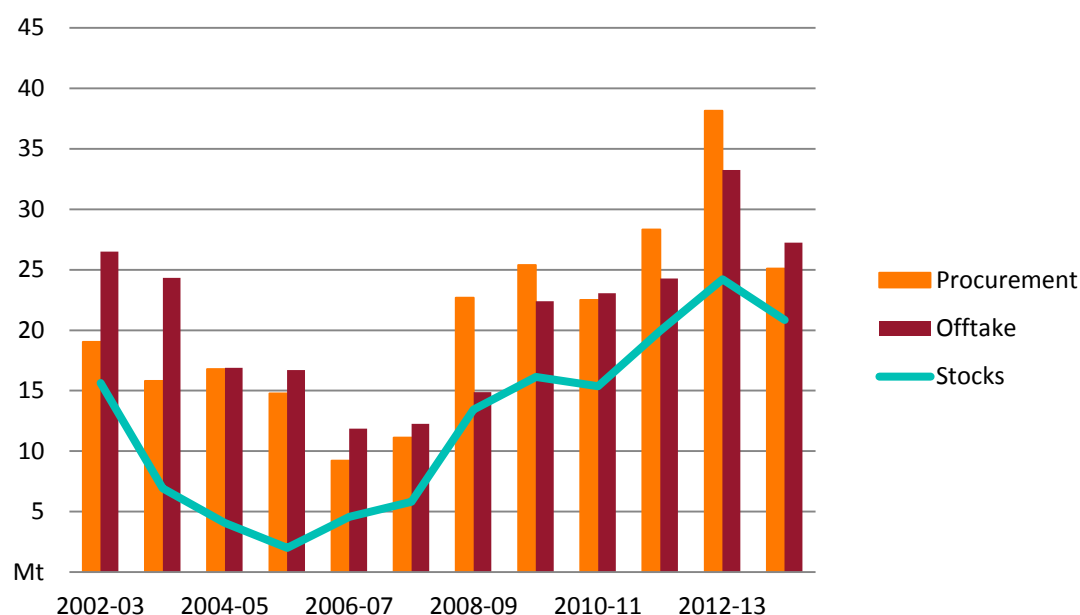


Note: Several minimum support prices are applied for coarse grains. Maize is taken as a representative price for coarse grains.

Data source: DAC 2014, FCI 2014b

Wheat and rice procurement expanded markedly from 2008–09. This not only occurred because of the rise in MSPs and the government's procurement policy for grains purchases is open-ended which have, together, resulted in increased production of both wheat and rice, but also because of above average yields achieved in recent seasons (Figure 2). For example, wheat production from 2008–09 through to 2012–13 was well above the longer-term average. This led to a rise in government wheat procurements, from a longer-term average of 25 per cent of total wheat production to 40 per cent in 2012–13. However, a decline in procurement occurred in 2013–14, largely because of high domestic prices (USDA–FAS 2014b).

Figure 2 Procurement, offtake and stocks of wheat



Note: Stocks as at 1 April following each marketing year (April–March), except for 2013–14 which is 1 March. Offtake of wheat from government stocks for 2013–14 is April 2013 to February 2014.

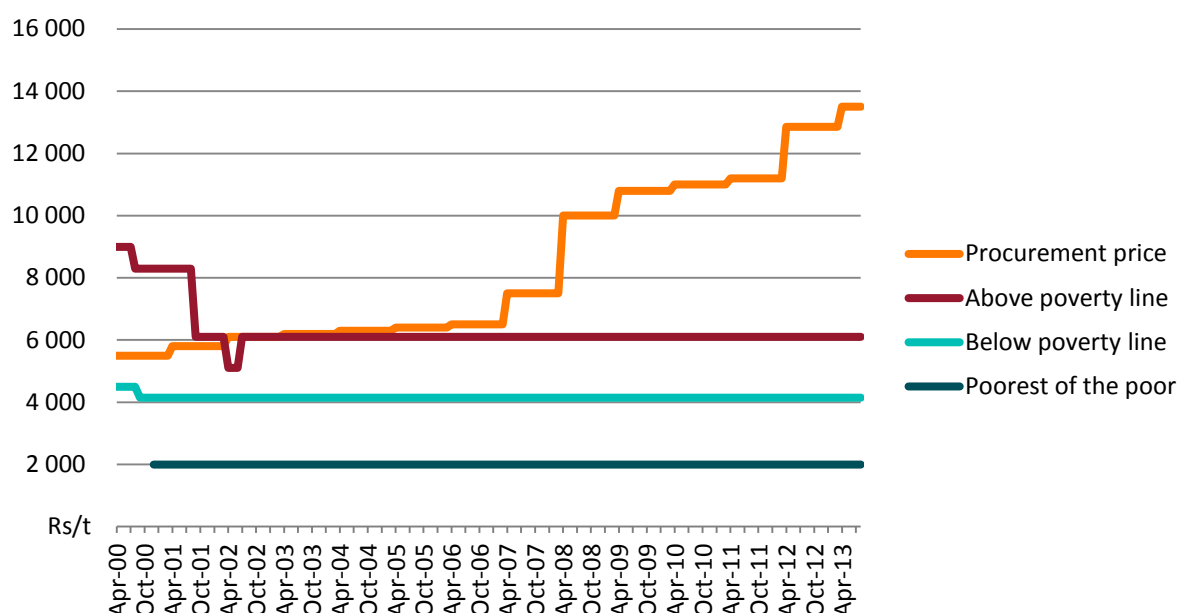
Data source: FCI 2014c, d, e,

The government of India also supports grain producers through numerous input subsidies. These include subsidised irrigation, electricity, diesel fuel, seeds and fertilise (USITC 2009). One example of a program that provides such subsidies is the National Food Security Mission, a targeted program aimed at increasing wheat, rice and pulse production. Through this program producers of these commodities receive subsidies for seed, inputs and product specific investments (Hoda & Gulati 2013).

The principal policy instrument targeting food security on the consumption side is the Targeted Public Distribution System (TPDS), a government subsidised food distribution program that provides low cost food grain to Indian consumers. The FCI provides grain to the TPDS from government stocks. Grain is first allocated to state governments and union territories which then distribute grain to some 492 000 fair price shop dealers throughout India (AIFPSDF 2013). At these shops, consumers can purchase an allocated amount of grain at set prices that are dependent on their income level (Jha et al. 2007). Three income group levels are classified under the TPDS: Above Poverty Line, Below Poverty Line and Antyodaya Anna Yojana, or the poorest of the poor (Figure 3).

The price of wheat and rice sold by the Indian Government through the TPDS has been held constant since 2002. In recent years, these prices have been well below the minimum support price offered on procurement (FCI 2014f). Since April 2002, eligible households from each income group have been able to purchase up to 35 kilograms of food grains per household per month (DFPD 2014b). Both the purchase price and ration of food grains faced by eligible households change under the National Food Security Act 2013 (see below).

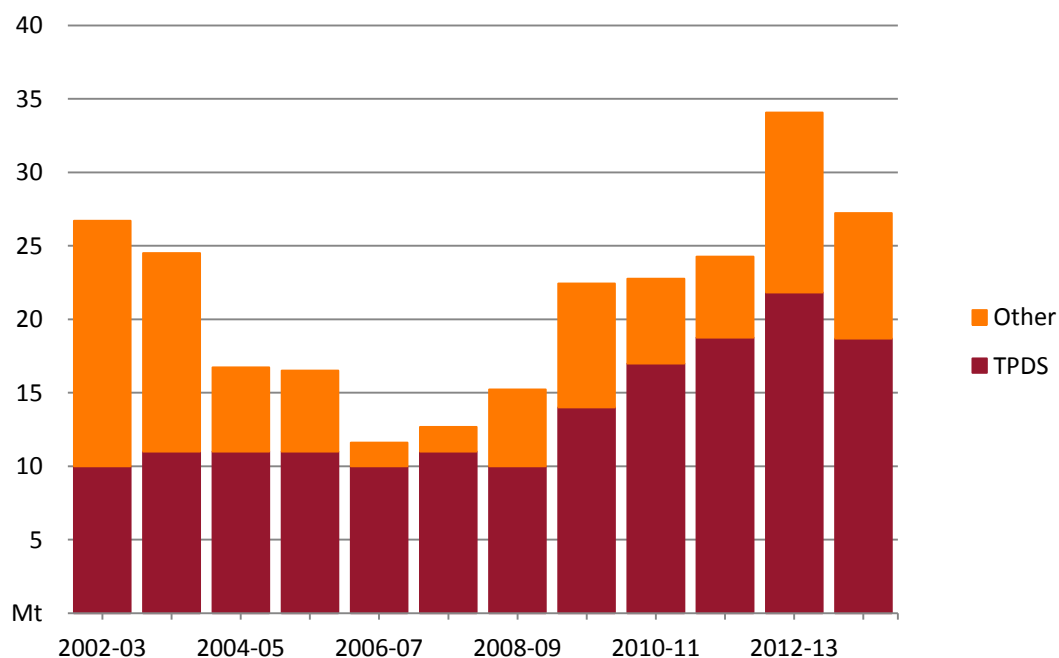
Figure 3 Government procurement price and TPDS prices of wheat



Data source: FCI 2014b, f

Offtake of wheat and rice from government stocks rose markedly in recent years. For example, wheat offtake under the TPDS more than doubled from 2008-09 to 2012-13 to reach 21.8 million tonnes, equivalent to 27 per cent of total food, seed and industrial consumption (Figure 4)(FCI 2014d, USDA-FAS 2014a).

Figure 4 Wheat offtake from government stocks



Note: 'Other' category includes items such as other welfare schemes and sales of government held stocks. Data for 2013-14 extends from April 2013 to February 2014.

Data source: FCI 2014d

Rising procurement prices and increasing volumes of procurement, combined with the fixed price of grains made available by the Indian Government through the TPDS, resulted in India's food subsidy increasing significantly (USDA-FAS 2013a). The food subsidy more than tripled between 2005-06 and 2012-13, from 231 billion rupees to an estimated 850 billion rupees (USDA-FAS 2014b).

In September 2013, the National Food Security Bill was signed into law (USDA-FAS 2013b). The National Food Security Act 2013 (NFSA) creates an entitlement for subsidised food grains through the TPDS to two-thirds of the Indian population (approximately 820 million people) (USDA-FAS 2013b).

Under the NFSA, there are two categories of beneficiaries:

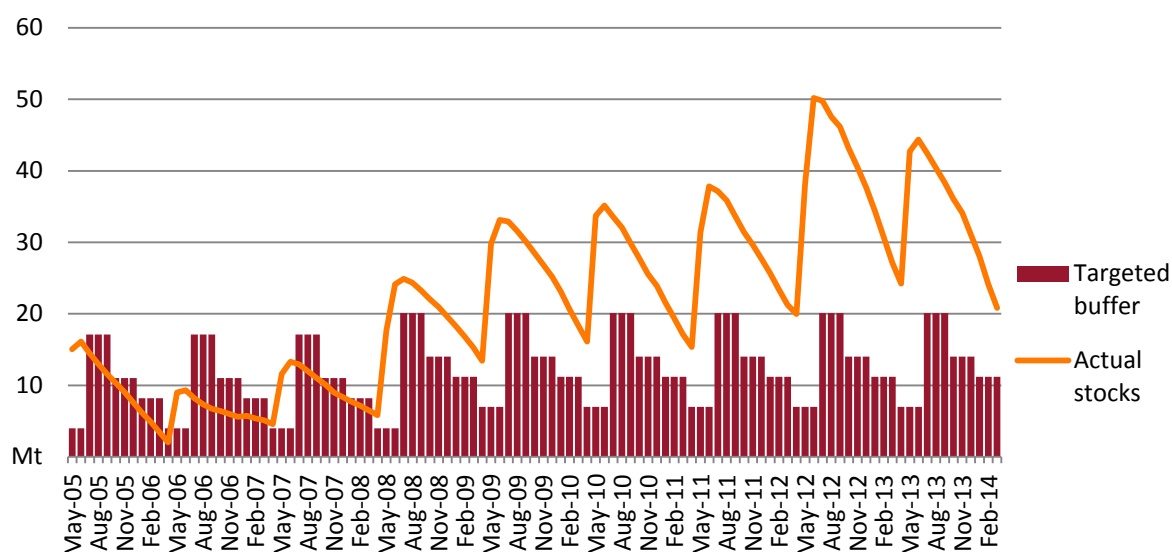
- 1) the entitled households, which are entitled to purchase 5 kilograms of grain per person per month
- 2) the Antyodaya Anna Yojana, who are entitled to 35 kilograms per household per month.

All consumers face the same prices for purchasing grains sold through the TPDS. These prices have been initially set at 3000 rupees a tonne for rice and 2000 rupees a tonne for wheat (DFPD 2014c).

The subsidised prices set out under the NFSA are below the prices faced by 'Above Poverty Line' and 'Below Poverty Line consumers' under the existing TPDS. Three years following the commencement of the NFSA, prices will be linked to minimum support prices (DFPD 2014c). It is anticipated that the NSFA 2013 will cause India's food subsidy to increase to around 1.1 trillion rupees in 2013-14, well above the currently estimated 900 billion rupees (USDA-FAS 2014b).

Growing procurement volumes have also resulted in government wheat reserves rising (Figure 5) (USDA-FAS 2013a). The Government of India sets stock targets in order to meet demand from the TPDS and to intervene in the domestic market to stabilise food price rises (FCI 2013g). The varying level of target stocks through the year reflects yearly harvesting patterns. In years of excess stocks, grains may be sold by the Food Corporation of India (FCI) to the domestic market or made available for export (DFPD 2014d, USDA-FAS 2013a). On 1 March 2014, government stocks of wheat, rice and coarse grains totalled around 60 million tonnes (FCI 2014e).

Figure 5 Targeted wheat stocks and government wheat stocks

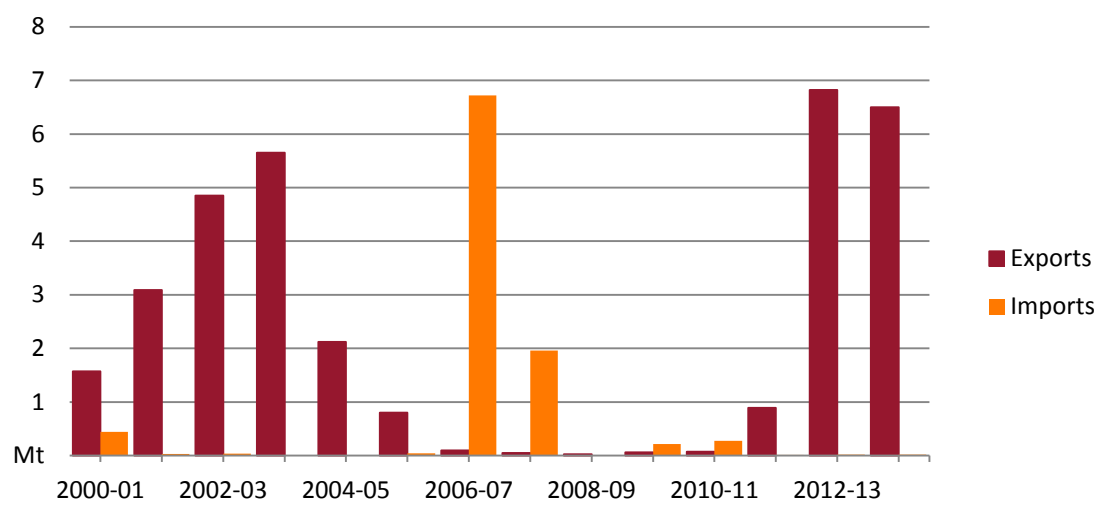


Data source: FCI 2014e, g

Domestic sales of government stocks are conducted under the 'Open market sales scheme (Domestic)'. There are two principal reasons for these sales: to manage government grain stocks and to manage prices in the domestic market (DFPD 2014d). In July 2013 the FCI allocated 8.5 million tonnes of wheat for sale to bulk consumers and 1 million tonnes of wheat to retail traders for 2013–14 (FCI 2014h). Grains are sold through tender to approved bulk consumers and retail traders. For 2013–14 the FCI set a reserve price for bulk sale of wheat at 15 000 rupees a tonne, plus additional charges (FCI 2014h). Between July 2013 and February 2014, 4.8 million tonnes of wheat had been sold through the scheme (FCI 2014d).

India prohibited exports of wheat between February 2007 and September 2011 in response to rising world wheat prices in 2006–07 and a fall in domestic stocks (Figure 6). Export sales of wheat from government stocks resumed in 2012–13, accounting for 3 million tonnes of total exports (FCI 2014d). In August 2013, the Indian Government announced an export quota of 2 million tonnes of wheat from government stocks in the 2013–14 marketing year (USDA–FAS 2014b). These exports initially had a price floor set at US\$300 a tonne. However, this was subsequently lowered to US\$260 a tonne in November 2013 because of falling international prices (USDA–FAS 2014b).

Figure 6 Wheat trade, India



Data source: USDA-FAS 2014a

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