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# Public stockholding of food in India: Can it distort international trade?



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# Public stockholding of food in India: Can it distort international trade?<sup>1</sup>

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## Abstract

Concerns have been raised in WTO negotiations over the possible distortion of international trade on account of India's grain stocks and use of India's stocks for dumping in African markets. The present study attempts to examine this issue by analyzing India's production, stocking and export patterns over the last decade. The study also analyzes the likely grain requirements under the National Food Security Act in order to assess the prospects of exportable surplus. The findings suggest that India is unlikely to possess the requisite exportable surplus to distort international trade and India's grain export patterns to Africa during the last decade show little or no evidence of dumping in the African markets.

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All views expressed are personal.

## **1. Introduction**

One of the contentious issues in Agreement on Agriculture is the issue of agricultural subsidies distorting international trade. At the 9<sup>th</sup> Ministerial Conference in Bali in 2013, it was agreed that there is a need to update the rules under the Agreement on Agriculture with respect to public stockholding of food. However, it was also agreed that until a permanent solution is found, members would temporarily refrain from lodging complaints against any developing country which exceeds its *de-minimis* or Amber Box limits as a result of stockholding for food security purposes. The *peace clause* also has conditions that the stocks procured for food security purposes do not distort international trade or adversely affect food security of other members. In this context, India's public stockholding for food has come under scrutiny. This paper provides the extent to which Indian government procures food from farmers and the proportion used for exports. Analysis is undertaken to estimate whether it is possible for India to engage in dumping of procured food or distort international trade in any manner.

The paper is organized as follows. In section 2 we present the salient features of public distribution system in India and the trends in grain procurement and exports in the last decade. In section 3 we present a brief discussion of the policy of grain trade in India. Section 4 makes an assessment of the grain requirements for National Food Security Act (2013). In section 5 we analyze India's grain procurement costs in relation to export prices in world market and African country markets. This section discusses the possibility of dumping of India's grain stocks in African markets. Section 6 concludes and lists possible options for India in future negotiations.

## **2 Food Policy and Public Distribution System in India**

India's present food policy owes its origins to the large food deficits faced by the country in the mid 1960s, due to a combination of successive droughts and stopping of PL-480 grain exports by the USA. Attainment of self-sufficiency came to occupy center stage of planning. To achieve this objective, an ambitious program of price support system for the farmers and provision subsidized inputs was started. Investments in R & D and promotion of technology adoption were also actively undertaken during this phase. Trade was restricted to provide protection to domestic production. Also, to ensure food availability to large sections of poor population, provision of subsidized grain

was started through the public distribution system (PDS). All the institutions necessary to implement this policy matrix were also created. This system, with marginal changes, continues to this day. The detailed functioning of this system is as follows.

Price support and the food grain distribution is the bedrock of Indian grain management system. A support price, called the minimum support price (MSP) is announced by the Government before the sowing season for each crop. The MSP is based mainly on the cost of production, supplemented by other factors such as domestic supply-demand gap, international prices, inter-crop price parity, need to incentivize certain crops etc. Government is statutorily bound to purchase, at the MSP, all the grain brought to the market. However, the farmer is free to sell his produce at MSP to the government or in the market at the prevailing market price.

Food Corporation of India (FCI), a parastatal organization, is the institution responsible for procuring grain at MSP, stocking and distributing through the public distribution system (PDS). The grain procured using the MSP is stored by FCI, mainly to i) provide subsidized grain to the poor ii) to maintain emergency food reserves. In addition, the stocked grain is also used for welfare schemes of the government, market price stabilization, and sometimes exports by the government as well as private sector.

FCI makes allocations to each state based on the number of poor in the state. These grains are distributed by the state governments at a price lower than the market price, called the central issue price (CIP), fixed by the central government. The difference between the economic cost of the grain<sup>1</sup> and the CIP is reimbursed to FCI as food subsidy. After states make the full payment of the allocated grain, based on the CIP, to the FCI, FCI transports the grain to the respective states. The states are free to distribute grain at a price lower than the CIP, but will be required to meet the shortfall on their own account. A system of decentralized procurement (DCP) by the states was started in 1997-98 mainly to reduce the costs of centralized procurement by FCI. After the introduction of DCP in 1997-98, many states are undertaking procurement, stocking and distribution operations at their end. Final grain distribution at the consumer end is done through a large network of fair price shops (FPS). Until 1998 the PDS was universal with a large presence only in the urban regions. Therefore, the Government of India introduced the targeted public distribution system (TPDS).

In addition to meeting the requirement of the TPDS and other welfare schemes (see Annexure A), and maintaining buffer stocks, FCI also releases wheat for sale in the open market in order to moderate the open market prices especially in the deficit regions. Some quantities of rice and limited quantities of wheat from the stocks are also released from time to time for export since mid-1990s. Public sector undertakings (PSUs) such as State Trading Corporation (STC), PEC Limited (a PSU under Ministry of Commerce), etc undertake these exports. Releases for exports are also done through the OMSS (D) scheme for bulk buyers for export purposes. Both public and private sector are allowed to participate in the auctions.

The stocks of foodgrains are also used for various welfare schemes of the government viz. Mid-Day-Meal, Wheat-based Nutrition Programme, SC/ST/OBC Hostels, Welfare Institutions & Hostels, Annapurna, National Food for Work Programme, Scheme for Adolescent Girls, Pregnant & Lactating Mothers and World Food Programme (WFP) etc.

## **2.2 Trends in Production, Procurement and Exports of Cereals in the Last Decade**

Table 4 provides the details of production, public stocks and exports of wheat and rice from central pool for the period 2000-01 to 2013-14. Rice production has increased in India by 25% in 2012-13 as compared to 2000-01 and the corresponding increase for wheat production has been 37%. However, the proportion of stocks released for exports have been extremely low since 2004-05. Only in the last two years, wheat stocks have been released for exports. Actual exports of rice and wheat have also been quite low and, as a proportion of total production exports have reached 10% mark only in two years during this period. Rice exports remained less than 6% of production in all the years except 2012-13. Exports of rice were less than 1% of total production in four years, out of this thirteen year period. Wheat exports have been even lower than rice exports. In eight out of thirteen years, wheat exports were less than 1% of production. Only in 2012-13 wheat exports touched 7% of total production.

**Table 4: Production, Public Stocks and Exports of Rice and Wheat since 2000**

Year	Production		Procurement (mil tons)		Stocks <sup>1</sup> ( 1st Jul in mil tons)		Release for Exports from Central Pool (lakh tons)		Actual Exports <sup>2</sup> (lakh tons)		Imports into Central Pool (lakh tons)		% of Procurement to production		% of Release for Exports from Central Pool (Jul Stocks)		% of Actual Exports to production	
	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat
2000-01	85.0	69.7	21.2	16.7	14.5	27.8	0.5	21.5	0.1	0.04	0.0	0.0	24.9	24.0	0.3	7.7	0.02	0.01
2001-02	93.3	72.8	22.1	21.0	22.8	38.9	24.7	38.0	15.4	26.5	0.0	0.0	23.7	28.9	10.8	9.8	1.7	3.6
2002-03	71.8	65.8	16.4	19.6	21.9	41.1	77.7	73.9	42.6	36.7	0.0	0.0	22.9	29.8	35.5	18.0	5.9	5.6
2003-04	88.5	72.2	20.8	15.8	11.0	24.2	27.8	71.7	26.4	40.9	0.0	0.0	23.5	21.9	25.2	29.6	3.0	5.7
2004-05	83.1	68.6	24.0	16.8	10.8	19.2	0.7	8.5	36.2	20.1	0.0	0.0	28.9	24.5	0.6	4.4	4.3	2.9
2005-06	91.8	69.4	27.7	14.8	10.1	14.5	0.0	0.0	29.2	7.5	0.0	0.0	30.1	21.3	0.0	0.0	3.2	1.1
2006-07	93.4	75.8	25.1	9.2	11.1	8.2	0.0	0.0	37.0	0.5	0.0	54.5	26.9	12.1	0.0	0.0	4.0	0.1
2007-08	96.7	78.6	28.8	11.1	11.0	12.9	0.0	0.0	52.9	0.002	0.0	17.7	29.8	14.1	0.0	0.0	5.5	0.0003
2008-09	99.2	80.7	34.1	22.7	11.2	24.9	0.0	0.0	9.3	0.01	0.0	0.0	34.4	28.1	0.0	0.0	0.9	0.001
2009-10	89.1	80.8	32.0	25.4	19.6	32.9	0.0	0.0	1.4	0.0003	0.0	0.0	35.9	31.4	0.0	0.0	0.2	0.00004
2010-11	96.0	86.9	34.2	22.5	24.3	33.6	0.0	0.0	1.0	0.004	0.0	0.0	35.6	25.9	0.0	0.0	0.1	0.001
2011-12	105.3	94.9	35.0	28.3	26.9	37.1	0.0	1.0	40.0	7.4	0.0	0.0	33.2	29.8	0.0	0.3	3.8	0.8
2012-13	105.2	93.5	23.0	38.1	30.7	49.8	0.02	29.7	66.6	64.7	0.0	0.0	21.9	40.7	0.008	6.0	6.3	6.9
2013-14*	106.5	95.9			31.5	42.4	0.0	26.5			0.0	0.0			0.0	6.2		

**Sources:** Various issues of the following 1) *Foodgrains Bulletin*, Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution, Government of India 2) *Agricultural Statistics at a Glance*, Directorate of Economics and Statistics, Ministry of Agriculture, Government of India 3) *Economic Survey*, Ministry of Finance, Government of India.

**Note:**

Production - Million Tons

1 Stocks as on 1 st July of the first year

2 may exceed the release from central pool since this includes private trade as well.

\* Fourth Advance Estimates as released on 14.08.2014.

Procurement of rice and wheat has risen over the years to provide food security to one of the fastest growing population in the world. Procurement of cereals (rice plus wheat) has been over 30% of production in each year since the global food crisis in 2008-09. During the period 2000-01 to 2003-04, on an average 11% of rice and 16% of wheat were released for exports from the stocks. However, very little proportion of stocks has been released for export purposes since 2004-05 and the proportion has not crossed 10% of total stocks until 2011-12, after which wheat stocks were released for exports.

### **3 India's Grain Trade Policy**

India's grain trade policy has been very conservative till 2000. Since independence, India virtually banned imports of all agricultural products except cereals, pulses and vegetable oils. Cereals and vegetable oils were subject to quantitative restrictions, administered through a state trading monopoly until the mid-Nineties. However, post 2000, there is a shift in overall trade policy as well as trade policy with respect to foodgrains.

India had zero duties on the principal cereals, wheat, rice and maize ever since it made a commitment in GATT in 1947 to eliminate tariffs on these items. However, the monopoly trading by FCI in rice and wheat has rendered the low-level of duties ineffective as the canalizing agency could always control the flow of imports which acted as a *de facto* quantitative restriction. After the introduction of economic reforms in 1991-92, import policy was gradually liberalised, but the restrictions on basic foods took much longer to be phased out. It was not until March 2002 that quantitative restrictions were phased out on cereals. In the early 1960s, imports, mainly of wheat from the USA under the PL-480 program, constituted a major chunk of domestic supplies, accounting for as much as 42 per cent. After the adoption of policy of self-sufficiency through domestic production, import dependency rapidly declined. As regards exports, India has been a long-term exporter of fine (basmati) rice. The concern for food security made the government hesitant to allow exports of other varieties of rice. However, when non-basmati rice was finally freed from export restrictions in 1995, exports rose to the level of almost five million MT, or six per cent of domestic production. In subsequent years annual exports of rice have remained in the

range of 2-5 million MT. In wheat too the liberalisation in the early nineties resulted in the exports rising to the level of almost two million MT, or three per cent of the production, in 1996.

From 1995, India has more or less been a continuous exporter of rice until the food crisis in 2007. However, since 2007, India's trade policy has been mainly guided by the domestic market situation and the world price movements. India regulated trade during this period through a combination of minimum export price (MEP), export quotas and outright export bans. An Inter-Ministerial Committee (IMC) comprising of officials from several ministries has been constituted in 2013 to monitor export of wheat and non-basmati rice on private account and review the situation in view of continuous rise in cereal inflation. Export of wheat and non-basmati rice are unrestricted presently.

#### **4. Grain Requirements for Implementing National Food Security Act**

The National Food Security Act (NFSA) provides coverage up to 75% of the rural population and upto 50% of the urban population for receiving subsidized food grains under Targeted Public Distribution System (TPDS), thus covering about two-thirds of the population. The Act also has a special focus on the nutritional support to women and children. Besides meal to pregnant women and lactating mothers during pregnancy and six months after the child birth, children upto 14 years of age will be entitled to nutritious meals as per the prescribed nutritional standards. In case of non-supply of entitled food grains or meals, the beneficiaries will receive food security allowance.

The current annual allocation for the existing Targeted Public Distribution System (TPDS) and other welfare schemes is about 55 million tons to all the states combined. At present, the average percentage offtake<sup>2</sup> in the last three years is more than 95% for rice and wheat for BPL and AAY categories combined (Table 5). These two categories constitute the population below the official poverty line and therefore are the relevant categories for comparison. This offtake is presently at the central issue price (CIP). However, as can be seen from the last two columns in Table 5, the proposed prices under NFSA are much lower - about 50% of the CIP. This should boost domestic demand, resulting in almost 100% offtake and even requests by states for greater allocations in the



coming years. Therefore, the requirements under NFSA make it extremely difficult for India to use stocks for export purposes.

**Table 5 Allocation and Offtake for BPL and AAY categories in the Last Three Years: 2010-11 to 2012-13**

	<b>ALLOCATION BPL + AAY</b>	<b>OFFTAKE BPL + AAY</b>	<b>% OFFTAKE BPL + AAY</b>	<b>CIP</b>	<b>NFSA PRICE</b>
2010-11					
RICE	185.11	179.14	97	5.65	3.00
WHEAT	91.66	90.97	99	4.15	2.00
TOTAL	276.77	270.11	98		
2011-12					
RICE	184.85	181.99	98	5.65	3.00
WHEAT	91.92	97.78	106	4.15	2.00
TOTAL	276.98	279.78	101		
2012-13					
RICE	191.04	184.98	97	5.65	3.00
WHEAT	107.41	103.83	97	4.15	2.00
TOTAL	298.36	288.83	97		
<b>Average</b>					
RICE			97	5.65	3.00
WHEAT			101	4.15	2.00
TOTAL			98		

Source: *Foodgrains Bulletin*, May 2014, Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution, Government of India

The annual requirement of foodgrains for implementation of NFSA has been estimated by several committees and studies. As per the Government of India's assessment, it is about 61 million tons<sup>3</sup>. The methodology for this assessment is not clear though. A more scientific assessment is the one carried out by the Expert Group of the Prime Minister's Economic Advisory Council headed by Dr C. Rangarajan (henceforth called the Rangarajan Committee). This report makes use of the current population numbers to make projections of the requirements. According to these projections, 69 and 74 million tons of foodgrains will be required at current and 100% offtake respectively (Table 6).

**Table 6: Total Requirement for NFSA (in mill tons)**

	At current offtake	At 100% offtake
Rangarajan Committee	69	74
Requirement for existing TPDS (from GoI statements)	61.43	-

Source: 1) Report of the Expert Committee on National Food Security Bill  
[http://eac.gov.in/reports/rep\\_NFSB.pdf](http://eac.gov.in/reports/rep_NFSB.pdf)

2) Minister of State for Food's reply to Indian Parliament  
<http://164.100.47.132/Issnew/psearch/qsearch15.aspx> accessed latest on 12 November 2014

Table 7 reports projections of domestic production of rice and wheat for the coming years from some studies (Table 7). We have tried to assess, based on these projections of future production, the grain availability in the domestic market to meet NFSA requirements projected by the Rangarajan Committee.

We have considered two scenarios on the demand side – *current offtake* and *100% offtake*. On the supply side also, we have considered two scenarios – *30% procurement* and *35% procurement* of domestic production. Therefore, in all we have four scenarios. The results are presented in Table 8. As can be seen from the Table 8, almost all the studies indicate a sizeable deficit in the most likely scenario i.e. *100% offtake - 30% procurement*. 30% procurement may be considered optimum, because any procurement above this level by the government may reduce supply in the open market, thereby leading to inflationary pressures. Such inflationary pressures have been witnessed recently in Indian market during the last four years, when procurement crossed 30% in every single year. The average annual procurement of wheat and rice during 2008-09 to 2012-13 has been 62 million tons. Therefore, 30% procurement may be considered as the most feasible option.

At this level of procurement, even at the current offtake, most of the studies show just enough supply to meet the requirements and some studies even show a deficit (Mittal 2008 and our estimates). The surplus/deficit situation is satisfactory only in the *Current offtake - 35% procurement*, a highly

unlikely scenario with the sharp reduction in issue price that may result in higher offtake and with any procurement above 30% likely to create more inflationary pressures.

**Table 7: Likely Availability from Domestic Production (in million tons)**

	Year of Projection	Rice Prod	Wheat Prod	Total Prod	Likely availability through procurement	
					@30% Prod	@35% Prod
Rosegrant et. al (1995)	2020			237	71	83
Bhalla, Hazell and Kerr (1999)	2020			242	73	85
Kumar (1998)	2020	121	108	228	68	80
Kumar and Mittal (2003)	2020	127	112	239	72	83
Mittal (2008)	2021	106	92	197	59	69
<u>Our Estimates<sup>4</sup></u>	2014-15	107	97	204	61	71
	2015-16	109	100	209	63	73
	2019-20	121	115	235	71	82

Source: *Demand and Supply of Cereals in India 2010-2025*, IFPRI, 2012

**Table 8: Likely surplus/deficit in domestic availability (in mill tons) (from Rangarajan estimates)**

	At current offtake		At 100% offtake		Year of Projection
	Procurement @30% Prod	Procurement @35% Prod	Procurement @30% Prod	Procurement @35% Prod	
Rosegrant et. al (1995)	3	14	-3	9	2020
Bhalla, Hazell and Kerr (1999)	4	16	-1	11	2020
Kumar (1998)	0	11	-6	6	2020
Kumar and Mittal (2003)	3	15	-2	9	2020
Mittal (2008)	-9	1	-15	-5	2021
<b>Our Estimates</b>	-7	3	-13	-3	2014-15
	-6	5	-11	-1	2015-16
	2	14	-3	8	2019-20

Source: Authors' calculations

With coverage of 75% of the rural population and 50% of the urban population, two factors become important in the state-wise allocations under NFSA- number of beneficiary households and scale of issue per household. Since the scale of issue is virtually unchanged, the actual allocations will depend upon the number of beneficiary households. However, the NFSA also stipulates that the

allocation should at least be equal to the last three years' average offtake of a state. Therefore, the annual allocation under NFSA will be equal to or higher than the current allocations under the TPDS. As already stated above, the projected requirements for NFSA range from 61 million tons by the GoI to 74 million tons by the Rangarajan Committee (2012). Dreze et al. (2014) estimated the grain requirements for different states, using state-specific exclusion ratios based on state-specific food security lines. Their estimates show an aggregate grain requirement of about 55 million tons for 2013-14 at the national level, which is exactly equal to the allocation made under the NFSA (Annex 4, NFSA)<sup>5</sup>. Adding about 5 million tons for other welfare schemes (OWP) and emergency reserves, we arrive at a total requirement of about 60 million tons, which is roughly equal to the GoI assessment.

Given the abovementioned assessments of requirements and projections of future supply, India may, at best, be able to meet the requirements of NFSA from domestic production, with very little exportable surplus. The country may even need to import foodgrains in some bad years of production shocks. Exports appear highly unlikely in future. With the huge level of stocks at present, this may not be imminent though. At the current levels of production and procurement of foodgrains, the requirements under NFSA are likely to be met domestically and no price distortion in international market is foreseen. However, with the demand outstripping production in future, as most of the studies seem to suggest, the drawdown of stocks may be inevitable. Therefore, the possibility of India distorting international trade through its public stockholding of food seems remote in the face of its growing population and the grain requirements under the National Food Security Act.

## **6 India's Future Exports: Possibility of Dumping?**

One of the concerns with respect to public stockholding of food grains is that the stocks, if released in international markets can lead to distortion of international trade. In other words, countries which procure grains for stockholding purposes, in periods of surpluses may resort to 'dumping' by releasing stocks to a third country or world market at a lower price.

According to the Agreement on Article VI of the GATT 1994, hereafter, WTO Antidumping Agreement,

a product is to be considered as being dumped, i.e. introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, **in the ordinary course of trade**, for the like product when destined for consumption in the exporting country. (clause 2.1)

.....*emphasis added*

In case of India's public stockholding of food grains, the requirement of 'ordinary course of trade' is not met as the stocks are mainly used for provision of subsidized grain and not sold at open market prices. The Anti-Dumping Agreement further stipulates

When there are no sales of the like product in the ordinary course of trade in the domestic market of the exporting country or when, because of the particular market situation or the low volume of the sales in the domestic market of the exporting country, such sales do not permit a proper comparison, the margin of dumping shall be determined by comparison with a comparable price of the like product when exported to an appropriate third country, provided that this price is representative, or with the cost of production in the country of origin plus a reasonable amount for administrative, selling and general costs and for profits. (cl 2.2)

Since this is the clause applicable in case of India, to assess the possibility of dumping, we compare the prices at which Government of India procures food grain and the prices at which the foodgrains are exported to the world market in general and to African countries in particular. We compare the export price with the cost of procurement to assess the incidence and degree of dumping, if any. As rice has not been released for export purposes post 2004-05, we limit our analysis to wheat. In wheat, India exports durum wheat as well as other wheat. Although the export price of the two may differ slightly, the procurement price is the same.

The cost of procurement for the government includes procurement price paid to the farmers as well as other costs pertaining to collection, storage, administrative and all other costs. The Economic Cost reported by the FCI gives total procurement cost plus distribution cost. However, for the purpose of analysis here, the distribution cost of food grains within the country is not relevant. Therefore, we subtract distribution cost from the economic cost, to arrive at the total procurement cost to the government. Table 9 presents this total procurement cost to the Government in the period 2004-05 to 2013-14 and also the price at which the government released stocks for export purposes, export price of wheat in international market and the cost of production of wheat. The

information on prices at which wheat was released for export purposes is not available prior to 2004-05. Exports from Central Pool, as reported earlier, were not allowed in the years 2004-05 to 2010-11. The Government of India procured on an average around 33% of the total production of wheat in the period 2011-12 to 2013-14. The rest of the wheat was available for exports through private traders.

Table 9 shows that the export unit value (EUV) of wheat (durum and other wheat), i.e., India's export price (fob) of wheat to the world market, has always been higher than India's cost of production. EUV to the world market is also found to be higher than government's cost of procurement in most of the years. Although EUV of other wheat and durum wheat is *lower* than the cost of procurement for years 2005-06 to 2010-11, a closer look reveals that these exports could not have been from the government stocks onwards there were no releases for exports from the stocks during these years (Table 4). These exports may have been sourced by the private sector directly from the farmers or the exports may have been through government-to-government transactions. A comparison of the price at which the stocks were released for exports with the procurement cost, we find that the export release price has been higher than the procurement cost in all the three years (2011-12 to 2013-14).

From Table 9, it can be seen that there is one year, 2012-13, when India's average EUV of durum wheat to African countries has been lower than the government's procurement cost. Therefore, we further disaggregate these exports by country and present EUV by each country for years 2012 and 2013 in Table 10. When we look closely at this table, EUVs were lower than the procurement cost for only two countries – Ghana and Seychelles. Neither of these countries produces wheat domestically. *Ghana imports all its wheat needs since it does not grow locally. Major suppliers include Canada, Argentina, and the European Union (EU), with Canada accounting for 70 percent of market share* (Gain and Feed Annual Report, USDA, FAS, 2011). Further, India's exports to these countries were minuscule in 2012, with export value and quantity to Ghana being USD 43771 for 168 tons and to Seychelles being USD 2,564 for 15 tons. To all other African countries the export price is found to be higher than the procurement cost of the Government.

**Table 9: Comparison of India's Export Prices and Procurement Prices of Wheat: 2004-05 to 2013-14**

Year	Minimum Support Price (Rs per qtl)	Official Exchange Rate (Rs/ USD)	Economic Cost (Rs/ qtl)	Economic Cost (USD/ ton)	Distribution Cost (Rs/ qtl)	Distribution Cost (USD/ ton)	Procurement Cost (Rs/ qtl)	Procurement Cost (USD/ ton)	Price at which sold to private traders for purposes of exports (USD/ ton)	India's export unit value to African countries of other wheat - HS100190 (USD/ ton)	India's export unit value to African countries of Durum wheat - HS100110 (USD/ ton)	India's cost of production of wheat (USD/ Ton)	India's export unit value to world of other wheat - HS100190 (USD/ ton)	India's export unit value to world of Durum wheat - HS100110 (USD/ ton)	Percentage procured of total production
2005-06	650	44.2	1042	236	234	53	808	183	No exports from central pool			142	169	179	21
2006-07	850	45.2	1178	261	269	60	909	201	No exports from central pool			145	156	191	12
2007-08	1000	40.2	1311	326	244	61	1067	265	No exports from central pool			177	233	200	14
2008-09	1080	45.9	1380	301	245	53	1135	247	No exports from central pool			182	243	240	28
2009-10	1100	47.4	1425	301	200	42	1225	258	No exports from central pool			148	343		31
2010-11	1170	45.5	1494	328	218	48	1276	280	No exports from central pool			182	183	303	30
2011-12	1285	47.9	1515	316	240	50	1275	266	293	324	649	194	292	288	30
2012-13	1350	54.4	1752	322	270	50	1482	272	296	400	249	196	297	292	41
2013-14	1400	60.5	1932	319	316	52	1616	267	278	385	324	183	292	294	27

Sources: Various issues of 1) *Foodgrains Bulletin*, Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution, Government of India 2) *Agricultural Statistics at a Glance*, Directorate of Economics and Statistics, Ministry of Agriculture, Government of India 3) *Economic Survey*, Ministry of Finance, Government of India 4) World Integrated Trade Solutions (WITS) 5) INDIASTAT.

Note: Procurement cost equals Economic cost minus distribution cost. The price at which stocks are sold to private traders for export purposes has been taken from FCI (Tenders). The minimum price at which the stocks were sold has been reported.

Therefore, the foregoing analysis clearly brings out that India's export price (EUV) of wheat to either the African countries in particular or the world market in general, has always been higher than the cost of procurement.

**Table 10: India's Export Unit Values of Wheat (Durum) to African countries**

Year	Partner Name	India's Export unit Value of wheat (HS 100110)	Procurement Cost USD per Tonne
2012	Ethiopia(excludes Eritrea)	276	<b>272</b>
2012	Ghana	261	<b>272</b>
2012	Seychelles	169	<b>272</b>
2012	Tanzania	292	<b>272</b>
2013	Ethiopia(excludes Eritrea)	281	<b>267</b>
2013	Ghana	307	<b>267</b>
2013	Madagascar	464	<b>267</b>
2013	Nigeria	290	<b>267</b>
2013	Seychelles	273	<b>267</b>
2013	Uganda	329	<b>267</b>
2013	South Africa	326	<b>267</b>

Source: WITS, UNCTAD

## 6. Conclusions

While there is a lot of debate on whether India's public stockholding can cause distortions in the world markets, the paper shows that there is little evidence of it. On the contrary, current production trends and the projected requirements show that India may find the stocks just adequate to meet the requirements of the National Food Security Act.

In terms of public stockholding, procurement of rice and wheat has risen over the years to provide food security to one of the fastest growing population in the world. However, very little proportion of public stocks of rice and wheat has been released for export purposes since 2004 by the Government of India and it has not crossed 10% of total stockholding, except in the last two years.

The recently introduced National Food Security Act (NFSA) by the Government of India makes it further difficult, if not impossible, for India to use any public stocks for export purposes. The Act also has focus on other welfare schemes as well.



To fulfil the obligations under the NFSA, the Government of India will have to distribute 29.9 million tons of rice and 22.8 million tons of wheat in 2014-15. The existing public stocks in the central pool of rice, as of 1 July 2014, are 21.2 million tons, which is less than the requirement of NFSA (*Foodgrains Bulletin, September 2014*). The corresponding figure for wheat is 39.8 million tons. Many of the estimates of future production, procurement and consumption requirements as per NFSA point towards a possible deficit and possibility of imports rather than exports of food grains. The possibility of India distorting international trade through its public stockholding of food therefore appears remote in the face of its growing population and requirements under its National Food Security Act. In fact, India may even need to import grain to meet its requirements under the NFSA.

With post 2015 Development Agenda focussing on 'end hunger' and 'achieve food security' it becomes important to align objectives of WTO Post Bali Work Program with internationally agreed goals. A permanent solution to the 'peace clause' can be possible if the *de minimis*— up to 10 per cent of the value of production— is removed to enable developing countries Governments to provide 'right to food' to its population. The G-33's food security proposal for new provisions allowing government stockholding and purchases from poor farmers at supported prices to be excluded from calculations of domestic support needing reduction, needs to be accepted without conditions.

The current concerns about India's domestic support exceeding *de minimis* levels arose mainly because of the following reasons. Firstly, India erroneously chose to denominate the external reference price (ERP) in the base year notification in terms of INR (Indian Rupee) rather than in USD (G/AG/AGST/IND). This prevented the movements in exchange rate to be factored into domestic support calculations (Narayanan, 2014; Hoda and Gulati 2008 and 2013). India urgently needs to correct this through the appropriate mechanisms. Secondly, since the base ERP is fixed in monetary terms, inflation is not taken into account in domestic support calculations. India may take recourse to Article 18 clause 4 to correct this

In the review process Members shall give due consideration to the influence of excessive rates of inflation on the ability of any Member to abide by its domestic support commitments. (Art 18, cl 4)

In addition, the options of raising the *de minimis* level and/or changing the base period from 1986-88 are also available but require more fundamental changes in the AoA and may be difficult.

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## **Annexure A**

### **Other Welfare Schemes**

#### **MID-DAY MEAL SCHEME**

The Mid-Day Meal Scheme was launched in 1995 to enhance enrolment, retention, attendance and improving nutritional levels among students in primary schools, initially in 2408 blocks in country. By the year 1997-98 the scheme was introduced in all the blocks of the country. The Scheme presently covers students of class 1 to class 8 of government-supported schools.

#### **WHEAT BASED NUTRITION PROGRAMME (WBNP)**

The foodgrains allotted under this Scheme are utilized by the States for providing nutritious/ energy food to children below 6 years of age and expectant/lactating women. Foodgrain is being released to state governments at BPL rates.

#### **SCHEME FOR SUPPLY OF FOODGRAINS TO WELFARE INSTITUTIONS** (5% of BPL Allocation)

An additional allocation of foodgrains (rice and wheat) not exceeding 5% of the BPL is made to States/UTs at BPL prices to meet the requirements of welfare institutions such as beggar homes, women's homes and other similar welfare institutions not covered under TPDS or under any other welfare schemes.

#### **ANNAPURNA SCHEME**

This scheme was introduced in 2000-01 to benefit indigent senior citizens of 65 years of age or above. The senior citizens under the scheme are provided 10 kgs. of foodgrains per person per month free of cost under the scheme. Foodgrains are released at BPL rates.

#### **EMERGENCY FEEDING PROGRAMME (EFP)**

Emergency Feeding Programme, is a food-based intervention in the Koraput, Bolangir and Kalahandi districts of Odisha state. These districts, particularly Kalahandi, are known for prevalence of acute hunger, resulting in hunger deaths in some years. Old, infirm and destitute persons belonging to BPL households in these districts are the main beneficiaries under this program. This programme is now operational in eight districts namely Bolangir, Kalahandi, Koraput, Malkangiri, Nawarangpur, Naupada, Rayagada and Sonepur covering around 2 lakh beneficiaries. Under the scheme, foodgrains (rice) at BPL rates are allocated to the State Government.

#### **VILLAGE GRAIN BANK SCHEME**

The main objective of the scheme was to provide safeguard against starvation during the period of natural calamity or during lean season when the marginalized food insecure households do not have sufficient resources to purchase rations. Such people in need of food grains could borrow foodgrains from Village Grain Bank. The grain banks were to be set up in food scarce areas like the drought prone areas, hot and cold desert areas, tribal areas and the inaccessible hilly areas which remain cut off because of natural calamities like floods, etc. However, the response from the States was not very encouraging towards the VGB. Hence, the VGB scheme has been discontinued w.e.f. 01.01.2014.

#### **RAJIV GANDHI SCHEME FOR EMPOWERMENT OF ADOLESCENT GIRLS (RGSEAG) – ‘SABLA’**

The SABLA Scheme was launched in 2010 by merging two schemes namely Nutrition Programme for Adolescent Girls (NPAG) and Kishori Shakti Yojana (KSY) in to a single scheme to be implemented in 200 selected districts across the country. The Scheme aims at empowering adolescent girls of 11-18 years by improvement of their nutritional and health status and upgrading various skills. The requirement of food grains under the scheme for nutrition is about 100 grams of grains per beneficiary per day for 300 days in a year.

#### **WORLD FOOD PROGRAMME**

WFP purchases foodgrains for the projects in India and neighbouring countries from FCI. The foodgrains under this scheme were earlier issued at Economic Cost of FCI & OMSS(D) price but now foodgrains are being issued at BPL price w.e.f. 1.11.2000.

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<sup>1</sup> equal to the procurement price plus procurement incidentals plus distribution cost

<sup>2</sup> lifting & utilization of the allocated grain by the states

<sup>3</sup> Based on the Minister of State for Food's reply to Indian Parliament <http://164.100.47.132/Issnew/psearch/qsearch15.aspx> accessed latest on 12 November 2014

<sup>4</sup> This is a work in progress. Our estimates are based on growth trend equations over the last 10 years. These estimates are validated using econometric supply response models and are found to produce comparable results.

<sup>5</sup> However, the state-level allocations are somewhat different in Dreze et al. as compared to the NFSA Annex 4.