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Report Highlights:

Strong procurement of wheat and rice in the current season has raised the government-held food grain stocks as of June 1, 2012, to an estimated 81.5 million tons (record), nearly 25 percent higher than at the same time last year, leading to 15-16 million tons of wheat being stored in temporary storage and open space under polythene cover. With the storage crisis likely to be exacerbated by the end of June with the onset of monsoon, the Government of India (GOI) is exploring options for offloading the excess wheat in the domestic and export markets. MY 2012/13 (April/March) wheat export is estimated higher at 1.8 million tons due to the decline in the value of India rupee and weak domestic prices. Rice exports in MY 2011/12 (October/September) have been raised higher to a record 8.0 million tons, and MY 2012/13 exports higher to 7.0 million tons as Indian rice is very price competitive in the global market.

General Information:

WHEAT

Table 1. India: Commodity, Wheat PSD

(Area in Thousand Hectares, Others in Thousand Metric Tons)

Wheat India	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2010		Market Year Begin: Apr 2011		Market Year Begin: Apr 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	28,460	28,460	29,400	29,100	29,800	29,800
Beginning Stocks	16,120	16,120	15,360	15,360	19,950	19,950
Production	80,800	80,800	86,870	86,870	91,000	91,000
MY Imports	272	272	25	25	0	0
TY Imports	199	199	25	25	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	97,192	97,192	102,255	102,255	110,950	110,950
MY Exports	72	72	700	750	1,500	1,800
TY Exports	74	74	700	1,000	1,500	1,800
Feed and Residual	2,900	2,900	3,100	3,100	3,600	3,600
FSI Consumption	78,860	78,860	78,505	78,455	82,850	82,850
Total Consumption	81,760	81,760	81,605	81,555	86,450	86,450
Ending Stocks	15,360	15,360	19,950	19,950	23,000	22,700
Total Distribution	97,192	97,192	102,255	102,255	110,950	110,950
Yield	3.	2.8391	3.	2.9852	3.	3.0537
TS=TD		0		0		0

Government Procurement Crosses Last Year's Record

Wheat procurement by the government agencies in the current MY 2012/13 crossed last year's record total procurement (28.3 million tons) in the first 45 days of the procurement season (April-July). Total wheat procurement as of May 31, 2012, is officially estimated at 34.3 million tons compared to 26.1 million tons during the same period last year (see Table 2). Wheat procurement in the states of Punjab, Haryana, and Gujarat is almost over, but will continue in the states of Madhya Pradesh, Uttar Pradesh and Rajasthan through July. Against the government's initial MY 2012/13 procurement target of 31.6 million tons, total wheat procurement is expected to cross 36.0 million tons, more than 27 percent higher than last year's record procurement.

Table 2: India: Government Procurement of Wheat by States

(Figures in Million Tons)

State	MY 2012/13 ¹	MY 2011/12	MY 2010/11	MY 2009/10
Punjab	12.87(10.93)	10.96	10.21	10.73
Haryana	8.65 (6.87)	6.93	6.35	6.92
Madhya Pradesh	7.88 (4.74)	4.96	3.54	1.97
Uttar Pradesh	3.00 (2.23)	3.46	1.65	3.88
Rajasthan	1.45 (1.07)	1.30	0.48	1.15
Gujarat	0.15 (0.08)	0.11	0.00	0.08
Bihar	0.20 (0.13)	0.56	0.18	0.50
Uttarakhand	0.13 (0.04)	0.04	0.09	0.15
Others	0.03 (0.01)	0.03	0.03	0.01
Total	34.27 (26.09)	28.34	22.51	25.38

Source: Food Corporation of India, Government of India (GOI)

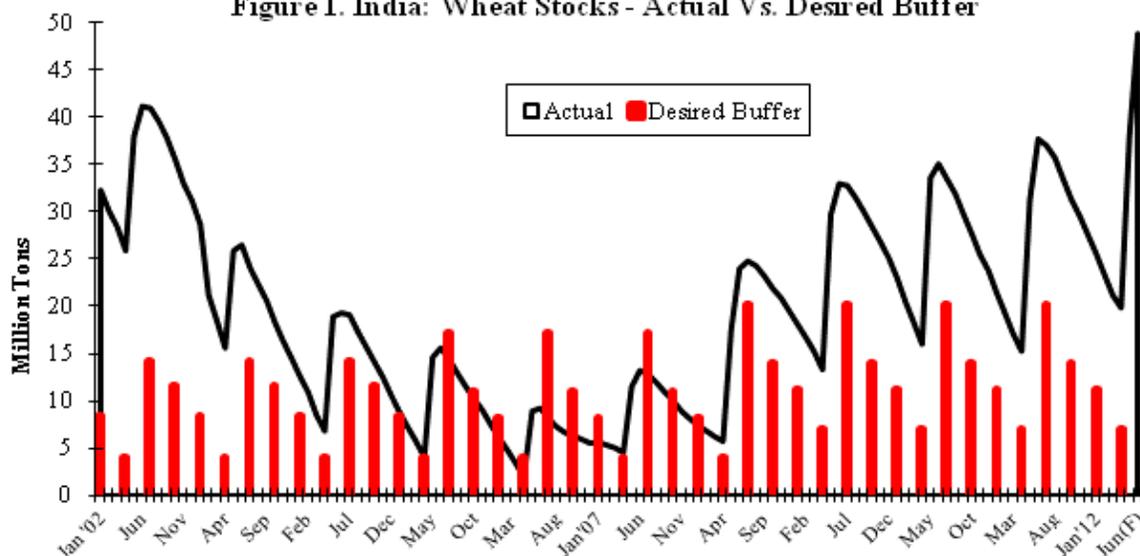
Footnote: ¹ Total wheat procurement as on May 31, 2012. Figures in parentheses are last year's procurement for the corresponding period.

A record MY 2012/13 wheat harvest, higher government purchase price (minimum support price), and relatively weak market prices (see Table 3) have resulted in wheat farmers bringing most of their marketable surplus to government agencies. Farmers are unlikely to hold wheat beyond their consumption (food, feed and seed) requirements as the minimum support price (MSP) is very attractive (Rs. 12,850 or \$235 per ton). The private trade has no incentive to buy and stockpile wheat due to the high MSP, and is apprehensive about the government's policy of open market sale of wheat at subsidized prices to offload the 'burdensome' wheat stocks it is holding. Market sources expect that after the procurement season is over (July), the government will announce sale of wheat to private millers/processors at subsidized prices as was done last November (see Table 3).

Food Grain Stocks Bloat...

Riding on five consecutive record wheat harvests and bumper procurements, the GOI is sitting on a mountain of food grains officially estimated on May 1, 2012, at 71.2 million tons - 38.2 million tons of wheat and 32.9 million tons of rice. With strong wheat procurement in May, food grain stocks on June 1, 2012 are likely to reach a record 81.5 million tons, with wheat stocks ballooning to a record 49 million tons, nearly 30 percent higher than last year's level (37.8 million tons on June 1, 2011) and over 18 percent higher than the previous record (41.3 million tons on June 1, 2002).

Figure 1. India: Wheat Stocks - Actual Vs. Desired Buffer



The massive buildup of government wheat stocks has occurred due to:

- the government’s generous increase in MSP resulting in higher production and government procurement,
- lower offtake of government wheat in the open market as market prices are lower than economic cost, and
- uncompetitiveness in the global market.

Table 3: India: Wheat Production, Government Procurement & Offtake and Prices

Marketing Year	Production (Million Tons)	GOI Procurement (Million Tons)	Offtake from GOI Stocks (Million Tons)	MSP Rs. Per ton	GOI Cost ¹ Rs. Per ton	Indicative Market Price ² Rs. Per ton	PDS Issue Price ³ Rs. per ton		
							APL	BPL	AAY
2005/06	68.64	14.79	16.71	6,400	10,419	6,603	6,100	4,150	2,000
2006/07	69.35	9.23	11.88	7,000	11,778	8,220	6,100	4,150	2,000
2007/08	75.81	11.13	12.25	8,500	13,118	8,976	6,100	4,150	2,000
2008/09	78.57	22.69	14.89	10,000	13,806	10,135	6,100	4,150	2,000
2009/10	80.68	25.38	22.38	10,800	14,246	10,600	6,100	4,150	2,000
2010/11	80.80	22.51	23.03	11,000	14,944	10,836	6,100	4,150	2,000
2011/12	86.87	28.33	24.27	11,700	16,519	11,373	6,100	4,150	2,000
2012/13(E)	91.00	36.00	na	12,850	18,225	11,485	6,100	4,150	2,000

Source: Food Corporation of India and Agriculture Marketing Information Network

MSP - Minimum Support Price or Government Purchase Price; PDS - Public Distribution

n; APL - Above Poverty Line; BPL - Below Poverty Line; AAY - Poorest of Poor

Footnotes:

1. Economic costs include MSP, taxes, fees, storage, transport, interest and other costs.

2. Average wholesale prices in the month of May in the major markets of Uttar Pradesh

Typically, open market sale price of government wheat to millers/private trade is above economic cost,

except in MY 2011/12. In November 2011 government allowed subsidized sale of wheat to bulk users at MSP plus half of the transportation cost from Punjab to the destination till March 2012.

Storage Capacity Grossly Inadequate....

With an unprecedented food grain stocks of 81.5 million tons, the government is facing its worst-ever storage crisis. Total food grain storage capacity available to the government is estimated about 62.7 million tons - Food Corporation of India storage capacity is estimated at 33.6 million tons: 30.2 million tons covered warehouses and 3.4 million tons under open under polythene cover and wooden plinth storage. Other state agencies' storage capacity is estimated at 29.1 million tons. The government agencies are likely to hire an additional 2-3 million tons of short-term storage from the private sector.

Inadequate storage space largely affects the government-held wheat stocks as most of the government rice is stored in covered warehouses. With the total storage space available to the government agencies estimated at 65-66 million tons, about 15-16 million tons of wheat will have to be kept in temporary storage in open yards under polythene cover, which will be highly vulnerable to 2012 monsoon rains and damage due to insects, pests, pilferage and spoilage.

Government in a Quandary....

With food grain spilling out of the warehouses into open storage, and likelihood of higher physical losses, the GOI is in a quandary as to how to handle the surplus situation. Earlier in the first week of May 2012, a committee was constituted under Dr. C. Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister, to prepare a strategy for handling the government-held food grain surplus. Sources report that Rangarajan Committee has recommended offloading an additional ten million tons of food grains through the Public Distribution System (PDS), three million tons of wheat through open market sales to private millers and traders, and two million tons of wheat through exports. However, the GOI is yet to take a decision on the Rangarajan Committee recommendations.

The government's higher food grain procurement and anticipated subsidized sales are likely to boost the food subsidy bill for the Indian fiscal year (IFY) 2012/13 (April/March) substantially higher (\$14.2 billion in IFY 2011/12). Mitigation of the surplus wheat stocks problem is complex as the government's cost of wheat is considerably higher than domestic and international market prices (see Table 3). Higher offtake in the domestic and export markets would have to be heavily subsidized. Export of government wheat is impractical unless heavily subsidized, but this might have serious repercussions, both domestically and internationally. On the other hand, subsidized wheat sales in the domestic market will push the market prices lower. Given the political expediency of a continued rise in the MSP for rice and wheat for the upcoming seasons, low market prices will push more and more domestic crop into the government procurement system. Consequently, India is likely to continue to face this problem in coming years unless either there is a domestic crop failure due to poor monsoon or the world market strengthens substantially.

... Push More through PDS and Open Market Sales,

As an immediate step, the government has been aggressively trying to move wheat from the surplus states to deficit states. The food grain deficit states are also being encouraged to offload larger quantities for their PDS food grain requirement (up to six months) in advance, but most states are not interested due to lack of funds for paying for the advance food grains.

The GOI is also likely to push additional quantities of highly subsidized food grain through the PDS and other welfare schemes for the poor sections of the Indian population. In recent years food grain allocation under the PDS and other welfare schemes have been raised substantially with the initial food grain allocation for the Indian fiscal year 2012/13 estimated at 54.3 million tons. With the PDS allocation of food grain (especially wheat) already saturated, actual offtake of additional allocations may not be feasible. In the recent past, ad-hoc additional allocation of PDS food grains to the states has found few takers as the state government has to bear additional fiscal expenses by way of cost of transportation, storage, distribution and price subsidy (some states provide PDS wheat and rice free or at nominal rates).

Given that a significant share of the highly subsidized PDS food grains finds its way into the open market, higher allocation and offtake of PDS wheat is likely to keep the wheat prices depressed throughout MY 2012/13. While the government is likely to announce the open market sale scheme for wheat at subsidized price to wheat millers and food manufacturers, the offer price will have to be lower than MSP. Unlike the last marketing season, open market prices are expected to stagnate below MSP during the marketing year, unless prices gain on improved export prospects due to higher global wheat prices.

.. Augment Storage Capacity....

Looking at the impending storage crisis, some of the state governments have taken steps to hire private warehouses (*godowns*), along with storage space available with agro-processing mills (rice, wheat and sugar) for short-term usage (one year). With private sector warehouse food grain storage capacity estimated at around 12-15 million tons, market sources report that only about 2-3 million tons may be available to government agencies.

As a long term measure, the government's focus is on creating additional storage capacity of 15.2 million tons under the Private Entrepreneurship Guarantee Scheme through private entrepreneurs and central/state warehousing corporations. Of this about 2.8 million tons is likely to be available shortly, another 5.2 million tons is likely to be available by March 2013, and the balance by March 2014. The government has also approved a proposal to create an additional 2.0 million tons of modern silos, but that process is yet to start.

.... Explore Export Market

The government is exploring the option of exporting government wheat stocks at prevailing world prices even if it entails an export subsidy. Reports suggest that the government is negotiating with Iran to resolve the phytosanitary issue of Karnal bunt in Indian wheat, against which Iran has zero tolerance. This could help the government offload 2-4 million tons of its wheat stocks for exports to Iran under the India-Iran rupee payment mechanism (against the oil import bill). Reports suggest that the Empowered Group of Ministers on Food is likely to meet shortly to discuss the Rangarajan Committee recommendation and mechanism to make Indian wheat competitive in the international market.

Exports Raised

Post's MY 2012/13 wheat export forecast has been raised to 1.8 million tons due to decline in the value of Indian rupee and expected weak domestic prices. MY 2011/12 export estimate has been raised marginally to 750,000 metric tons based on the latest official statistics.

Market sources report wheat exports through the third week of May at 250-280,000 metric tons, and an additional 350,000 tons is likely to be shipped through July, mostly to the Middle East, Bangladesh and East Africa. Wheat exports have been supported by the decline in the value of Indian rupee vs. U.S. dollars (1 US\$ = Rs. 50.9 on March 30, 2012 to Rs. 55.5 on June 2, 2012). The local wheat prices are expected to decline further after the government wheat procurement season is over in July, and likely to remain depressed on higher government offtake of wheat through PDS and open market sales. Consequently, Post raises MY 2012/13 exports higher to 1.8 million tons. Factors which could raise the export prospects significantly are (i) the government allowing exports of government wheat at subsidized prices, (ii) further weakening of the value of Indian rupee vs. US dollar and/or (iii) increase in global wheat prices.

The latest official trade figures report wheat exports during April 2011 to February 2012 at 669,000 metric tons. With an additional 80,000 metric tons reportedly shipped during March 2012, MY 2011/12 wheat export estimate has been raised to 750,000 metric tons.

RICE

Table 4. India: Commodity, Rice Milled PSD

(Area in Thousand Hectares, Others in Thousand Metric Tons)

Rice, Milled India	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	42,860	42,860	44,100	44,100	44,000	44,000
Beginning Stocks	20,500	20,500	23,500	23,500	25,000	25,000
Milled Production	95,980	95,980	103,400	103,400	102,500	102,500
Rough Production	143,984	143,984	155,116	155,116	153,765	153,765
Milling Rate (.9999)	6,666	6,666	6,666	6,666	6,666	6,666
MY Imports	0	0	0	0	0	0
FY Imports	0	0	0	0	0	0
FY Imp. from U.S.	0	0	0	0	0	0
Total Supply	116,480	116,480	126,900	126,900	127,500	127,500
MY Exports	2,774	2,774	7,000	8,000	6,000	7,000
FY Exports	4,637	4,637	7,000	8,000	6,000	7,000
Consumption and Residual	90,206	90,206	94,900	93,900	96,000	96,000
Ending Stocks	23,500	23,500	25,000	25,000	25,500	24,500
Total Distribution	116,480	116,480	126,900	126,900	127,500	127,500
Yield (Rough)	3.	3.3594	4.	3.5174	3.	3.4947
TS=TD		0		0		0

Rice Procurement Strong...

Rice procurement by the government agencies during the current MY 2011/12 through May 31, 2012, is estimated at 32.8 million tons compared to 28.5 million during the corresponding period of last year.

Record domestic rice harvest has boosted government rice procurement despite significant exports of rice by private trade. With additional procurement likely to continue in southern and eastern states, total rice procurement is likely to reach 38 million tons in MY 2011/12.

Table 5: India: Government Procurement of Rice by States

(Figures in Million Tons)

State	MY 2011/12 ¹	MY 2010/11	MY 2009/10
Andhra Pradesh	6.79 (6.65)	9.61	7.55
Punjab	7.73 (8.63)	8.63	9.28
Chhattisgarh	4.11 (2.95)	3.75	3.36
Uttar Pradesh	3.31 (2.34)	2.55	3.01
Haryana	1.98 (1.66)	1.69	1.82
Tamil Nadu	1.59 (1.27)	1.54	1.22
Bihar	1.53 (0.80)	0.88	0.89
West Bengal	1.47 (0.96)	1.31	1.28
Others	4.30 (3.24)	4.24	3.62
Total	32.81 (28.50)	34.20	32.03

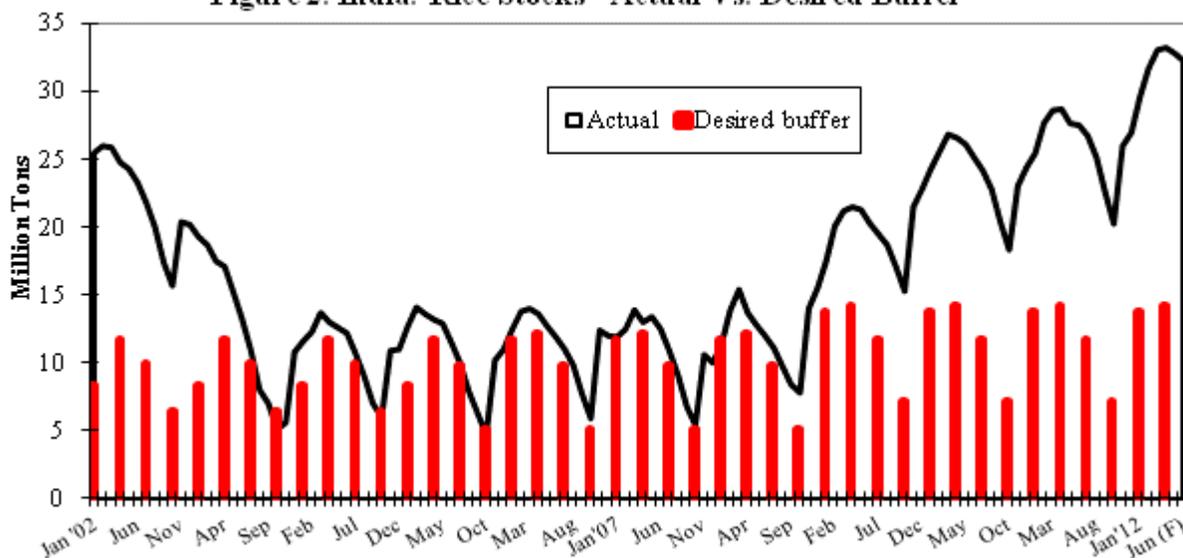
Source: Food Corporation of India, Government of India (GOI)

Footnote: 1. Total rice procurement as on May 31, 2012. Figures in parentheses are last year's procurement for the corresponding period.

...Stocks High

Government-held rice stocks on May 1, 2012, were officially estimated at 32.9 million tons (near record) compared to 27.8 million ton a year ago, and are likely to go down marginally to 32.3 million tons on June 1, 2012. These stock levels are more than double the government's highest desired April opening stocks of 14.2 million tons (12.2 million tons buffer and 2.0 million tons strategic reserve). Given the higher value and longer keeping quality of rice compared to wheat, almost all government rice is stored in covered warehouses under proper management. Consequently, the government does not have any immediate concerns about damage to rice stocks due to monsoon rains and other weather extremities. If the 2012 monsoon and MY 2011/12 rice crop prospects are normal, government may offload additional quantities of rice in the domestic market to create storage space for the upcoming MY 2012/13 crop procurement. Given that the majority of the Indian population across the country prefers rice over wheat, most states offload additional allocations of rice for the PDS system.

Figure 2. India: Rice Stocks - Actual Vs. Desired Buffer



Exports Raised

Since the ban on exports of non-basmati rice was lifted in September 2011, India has emerged as the leading rice exporter due to highly competitive pricing compared to other origins. Post MY 2011/12 rice exports have been raised higher to a record 8.0 million tons (5 million tons non-basmati and 3 million tons basmati). Currently, Indian rice is very price competitive globally due to the weak Indian rupee and domestic rice prices. Post's MY 2012/13 forecast rice export has also been raised higher to 7.0 million tons on sufficient domestic supplies assuming current price parity and market conditions. Given 'abnormally' high government-held rice stocks and relatively stable domestic prices, the government is unlikely to impose any export restrictions in the near future.

The latest official trade figures report exports of rice during October 2011 to February 2012 at 4.7 million tons (3.3 million tons non-basmati and 1.4 million tons basmati). Market sources report an additional 1.2 million tons (1.0 million ton non-basmati and 0.6 million tons basmati) has been shipped during March-April 2012, and exports during May were very strong as Indian rice is priced competitively in the global market. Currently, Indian basmati rice varieties are being traded at \$1100-1250 per ton FOB, while non-basmati rice varieties prices range \$360-365 per ton FOB for 25% broken, and \$380-400 per ton for 5% broken. Exports are likely to remain strong during June, after which they may slow due to the onset of monsoons, which will exacerbate logistical problems for inland transport and ports. Given sufficient domestic supplies and expected stable prices, MY 2011/12 exports are likely to verge on 8.0 million tons. Due to the strong pace of exports of rice by the private trade, the government is currently not reviewing any proposal for exports of government-held rice despite high government stocks.

