Indian food security stocks of rice and wheat do not distort trade

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Two weeks ahead of the WTO MC9 in Bali, there are still many hurdles on the key request made by India, on behalf of the G-33, that, when DCs procure cereals at administered prices to build food security stocks which are then released at subsidized prices to the poor, the difference with the world price of the 1986-88 period should not be considered as a trade-distorting subsidy (notified in the Aggregate Mesurement of Support, AMS, or amber box), and consequently not be subject to the ceiling of 10% of the production value of the product (product-specific *de minimis*), but should be notified in the green box.

32.7 % of Indians live below the international poverty line of $1.25 per day and 68.7 % below $2 per day so that India's commitment to improve the food needs of its population is highly commendable and nobody, inside and outside India, challenges this objective.

Apart from the opposition of the developed countries to the G-33 proposal – particularly of the US and EU which fear that changing that rule could open the pandora box of the Agrement on agriculture (AoA) provisions on agricultural supports, distinguishing between their alleged more or less trade-distorting effect –, Pakistan has recently tried to mobilize other DCs, particularly Thailand and Vietnam, against India's proposal on the ground that its rice stocks are dumped on the world market, thus displacing their own exports[1]. But China and Indonesia support India on enlarging the green box subsidies for public procurement of cereals stocks. Furthermore there are many criticisms inside India against the inefficiencies of the Public Procurement and the Targeted Public Distribution System (PDS) run by the Food Corporation of India (FCI), criticisms which have risen with the implementation on 12 September 2013 of the National Food Security Bill (NDSB) which enlarges the benefits of the subsidized food to 820 millions or two-thirds of the Indian citizens.

The paper will show that Indian exports of public stocks of rice and wheat are not dumped on the world market and then it will analyse the on-going debate in India about the inefficiencies of the Public procurement system.

I – Indian exports of public stocks of rice and wheat are not dumped on the world market

Table 1 shows that India has become in 2012 and remains in 2013 the first rice exporter while it was only the third, after Thailand and Vietnam in 2011, and the fifth, after Pakistan and the US, in 2009 and 2010.

Table 1 – India has become the first exporter of rice in 2012 and 2013

1000 t	2006	2007	2008	2009	2010	2011	2012	2013
India	4 537	6 301	3 383	2 149	2 228	4 637	11 000*	10 000**
" basmati¤		1 183	1 556	2 017	2 371	3212	4000	3600
Thailand	7 376	9 557	10 011	8 570	9 047	10 647	6 945	8 000
Vietnam	4 705	4 522	4 649	5 950	6 734	7 000	7 717	7 400
Pakistan	3 579	2 696	3 050	3 187	4 000	3 414	3 500	3 000***
US	3 306	3 025	3 267	3 017	3 868	3 247	3 326	3 150

Source: USDA, Table 23: World rice trade (milled basis), calendar years; * updated the 5 November 2013: http://www.business-standard.com/article/economy-policy/rice-exports-seen-at-11-mt-says-usda-

[1] http://oryza.com/reports/monthly-review/oryza-september-2013-rice-market-review

113110501015_1.html; ** http://www.e rs.usda.gov/publications/rcs-rice-outlook/rcs-13i.aspx#.UnNi1hDuFGY;
*** http://www.thefarmsite.com/reports/contents/PakistanGrain&FeedJune2013.pdf: ¤ marketing years

However this new India's leadership in rice exports is not attributable to its public procurement and stockholding policy. Many other factors are involved.

The most powerful argument, acknowledged by an ICSTD report written by two prominent Indian trade experts, Anwarul Hoda (who negotiated the Uruguay Round for India) and Ashok Gulati (Chairman of the Commission for Agricultural Costs and Prices), is that "*In fact there was a pro-consumer bias and domestic prices were held down below international prices in most years despite purchase operations to defend minimum support prices… The MSP* [minimum support price] *and domestic prices in India have not got divorced from international prices*"[2]. Furthermore Ashok Gulati "*told IRIN* [Integrated Regional Information Networks] *that a situation where India would be in a position to dump excess stocks could arise "once in 10 years." He added, "the larger distortion will be domestic," referring to disruptions to local markets*"[3].

Table 2 shows the MSPs for rice and wheat in Rs and US dollar, the average exchange rates being assessed for the marketing years (October to September for rice and April to March for wheat).

Table 2 – India's MSPs for rice and wheat in Rs and US $ in marketing years 2007/08 to 2012/13

Rs and $/t	Rice: exchange rate from October to September				Wheat: exchange rate from April to March		
	MSP paddy in Rs	MSP rice in Rs*	Exchange rate	MSP in $	MSP in Rs	Exchange rate	MSP in $
2007-08	6450	9773	41.0854	237.9	10000	40.1214	249
2008-09	9000	13640	48.8420	279.2	10800	45.9107	235.2
2009-10	10000	15150	46.0946	328.7	11100	47.3646	234.4
2010-11	10000	15150	45.1224	335.8	11700	45.4884	257.2
2011-12	10800	16364	52.5034	311.7	12850	47.8520	268.5
2012-13	12500	18939	56.5752	334.8	13500	54.3519	248.4

Source: http://www.rbi.org.in/scripts/PublicationsView.aspx?id=15146; * the MSP for paddy is converted in MSP for rice on the basis of 66% of rice in one tonne of paddy

Table 3 shows that, from 2007-08 to 2012-13, the FOB price of Thai rice 25% broken has remained higher than the Indian domestic wholesale price in Delhi (with a tiny exception in 2007-08), itself higher than the market support price (MSP). Above all the FOB price of rice was largely above the Thai FOB prices although the gap is mainly due to the significant share of Basmati rice in Indian exports from 2008 to 2011 (table 1). In any case Basmati rice is not procured by the Government, given its much higher price than that of common rice.

Table 3 – India's domestic, MSPs and international prices of rice & wheat from 2006/07 to 2012/13

$/tonne	Rice					Wheat				
	International	Domestic prices			FOB price*	International	Domestic prices			FOB price*
	Thai 25%	wholesale	retail	MSP		HRW Texas	wholesale	retail	MSP	
2007-08	316.47	319.17	393.33	237.9	377	333	254.17	297.50	249	220.9
2008-09	529.61	350.83	449.17	279.2	804.2	264	244.17	284.17	235.2	241.2
2009-10	459.95	373.33	455.83	328.7	1114.8	205	261.67	295.83	234.4	324.2
2010-11	438.61	419.17	496.67	335.8	915.9	284	275.00	313.33	257.2	200.2
2011-12	521.04	408.33	494.17	311.7	811.7	290	257.50	321.67	268.5	290.4
2012-13	520.00	391.67	470.00	334.8	579.8	332	281.67	323.33	248.4	294.4

Source: for domestic wholesale and retail prices: Global information and early warning system, http://www.fao.org/giews/pricetool/; for Thai rice 25%: India's Commission for agricultural costs and prices, March 2013 (http://cacp.dacnet.nic.in/); USDA for US HRW wheat FOB Texas Gulf (June to May): http://www.ers.usda.gov/data-products/wheat-data.aspx#25278;
* The FOB prices are for calendar years but for wheat the CIF price would is more appropriate up to 2011 as India was in deficit (table 4).

[2] http://ictsd.org/i/publications/175214/?view=document
[3] http://www.irinnews.org/report/98972/g33-to-reopen-talks-on-subsidies-at-wto

For wheat, except in 2009-10, the international price (US FOB price Texas Gulf of Hard Red Winter n°1 ordinary protein) has been higher than the MSP. However Indian FOB prices were not significant before 2011 given the large trade deficit (table 4). The comparison for 2011 and 2012 with the US prices does not show any dumped prices from Indian exports.

Table 4 on India's trade balance in rice and wheat in calendar years 2007 to 2012 shows the large drop in the rice balance in volume exports from 2008 to 2010, but compnsated by the high FOB prices, and the large deficit in the wheat balance before 2011.

Table 4 – Indian trade balance in rice and wheat in calendar years 2007 to 2012

	2007	2008	2009	2010	2011	2012
Rice balance in 1000 t and $ million						
1000 t	6241	3536	2151	2507	5017	10569
$ million	2353	2843	2398	2296	4072	6127
FOB price	377	804.2	1114.8	915.9	811.7	579.8
Wheat balance in 1000 t and $ million						
1000 t	-5079	-721	-9	-330	500	4583
$ million	-1295	-2657	-2467	-1010	145	1349
CIF price	255	368.5	288.7	305.2	293.5	344.6
FOB price	220.9	241.2	324.2	200.2	290.4	294.4

Source: Comtrade

Table 5 compares the retail prices of rice and wheat in India (Delhi) and Pakistan (Lahore), given than we did not find the wholesale prices of Pakistan. For wheat Indian prices are higher, except in 2009-10, whereas it is the reverse for rice (in 2009-10 they are almost the same).

Table 5 – Indian and Pakistani retail prices of rice and wheat from 2007/08 to 2012/13

	Rice		Wheat	
	India	Pakistan	India	Pakistan
2007-08	393.33	475.83	297.50	240,83
2008-09	449.17	628.33	284.17	275.83
2009-10	455.83	459.17	295.83	303.50
2010-11	496.67	443.33	313.33	256.67
2011-12	494.17	586.67	321.67	298.33
2012-13	470.00	615.00	323.33	300.00

Source: Global information and early warning system, http://www.fao.org/giews/pricetool/

Contrary to foreign allegations very little public stocks were directly exported by the FCI: in September 2011 the Indian Government allowed export of 3 Mt of non-basmati rice from its stocks (but tthere is no apparent record in the FCI report) and, for the financial year 2012-13, about 4.24 Mt tonnes of wheat were exported from the Government stocks subject to a minimum export price (MEP) of $300/t and the average realised price stood at $311.38 per tonne[4], much higher than the MSP of $248.4. However part of the private traders' exports come from the stocks that the FCI releases on the open market. Thus "*on July 2, 2013, the government announced an allocation of 8.5 million tons of wheat to bulk consumers (industrial users) and 1.0 million tons for private traders to be lifted from warehouses in Punjab and Haryana. The quantities will be sold through periodic tenders during MY 2013/14 at a reserve price of INR 15,000 ($254) per ton*"[5].

[4] http://www.thehindubusinessline.com/industry-and-economy/agri-biz/wheat-exports-from-central-pool-to-start-soon/article5112587.ece

[5] http://www.thecropsite.com/reports/?id=2546

But to what extent these direct and indirect exports from the public stocks were they exported at dumped prices? Clearly the total acquisition costs of stocks are larger by around 20% than the simple MPSs as they include procurement incidentals and levies imposed by States' governments but the AoA Annex 3 Article 8 provides that: "*Market price support shall be calculated using the gap between a fixed external reference price and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price. Budgetary payments made to maintain this gap, such as buying-in or storage costs, shall not be included in the AMS*".

Table 6 – Total acquisition cost, distribution cost and buffer cost of wheat and rice: 2007-08 to 2010-11

	MSP		Total acquisition cost		Distribution cost		Economic cost		Buffer cost
	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat & rice
2007-08	248.38	277.57	265.10	310.98	60.71	73.97	325.81	384.96	81.16
2008-09	234.62	293.52	246.81	317.43	53.36	69.74	300.17	384.96	97.94
2009-10	231.86	363.03	258.04	344.65	42.23	38.98	300.28	384.96	85.40
2010-11	256.79	336.00	280.21	386.20	47.77	49.05	327.98	384.96	89.64

Source: for MSP: http://fciweb.nic.in//upload/Procurement/MSP_wheat_Paddy_Coarsegrain.pdf and table 7 below for the exchange rates; the MSP for rice is deducted from paddy MSP divided by 0.66; for costs from 2007-08 to 2010-11: http://ictsd.org/i/publications/175214/?view=document;

What can be inferred from comparisons among the main exporters? Table 7 compares the prices of the same quality of rice – white long-grain 5% broken – in the five major exporters: India, Thailand, Vietnam, Pakistan and USA from 2007-08 to 2012-13 and on 1st November 2013, knowing that there is a traditional premium for the US and Thai rices. Thai 5% broken is often considered the world reference price for rice[6]. Table 4 shows that Indian 5% broken was the most competitive from 2010-11 to 2012-13 except to Vietnam in 2012-13 and to Thailand, Pakistan and Vietnam the 1st November 2013. Does that mean that the lower prices of Indian rice could be explained by dumped exports from the public stocks? At least, all things being equal, in 2012-13 it is difficult to argue that Indian rice is dumped on the word market vis-à-vis Pakistan and Vietnam and even Thailand since the beginning of November.

Table 7 – FOB prices of rice 5% broken of Thailand, India, Vietnam, Pakistan, USA: 2007/08 to 2012/13

$/tonne	2010/11	2011/12	2012/13	01/11/2013
Thailand	522	587	568	405
India	457	449	433	415
Vietnam	471	477	430	400
Pakistan	476	470	438	375
USA	524	560	615	620

Source: http://www.ers.usda.gov/publications/rcs-rice-outlook/rcs-13i.aspx#.Unj-NRDuFGY; * US Southern long grain milled 4% broken

When Pakistan charges India to have depressed the rice market, it forgets that India began to restrict rice exports in October 2007, mainly for non-basmati rice:
- first by raising the minimum export prices (MEPs) by steps[7];
- in October 2007 non-basmati rice was banned and the ban was only lifted in September 2011 together with the MEP on non-basmati rice exports. And wheat exports were banned from February 2007 to Septembr 2011. However, India honoured the existing commitment to its neighbouring country, Bangladesh and African countries on humanitarian grounds and existing relations.

[6] www.uni-goettingen.de/.../286c5ee44d75591e9**555**3...
[7] www.fao.org/docrep/016/an034e/an034e00.pdf

This is the reason why basmati rice accounted for 62% of India's rice exports in 2008-09 marketing year (April to March), 94% in 2009-10 and 96% in 2010-11. Nevertheless the MEPs were also increased by steps for basmati rice exports: at $900/t in December 2007, $1,200/t on 1 April 2008 and on 29 April an export tax of $162/t was imposed on basmati rice, but on 20 January 2009 the export tax was withdrawn and the MEP was lowered to $900/t in September 2011 and to $700/t in February 2012, these prices being meaningless as the world price exceeds $1,000, and Indian basmati has a premium over Pakistani basmati. On 15 November 2013 the Indian white basmati 2% reached an all-high of $1,995 per tonne against $1,340 for the Pakistani one[8].

Presently India controls 65 percent of the overseas basmati market, while Pakistan, the only other producer, accounts for the rest[9]. In 2011 global basmati production was of 6.5 million tonnes (Mt), of which 4.1 Mt in India and 2.4 Mt in Pakistan[10]. Indian basmati production reached 4.7 Mt, of which 3.2 Mt were exported (against 2 Mt in 2010), the domestic market consuming 1.5 Mt, of which all the broken basmati (1.2 Mt).

http://horizonresearchpartners.com/wp-content/uploads/2012/08/Indian-Basmati-Rice-Industry-7-26-12.pdf

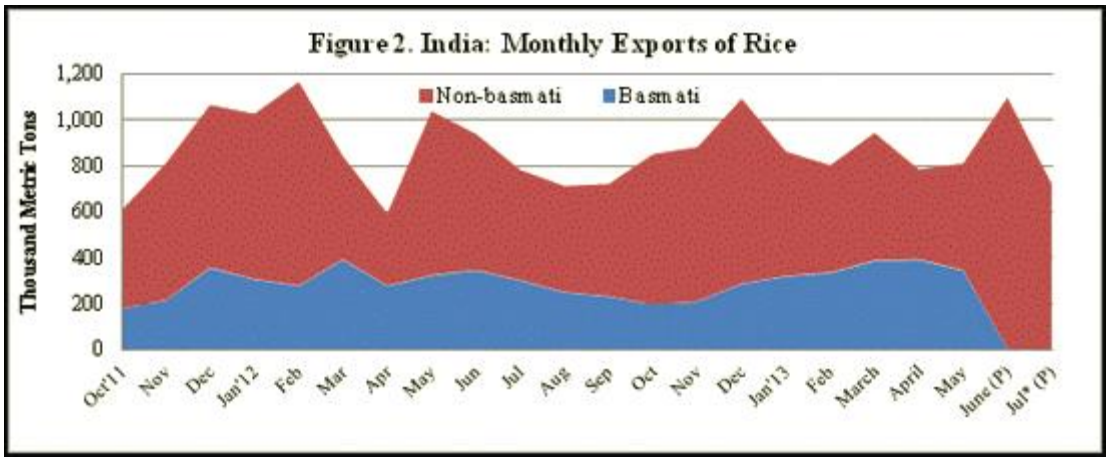
According to Pakistan News Service of 1st October 2013, Pakistan "*has lost around 40 per cent share in the global market from 970,000 tonnes in 2010 to 630,000 tonnes in 2013*"[11] whereas Indian exports "*increased by almost 50 per cent, from 2.37 million tonnes in 2011 to 3.45 million tonnes this year*". The following table shows the montly exports of Indian rice since October 2011, after removal of the export ban.

[8] http://livericeindex.com/uploads/secure/reports/174

[9] http://www.bloomberg.com/news/2013-06-27/rice-exports-from-india-to-fall-as-vietnam-pakistan-boost-sales.html

[10] http://horizonresearchpartners.com/wp-content/uploads/2012/08/Indian-Basmati-Rice-Industry-7-26-12.pdf

[11] http://paktribune.com/business/news/Elevation-in-Basmati-Rice-Price-lowers-Exports-11627.html.



Source: Monthly exports till May 2013 from DGCIS; GOI; June, and July 1-23, 2013, figures are derived from rice shipping data compiled from private sources, which do not break out Basmati and non-Basmati. (P) indicates provisional figures.

What is undeniable is that India's MSPs (market support prices), adjusted every year to take into account the necessity to give remunerative prices to farmers given the rise in production costs and inflation, together with the other large input subsidies – mainly on irrigation, power, fertilizers, credit, crop insurance, for $27.6 billion in 2010-11[12] –, have largely boosted the production of rice and wheat and improved farmers' incomes o at least prevented them to fall too much. Even if there are exceptions in some States and years for several reasons. Thus in Punjab the high moisture of paddy (more than 20%) in October 2013 did not allow to buy it at the MSP and private traders bought it at Rs 900/quintal against the MSP of Rs 1,350[13].

Table 8 shows that Indian rice production has increased by 5.3% from 2006-08 to 2010-12 when Pakistani production has fallen by 4.1%. And Indian yields have risen by 8.4% when those of Pakistan rose by only 1.2%. However Thailand and Vietnam production have risen by 15.6% and 14.1%, with stagnant yield in Thailand and increased yield of 9.2% in Vietnam.

Table 8 – Paddy production and yield of India, Thailand, Vietnam and Pakistan from 2006 to 2012

1000 t	2006	2007	2008	2009	2010	2011	2012	2010-12/2006-2008
Production in 1000 tonnes								
India	139137	144570	148036	135673	143963	157900	152600	+5,3%
Thailand	29642	32099	31651	32116	35584	34588	37800	+15,6%
Vietnam	35850	35943	38730	38950	40006	42398	43662	+14,1%
Pakistan	8158	8345	10428	10334	7235	9194	9400	-4,1%
Average yields in kg/ha								
India	3176	3292	3251	3237	3359	3591	3591	+8,4%
Thailand	2916	3009	2963	2883	2936	2974	3000	+0,02%
Vietnam	4894	4987	5234	5237	5342	5538	5632	+9,2%
Pakistan	3160	3318	3520	3585	3059	3576	3482	+1,2%

Source: FAOSTAT

If Pakistan does not intervene in its rice market it does have a strong public procurement for wheat, the major stapple there: "*At the close of the 2013 wheat procurement season, the Government of Pakistan (GOP) procured 5.98 million tons of wheat or 75 percent*

[12] http://ictsd.org/i/publications/175214/?view=document
[13] http://www.rkmp.co.in/category/news-events-optional-tags/rice-prices

of the intended target of 7.91 million tons"[14] representing 30.4% of that production – a percentage close of that of India –, after having raised the procurement price from 292 $/t to 312 $/t, much higher than the Indian MSPs for wheat of 268.5 $/t and 248.4 $/t. And USDA adds: "*The GOP has come under pressure from international and domestic sectors to end its wheat procurement operation and let the markets and the private sector handle the efficient allocation of resources in what is considered a political and rent seeking activity. The government remains steadfast citing national and food security concerns*". Thus Pakistan should mitigate its criticisms of India's procurement policy, at least for wheat.

Thailand's new pledging scheme since October 2011 seems to be subject to even higher internal and external criticisms than Indian PDS. Indeed the minimum purchase price is at $484 per tonne, and the IMF writes that "*With the pledging prices about 40 percent above market prices, it is inevitable for the government to incur losses as long as the scheme remains unchanged*"[15], but Thailand spurned IMF's call and said that it will press on with a $21 billion rice-purchase program, saying that the key objectives were to address economic inequality in the country and to help poor farmers improve their productivity[16]. The International Grains Council underscores on 31 October 2013 that "*With the Thai government's paddy intervention buying programmes effectively pricing exporters out of key markets in that region, Indian traders gained substantial market share*"[17].

Oryza News says that "*The Rice Exporters Association of Pakistan (REAP)'s chairman hinted that asking Pakistani farmers to compete with Indian rice is unfair as the Indian government provides about $30 billion in subsidies to its farmers. He said that besides cheaper electricity and fuel, Indian farmers are provided urea and DAP at less than 50% of the Pakistani prices*"[18]. Despite the large level of India's agricultural input subsidies, Anwarul Hoda and Ashok Gulati judge in the ICTSD report of September 2013 that these subsidies abide by the WTO AoA rules: "*Whether we take the defining level to determine the low-income or resource-poor status as 10, 4 or 2 ha, in 2010-11, the total non-product-specific subsidy as a percentage of the total value of agricultural output was well below the benchmark of 10 per cent. Even in 2008-09, when there was an unprecedented spike in government support for agriculture, this percentage remained below the benchmark and was 7.75 percent, for the most rigorous interpretation of 'low-income' or 'resource-poor'*"[19]. So that these input subsidies cannot be taken into account in assessing the potential dumping of Indian rice.

Pakistan News Service confirms other technical reasons of the Indian competitiveness on rice: "*The Indians, the Chinese, the Thais and others have done the same. They first concentrated on their domestic markets, where better seeds helped them double and even triple their per acre yield. The quality assurance was also inducted in the seed. The Indian Basmati varieties yield more than double in Pakistan, changing the entire economics of the crop. In Pakistan, the old seed first saw its yield stagnate between 25 to 30 maunds per acre* [2,3 à 2,8 t/ha] *then become vulnerable to diseases (leaf blast and leaf roller), that hit the yield further. This finally changed the economics of the entire crop. As production started dropping, domestic*

[14] http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Update_Islamabad_Pakistan_6-28-2013.pdf

[15] http://www.imf.org/external/pubs/ft/scr/2013/cr13323.pdf

[16] http://www.bloomberg.com/news/2013-11-13/thailand-spurns-imf-call-to-rethink-state-rice-buying-program.html

[17] www.igc.int

[18] http://oryzamarket.com/Rice-News/14412.html

[19] http://ictsd.org/i/publications/175214/?view=document

prices started going up. In the last three years, they have gone up by almost 50 per cent, from Rs100 per kg in 2010 to Rs150 per kg in 2013. With the price increase, the rice exports, already being dumped in low-end markets, lost their commercial sense. The Indians, on the other hand, have dropped their Basmati price by $200 per tonne and have been selling it at around $1,050 per tonne over the last three years". USDA confirms: "*Lack of investment in research and development has resulted in Pakistan's inability to increase productivity in tandem with its major competitors*"[20].

Indeed, according to USDA, in Pakistan "*Massive electricity load-shedding and gas shortages continue to affect the entire export chain, reducing the milling capacity, while gas shortages have hindered the drying process. Decline in the basmati production is also adversely affecting exports. Consequently, Pakistan's MY 2012/13 rice exports estimate is reduced from 3.2 million tons to 3.0 million tons. As the energy crisis is likely to continue, MY 2013/2014 export estimate is also reduced to 3.0 million tons, with record ending stocks of 1.2 million tons*"[21].

Table 9 shows that the Indian inflation rates of wholesale domestic prices from June 2007 to June 2013 have been much larger for all food products than for all goods and services (WPI index) and that the inflation rate of rice was very close to that of all foods. But in 2012-13 (from June 2012 to June 2013) the prices of rice and wheat have risen more than that of all foods.

Table 9 – India's inflation rate for all goods and for rice and wheat prices from June 2007 to June 2013

Base 100 2004-05	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013	2013/07
WPI index*	137	148	146	157	153	168	173	
Annual inflation		8.03%	-1.35%	7.53%	-2.55%	9.80%	2.98%	3.97%
All food index	121.80	130.30	145.00	175.40	188.80	209.40	230.90	
Annual inflation		6.98%	11.28%	20.97%	7.64%	10.91%	10.27%	11.25%
Rice price index	116.6	132.6	151.8	164.3	169	181.6	218.7	
Annual inflation		13.72%	14.48%	8.20%	2.86%	7.66%	20.43%	11.05%
Wheat price index	127.90	145.60	158.40	168.80	168.70	180.10	205.20	
Annual inflation		13.84%	8.79%	6.57%	-0.06%	6.76%	13.94%	8.20%

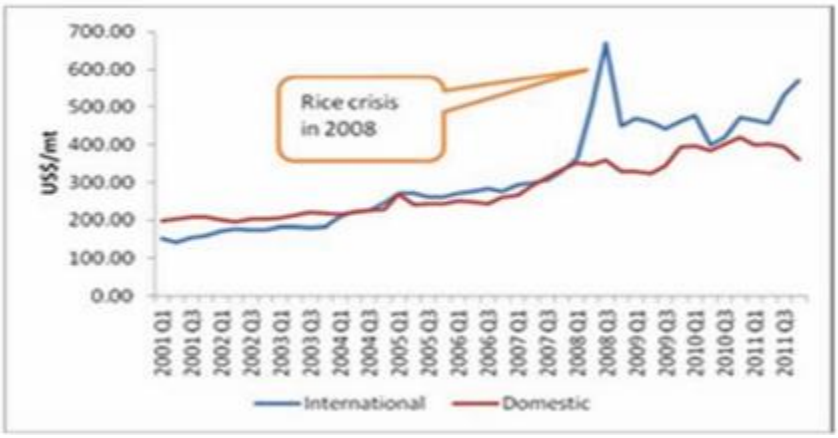
Source: http://knoema.com/tztqorb/comparison-of-inflation-industrial-production; * WPI: wholesale price index.

Despite the high rise in domestic rice and wheat prices, the following graph shows that this rise was much lower from 2007 to end 2011 for rice than in its international price, owing to Indian export bans. Furthermore, according to Kavery Ganguly and Ashok Gulati, "*Food inflation is being driven more by non-cereal commodities and the phenomenon is largely demand-driven in nature… The composition of food inflation changed from cereals-led in 2009 to the one led by high value foods (fruits and vegetables, and protein foods) in 2010 and 2011*"[22].

[20] http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Islamabad_Pakistan_3-21-2013.pdf

[21] USDA, 28 June 2013: http://www.thefarmsite.com/reports/contents/PakistanGrain&FeedJune2013.pdf

[22] http://www.rrojasdatabank.info/WP2013-034.pdf



http://www.rrojasdatabank.info/WP2013-034.pdf

Does the hike in domestic rices of rice and wheat mean that the MSPs for rice and wheat are too high? This is not the view of the Indian Commission for agricultural costs and prices: "*MSP for paddy & wheat have increased at a compound annual growth rate of 10.9 percent & 8.6 percent over the last five years (2007-08 to 2012-13 marketing seasons). The cost of production of rice and wheat has gone up by more than 45% during last three years (2010-11 to 2012-13 marketing seasons), i.e., on an average, by about 15% per year (according to cost projections made by CACP based on Comprehensive survey done by DES). This is primarily due to sharply rising labour and energy costs, including fertilizers. There is an acute shortage of labour in agriculture that has suddenly cropped up in these three years. In some states, labour costs have gone up by more than 100% over the same period. Due to these rising costs, the margins of production for farmers have been declining both for paddy and wheat (Fig 8). Therefore, the government may have to raise procurement prices for rice and wheat to encourage farmers to increase production of these staples*"[23].

In turn the high inflation rates of Indian domestic wholesale prices of rice and wheat, which contribute to around one third of WPI index for all foods, have contributed modestly to the Indian rupee depreciation which has largely improved the competitiveness of its rice and wheat export prices. Table 10 shows that, from 2007-08 to 2012-13 and from 2011-12 to 2012-13 marketing years[24] the Pakistani rupee depreciated more against the US dollar than the Indian rupee, which depreciated more than the Vietnamese dong whereas the Thai baht appreciated against the US dollar. Which rose the competitiveness of Indian non-basmati rice exports.

Table 10 – Indian, Pakistani, Thai, Vietnamese currencies against US dollar: 2007/08-2012/13

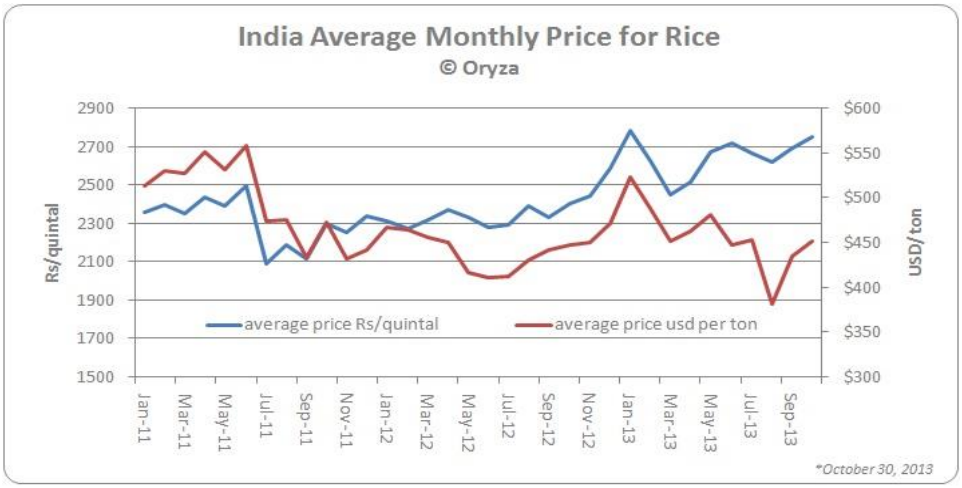
For US $1	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Octob.2013	Depreciation	
								07/08-12/13	11/12-12/13
Indian rupee	41.0854	48.8420	46.0946	45.1224	52.5034	56.5752	61.6059	37.7%	7.8%
Pakistani rupee	65.9214	80.6295	84.5723	85.7720	91.1789	98829.4	106.2492	49.9%	8.4%
Thai baht*	32.0168	34.6949	32.5301	30.2158	31.1301	30.4396	31.2007	-4.9%	-2.3%
Vietnamese dong	16231.4	17392.7	18760.3	18657.2	20899.7	21009.9	21114.9	29.4%	0.5%

Source: http://www.ozforex.com.au/forex-tools/historical-rate-tools/monthly-average-rates; rates from October to September, in line with the rice marketing years; * the Thai baht has appreciated during the period

[23] Ashok Gulati, Jyoti Gujral, T.Nandakumar with Surbhi Jain, Sourabh Anand, Siddharth Rath, and Piyush Joshi, *National Food Security Bill: Challenges and Options*, Commission for agricultural costs and prices, December 2012, http://cacp.dacnet.nic.in/NFSB.pdf

[24] As India marketing year for rice goes from April to March, we take the average monthly exchange rates over that period for Pakistan, Thailand and Vietnam also.

The following graph shows indirectly the sharp depreciation of Indian rupee from May to September 2013 as wholesale prices rose in Rs but fell in US $. And the 14% surge in wholesale prices in Rs from October 2012 (Rs 24,080/t) to October 2013 (Rs 26,910/t) translated in only 1% rise in US $ (from 447 $/t to 451 $/t)[25]. According to Oryza of 6 November 2013, "*Without the weaker rupee, India would be the most expensive Asian rice origin, but thanks to a softer rupee its able to compete with a battered and bruised Thai rice market*"[26].



http://www.oryza.com/news/rice-news/rice-prices-soar-india

To what extent the MSPs on rice (and wheat) have they been price-distorting and violating the AoA rules? The AoA Article 18.4 provides that "*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*". Now, from 1986-88 to 2012, the Indian average inflation rate was 8.03%, which leads Anwarul Hoda and Ashok Gulati to conclude: "*Since the MSP is well below the fixed external reference price after taking inflation into account, the gap between the two is negative and the negative gap is large enough to allow full adjustment of the product-specific investment and input subsidies. As a consequence, the contribution of product-specific support to the Current Total AMS remains zero*".

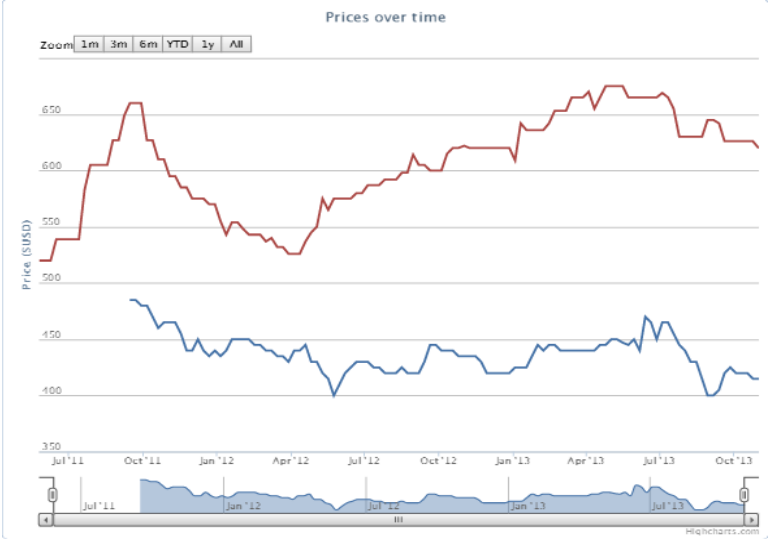
Indeed, with that inflation rate of 8.03%, the 1986-88 Indian CIF price of Rs. 3,520 ($262.5) for paddy would have risen to Rs. 24,274 in 2012 which, converted at the average exchange rate of Rs. 56.5752/$1 in 2012-13, would have been of $429.1, 94.3% higher than the MSP of paddy of Rs. 12,500 ($220.9) procured in 2012-13 so that the AMS was largely negative. And, for wheat, the 1986-88 Indian CIF price of Rs. 3,548 ($264.6) would have risen to Rs. 24,468 in 2012-13 which, converted at the average exchange rate of Rs. 56.5752/$1, would have been of $432.5, 74.1% higher than the MSP of wheat of Rs. 12,850 ($248.4) procured in 2012-13 so that the AMS was also largely negative. Therefore the US and EU criticisms that India has violated the AoA rules on the AMS is totally unfounded.

The following graphs compare the monthly fluctuations in the FOB prices of long grain white rice 5% broken of India (in blue) with those of Pakistan, Thailand, Vietnam and USA from

[25] http://www.oryza.com/news/rice-news/rice-prices-soar-india
[26] http://oryza.com/reports/monthly-review/oryza-october-2013-rice-market-review

July 2011 to October 2013. The comparison with the US and Thai prices show clearly the traditional premium attached to the US and Thai rices over their other competitors, particularly India, but Vietnam has outcompeted India in 2013, and Pakistan also to a lesser extent.

Prices of long grain white rice 5% broken of India (in blue) and USA July 2011-October 2013



Source: http://livericeindex.com/members/rice-price-history

Prices of long grain white rice 5% broken of India (in blue) and Thailand July 2011-October 2013

Source: http://livericeindex.com/members/rice-price-history

Prices of long grain white rice 5% broken of India (in blue) and Pakistan July 2011-October 2013

Source: http://livericeindex.com/members/rice-price-history

Prices of long grain white rice 5% broken of India (in blue) and Vietnam July 2011-October 2013

Source: http://livericeindex.com/members/rice-price-history

To conclude on this issue of the alleged dumping effect of ndian rice and wheat, the Indian new leadership in rice exports and the rebound of its wheat exports cannot be attributed to the dumping of its public stocks, for the major following reasons:

- India's exports of rice have dropped sharply from 2008 to 2010 due to export restrictions to ensure its domestic food security and the hike in its exports in 2011 and 2012 are in line with its previous rise in exports from 2000 (1.5 Mt) to 2007 (6.4 Mt). All the same its new export surplus in wheat since 2011 is in line with its export surplus from 2000 to 2005 and the export ban from 2007 to 2010.
- Direct exports from public stocks have only occured for wheat in 2012-13 and 2013-14.
- The higher price competitiveness of Indian rice and wheat is largely due to the depreciation of the Indian rupeee to the US dollar, much larger than that of the Vietnamese dong and even more than that of the Thai baht which appreciated over the US dollar.
- The rise in the MSPs of rice and wheat have not even kept pace with the rise in agricultural costs so that these rises were justified to foster production and limit hikes in consumer prices.
- The rice and wheat MSPs did not violate the AoA rules on the AMS because the AoA Article 18.4 allows to take into account the excessive rates of inflation. So that updating the notified reference prices of rice (paddy) and wheat of the 1986-88 period to take into account the average annual inflation rate of 8% shows that the MPS of 1986-88 were 94.3% and 74.1% higher than the actual MPSs of 2012-13 for rice and wheat respectively. So that their AMSs were largely negative.

II – The debate about the inefficiencies of the Public procurement system

There have been a lot of debates, inside and outside India, on the inefficiencies of the public procurement and Public Distribution System (PDS) of rice and wheat public stocks – a debate amplified by the National Food Security Bill (NDSB) whose implementation began in September 2013 – and for improvements of the PDS or alternatives to the distribution in kind.

Table 8 recapitulates the production, public procurement, allotment and offtake of rice and wheat from 2007-08 to 2012-13.

Table 8 – India's production, procurement, allotments and offtakes of wheat and rice from 2007/08 to 2012/13

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14**
Rice in 1000 tonnes							
Production	96690	99180	89090	95980	105300	104400	105000
Procurement	28736	34104	31457	34198	35041	33955	
" % production	29.7%	34.4%	35.3%	35.6%	33.3%	32.5%	
MSP Rs/t paddy	8500	10000	10800	11000	11700	12850	13100
MSP $/t of rice*	205.53	277.57	316.69	293.52	338.04	348.50	363.60
Total costs/t	13118	13806	14246	14944	15953	17990	
Total cost: $Bn	4.78	4.67	4.84	6.72			
Allotment	30689	27470	30622	36303	38420	35619	
" OMSS	372	774	1028	2002	1670	1047	
Offtake	25213	24672	27644	29964	32054	32540	
" OMSS	155	262	515	169	18	99	
Wheat in 1000 tonnes							
Production	78570	80680	80800	86870	94860	92460	92500
Procurement	11128	22689	25382	22514	28335	38148	44120
" % production	14.2%	28.1%	31.4%	25.9%	29.9%	41.3%	
MSP Rs/t	7500	10000	10800	11000	11200	12850	
MSP $/t	248.38	234.62	231.86	256.79	268.14	252.33	
Total costs/t	15499	17407	18201	19831	21229	23512	
Total cost: $Bn	2.50	2.11	2.95	4.27			
Allotment	13780	18395	31386	32181	32479	43601	
" OMSS	0	2378	4652	5270	3505	11354	
" exports					99	4500	
Offtake	12247	14885	22384	23067	24267	33242	
" OMSS	9	1234	1641	1155	1184	6867	
" exports					99	3074	
Total costs of procurement and distribution for rice and wheat							
Total cost: $Bn	7.76	9.49	12.28	13.81			18.3

Source: http://fciweb.nic.in/sales/view/29; * MSP for paddy converted in MSP for rice at 66% processing rate; ** prospects

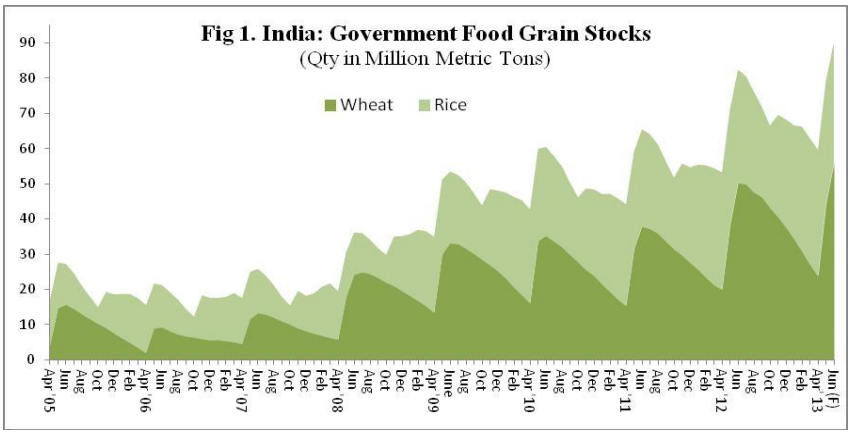
The main criticisms to the PDS concern: the excessive volume and costs of the public procurement and food distribution in kind; the excessive gap between the quantities procured, alloted, offtaken and actually consumed by the targeted households; the spoilage of stocks; the fact that excessive public stocks of wheat and rice reduce their availability in the market and contribute to their inflated prices as well as of other food products more demanded by consumers but insufficiently produced.

1) The excessive volume and cost of the procured rice and wheat

As on June 1, 2012, the Food Corporation of India (FCI) was holding 82.4 Mt of foodgrains, the highest level ever achieved, against the buffer and strategic norms of 31.9 Mt[27].

The following graph shows the fast increasing public stocks:

[27] www.iimahd.ernet.in/.../5337679172012-08-02.pdf

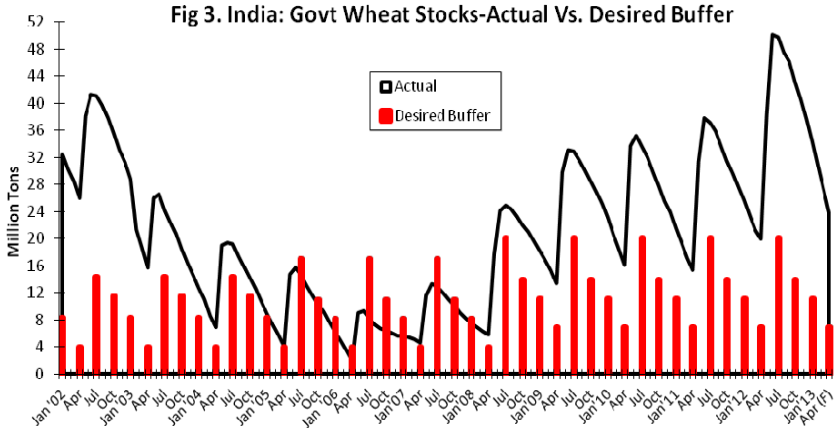


http://www.thefarmsite.com/reports/contents/iuap13.pdf

Around 50% of rice is procured from October to December, 30% from January to March, 15% from April to June, and 5% from July to September, the marketing year going from October to September. For wheat, almost the entire procurement occurs from April to June[28], the marketing year going from April to March.

The main reasons of the excessive procurement are:
- It is open-ended and government agencies purchase all the quantities offered by farmers at the MSP as long as the products have the minimal quality required;

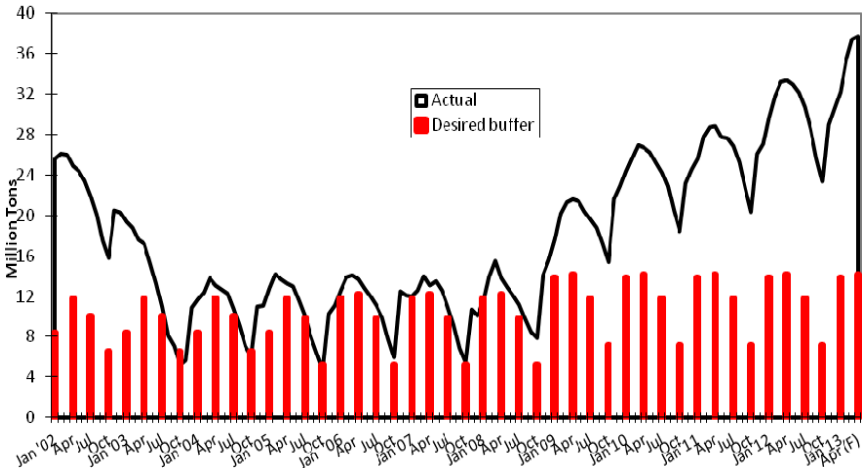
- The volume of public stocks is much larger that the normal buffer stocks of 20.1 Mt for wheat and 11.8 Mt for rice as shown in the following graphs. Buffer stocks are intended to serve as food security for emergency situations, uninterrupted supply during inter-seasonal scarcity and price stabilization in the market which should be maintained at all times. The total stock of food grains held by FCI, State Governments and their agencies constitute the Central Pool.



Source: Food Corporation of India, GOI

[28] http://www.fao.org/docrep/016/an034e/an034e00.pdf

Fig 6. India: Govt. Rice Stocks-Actual Vs. Desired Buffer



Source: Food Corporation of India, GOI

However, paradoxically, the report of the Comptroller and Auditor General of India on the Storage Management and Movement of Food Grains in Food Corporation of India in 2012-03 states that "*The average food grains procurement of 514 LMT* [lahk metric tonne, lack being 100,000] *during the period 2006-07 to 2011-12 was lower than the average allocation of 593 LMT made by the Government of India (GOI) to states for distribution under Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS)*"[29]. But it adds "*The GOI should also consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of the Central Pool*".

The report stresses that "*FCI owned storage capacity remained more or less constant ranging between 151 LMT and 156 LMT during the period 2006-07 to 2011-12. The stock of food grains in the Central Pool steadily increased to 824 LMT on 1 June 2012*". And that "*The peak procurement level of 567 LMT in 2010-11 and 634 LMT in 2011-12 did not match the allocation level of 685 LMT and 709 LMT against the same period respectively. The offtake of food grains from the Central Pool was 500 LMT and 530 LMT as against the procurement level of 574 LMT and 567 LMT during 2009-10 and 2010-11 respectively. In 2011-12, the offtake of food grains was 563 LMT as against the total procurement level of 634 LMT*".

Which leads the report to conclude that there is a need to increase public procurement to face increased distribution needs in the future. However the Ministry of Consumer Affairs, Food and Public Distribution replies: "*As the procurement of food grains against mandi* [local market] *arrival had reached 85 per cent during the period 2008-09 to 2011-12, there would be limited scope for increase in procurement unless mandi arrival is increased from the current level of 45 per cent of the production of food grains in the country*". Indeed this level of 45% of rice and wheat production arriving in local markets is due first to the farmers' self-consumption and second to the lack of infrastructure for local markets. And the Ministry added that the current level of procurement is adequate given that the ratio of offtakes to allocations was of 80% in 2009-10 and 77% in 2010-11 (see table 10). However, as *"CI owned storage capacity remained more or less constant ranging between 151 LMT and 156 LMT during the period 2006-07 to 2011-12*" whereas the stock of food grains in the Central

29

http://164.100.47.132/paperlaidfiles/CONSUMER%20AFFAIRS,%20FOOD%20AND%20PUBLIC%20DISTRIBUTION/Report%20No%207%20-%20English.pdf

Pool increased from 25.9 Mt on 1 June 2007 to 82. Mt on 1 June 2012, hiring of storage space by FCI and storage in poor conditions were necessary, leading to increased costs and spoliage.

Table 10 – Storage Management and Movement of Food Grains in Food Corporation of India

M tonnes	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12		2012-13	
Schemes	A	O	A	O	A	O	A	O	A	O	A	O	A	O
Wheat														
TPDS	14.57	10.26	11.87	10.57	14.44	9.66	21.33	13.94	22.24	17.31	26	18.75		
OWS	1.57	1.33	1.91	1.41	1.58	1.12	5.40	1.72	4.68	2.50	2.98	1.96		
OMSS(D)	0.39	0.10	0.00	0.01	2.38	1.23	4.65	1.64	5.27	1.16	3.51	1.19		
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10		
DCP		0.18		0.26		2.87		5.09		2.11		2.27	4.24	3
Sub-total	16.53	11.88	13.78	12.25	18.40	14.89	31.38	22.39	32.18	23.07	32.48	24.27		
% O/A		72		89		81		71		72		75		
Rice														
TPDS	43.40	16.02	27.28	17.54	23.66	16.05	24.07	15.84	28.42	18.77	32.33	22.56		
OWS	4.18	3.85	3.41	2.91	3.81	2.55	5.52	3.45	5.88	3.32	4.42	2.79		
OMSS(D)	0.00	0.00	0.00	0.01	0.00	0.01	1.03	0.52	2.00	0.17	1.67	0.02		
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
DCP		4.98		4.75		6.07		7.83		7.71		6.69		
Sub-total	47.58	24.85	30.69	25.21	27.47	24.67	30.62	27.64	36.30	29.97	38.42	32.05		
% O/A		52		82		90		90		83		83		
TOTAL	64.11	36.73	44.47	37.46	45.86	39.56	62.01	50.03	68.49	53.03	70.90	56.32		

Source: http://164.100.47.132/paperlaidfiles/CONSUMER%20AFFAIRS,%20FOOD%20AND%20PUBLIC%20DISTRIBUTION/Report%20No%207%20-%20English.pdf

However there is still a large confusion about the extent and nature of the gap between the levels of public procurement in the Central pool, allocation, offtakes and actual consumption by the intended beneficiaries. This gap is generally described under the concept of "leakage" without explaining its components. Thus, in the same article Anwarul Hoda and Askok Gulati write that "*almost 40 percent of food leaks away*" and that "*leakages from the TPDS accounted for 36.38 per cent of the subsidised food grain and diversion for 21.45 per cent*"[30], without defining precisely the two concepts. For Deepak Gopinath "*Almost 40% of the grain in the public system — which distributed 24 million tonnes of wheat and 32 million tonnes of rice in 2011-12 — does not reach intended recipients and is diverted to open markets*"[31].

For Reetika Khera instead, diversion encompasses other leakages: "*Diversion refers to the proportion of grain that does not reach beneficiary households. While there could be several causes for these losses (e.g., during transportation or due to poor storage), the general practice has been to attribute all such losses to the illegal sale of PDS grain, meant for ration card holders, on the open market*"[32]. However it is likely that some part of the resale on the open market is done by the card holders themselves[33].

2) Face to these criticisms of the PDS, there are two opposite proposals

For the mainstream economists and liberal political circles, it is necessary to get rid of most public stocks and to let the domestic traders manage the market, together with a large reduction in tariffs on wheat and rice and the renunciation to use export quotas or bans in the future. However, as nobody can ignore the issue of food security in India, the World Bank and renown neo-liberal trade economists as Jagdish Bagwati and Arvind Panagariya are promoting the use of conditional cash transfers instead of the present delivery of rice and wheat by the PDS[34]. Anwarul Hoda and Ashok Gulati (the authors of the ICTSD report), tend to follow this view but admit that "*The Government should keep only strategic reserves*

[30] http://ictsd.org/i/publications/175214/?view=documen
[31] http://www.sunday-guardian.com/analysis/indias-agriculture-is-on-the-brink
[32] http://www.cdedse.org/pdf/work198.pdf
[33] http://defenceforumindia.com/forum/politics-society/54401-re-1-rice-finds-way-bangalore-hotels.html
[34] http://www.albrightstonebridge.com/foodsecaug30/

of food grain stocks, which should be acquired from the private sector by inviting open tenders".

On the other hand several economists and the Indian Right to Food movement are critical of cash transfers and propose several ways to improve the PDS.

For Akshat Khandelwal "*The idea is that cash would compensate for the subsidy provided to ration shops. Supporters of this idea claim that this may counter the general prevalence of leakages in the public distribution system that has been its bane for years. Yet, as economists Jean Drèze and Amartya Sen warn in their most recent book 'An Uncertain Glory: India and its Contradictions', such reasoning depends on plenty of assumptions – in particular, that the "open" market works perfectly or that it is not beset with cartels or monopolies. Moreover, in the event of emergencies like drought, floods or rapid inflation, monetary benefit may provide little comfort – given the physical and economic impediments for beneficiaries accessing a well-functioning market*"[35].

M.S. Swaminathan, the Father of the Green Revolution in India, shares this view: "*As a rule, substituting cash for foodgrains should be avoided for two reasons. One, the cash will have to go to the woman in the household who holds the entitlements card. This is likely to create problems within the family… Second, giving cash rather than grain will decrease interest in procurement and safe storage. If procurement at a remunerative support price goes down, production will also go down. We cannot sustain the right to food with imported grains, since the international market is very volatile*"[36].

It is noticeable that even the experts supporting the PDS and the National Food Security Bill (NDSB) are critical of the excessive public stocks. For Jean Drèze, "*A large part of the food subsidy today is also wasted on the transport and storage of monumental food stocks. With a well-functioning PDS, it will be much easier to coordinate procurement and distribution, so that excess stocks don't accumulate*"[37].

For Reetika Khera "*Close to four-fifths of those interviewed preferred food over cash. More importantly, the PDS remains extremely popular in states that have low or little leakages. For instance, in Andhra Pradesh and Tamil Nadu (states with purportedly negligible leakages), the preference of respondents for 'food' over 'cash' at 92 percent and 70 percent, respectively, is extremely high*"[38].

If Vandana Shiva recognizes "*the huge administrative cost of identifying, issuing, and managing the various ration cards - which also became a source for political favours and corruption*" and that "*the polarisation between the market prices and the ration shop prices also promoted leakages from the PDS*", she nevertheless, together with the Right to Food movement and many political parties, pleads for "*a Universal PDS system and the erosion of the price control mechanisms of the essential commodities act… to reduce both the cost burden and the corruption*"[39]. She shares the criticisms made by Ashok Gulati and others that the only focus of the PDS on cereals has reduced the availability and increased the prices of other basic foods, particularly oilseeds and pulses: "*Until the Green Revolution, India was the*

[35] http://www.albrightstonebridge.com/foodsecaug30/

[36] http://www.asianage.com/columnists/what-food-bill-does-not-consider-941

[37] http://www.tehelka.com/why-the-food-bill-is-sound-economics/

[38] http://www.albrightstonebridge.com/foodsecaug30/

[39] http://www.aljazeera.com/indepth/opinion/2013/09/201398122228705617.html

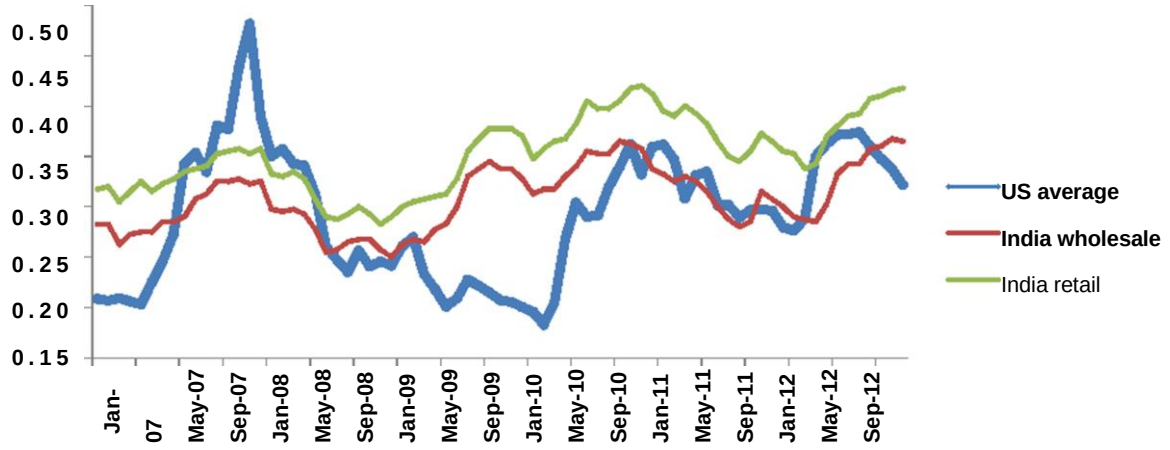
biggest producer and exporter of oilseeds and pulses.The Greed Revolution *which is based on rice and wheat production has destroyed our self-sufficiency in pulses and oilseeds, and the globalisation and liberalisation of the food trade has made it worse. We need to introduce tariffs on imports of edible oils and pulses, both to give our farmers a level playing field, and to reduce our trade and budget deficits*". For her it is not enough to underscore the huge cost of food subsidies while forgetting the higher cost of subsidies to intensive agriculture, hence the necessity to turn to agroecological production systems to ensure the long-term fertility of soils: "*Lowering the costs of production through ecological agriculture does not just improve the farmers' livelihoods and food security, it also improves the health and fertility of the soil, thus strengthening the ecological foundation for food security. Most importantly, it can help in getting rid of the expensive subsidy given for chemical fertilisers and non-renewable corporate seeds*".

It is interesting to note that this Vandana Shiva's view on the necessity to change the production system is shared by neo-liberal economists as Anwarul Hoda and Ashol Gulati, who propose to replace the PDS by conditional cash transfers. Indeed they are aware of the impasse of the intensive production systems: "*Over the years, ground water has gained in importance and now accounts for about 62 per cent of the net area under irrigation. However, in many parts of the country power subsidies have resulted in the farmers drawing out ground water in excess of the utilisable recharge, with the result that the water table has fallen, causing environmental degradation. Fertiliser subsidies have resulted in the overuse and skewed use of chemical fertilisers and led to the neglect of organic matter and depletion of micro-nutrients with adverse consequences for soil fertility*".

An FAO paper of 2012 underscores the positive impact of the public stocks and trade restrictiveness on the stabilization of rice and wheat prices and farmers' incomes given that the private traders are not indulged in regulating prices bu rather to speculate on them: "*Due to various reasons international trade is turning out to be a costly and unreliable proposition for meeting domestic shortages and for stabilization of market and prices. An important way to deal with price fluctuations is stock. In a country like India where private sector hardly operates beyond intra year transactions or to carry inventory beyond a year or so it becomes state responsibility to assume role of price stabilization through stocks. Another reason for increasing reliance on stocks as a means for price stabilization is rising frequency and severity of supply shocks due to various factors like climate change… This analysis also provides evidence that Indian farmers received better prices for wheat and rice during the period of global crisis and following years, when international prices dipped… Had the changes in international prices been allowed to transmit to the domestic markets, the consumption of rice and wheat would have been adversely affected*"[40].

The following graph by C.P. Chandrasekhar and Jayati Ghosh shows that the India's wheat policy of domestic price stabilization permitted to maintain and even increase its wholesale and retail prices when the world market price stumbled in 2006-07 and 2009-10.

[40] http://www.fao.org/docrep/016/an034e/an034e00.pdf



http://www.networkideas.org/news/mar2011/print/prnt22032011_Transmission.htm

For Devinder Sharma, "*If the private players are so keen to help the farmers as well as the consumers why can't they demonstrate their willingness to do so in the remaining 22 crops for which there is no reliable procurement system. After all, pulses are an important part of the average Indian diet. Yet, its production is not picking up because there is no marketing system that provides an assured price to farmers. Farmers do not have the ability to bear the shocks of the volatility of the markets, and therefore opt to cultivate wheat and paddy offering an assured price… If the private sector is so keen, I don't understand why does it not buy wheat and rice from farmers in Bihar, eastern Uttar Pradesh, Odisha and West Bengal where the mandi network doesn't exist?... Invariably, at all these places farmers have to resort to a distress sale getting not more than Rs 900 to Rs 1000 per quintal as the wheat price*"[41]. In aonther blog of 5 August 2013, Devinder Sharma writes: "*India's food buffer is one of the best policy initiatives that have come up in the recent past. If India has survived the spate of famines it used to face before the British left the shores, food buffer has played an important role. If India has never experienced the kind of food inflation that many countries across the globe have witnessed (Brazil was faced with 440 per cent food inflation in early 1980s) it is because of the food buffer that was created. If India escaped the 2007 Global Food Crisis that resulted in food riots in 37 countries across the globe, it is because of the food buffer*"[42]. However Devinder Sharma is also conscious of the necessity to go beyond a simple reform of the PDS: "*The government should be addressing hunger through a community approach that builds capacities to become self-reliant rather than depending on doles and subsidies from the government. There are many examples of villages building community grain banks and becoming food secure. All that the government has to do is support and foster local self-help groups and replicate this model*".

On the other hand the presentation of the Brazilian "Bolsa famiglia" as an example for India leaves a lot be desired given its internal and external criticisms. In Brazil, although its positive role is acknowledged for families in extreme poverty, it has been accused of

[41] http://devinder-sharma.blogspot.in/search?updated-max=2013-06-21T10:36:00%2B05:30&max-results=7&start=14&by-date=false

[42] http://devinder-sharma.blogspot.in/search?updated-max=2013-08-24T10:35:00%2B05:30&max-results=7

discouraging the incentive to work, to have slowdown the agrarian reform[43] and that financing infrastructure, including for education and health, would have been better[44].

According to an IDEAS policy brief of 2011, "*Evidence shows that even the most 'successful' targeted programmes in Latin America fail to reach a large proportion of the poor. For instance, in Brazil's Bolsa Familia, 59% of the poor were not reached. Similarly, Mexico's geographically targeted PROGRESA/Oportunidades programme did not reach 70% of the poor*"[45]. And other serious arguments are added:

- "*The most immediate threat of direct public provision of some essential goods (like food and fuel) being substituted by cash transfers to consumers, is that of rising prices in these deregulated markets. Rise in prices would render such goods unaffordable for the lower-income segments, i.e. those who need them most*".

- "*The possibility of cash transfers being diverted for expenditure that do not meet the intended purpose is another issue that can pose serious problems… The argument that handing over the cash payments directly to women will solve this problem is not necessarily correct. Especially with respect to food, it has been found (particularly in south Asia) that women and girls are guilty of voluntary self-denial rather than being forced into choices that reduce their own consumption. These problems perhaps explain why poor people in general prefer public provision of the good or service in question at a defined price, when it is of reasonable quality. In fact, several studies show it is the relatively better off who prefer cash, while the poor are more likely to prefer provision in kind.[3] In any case it is better to view cash transfers as complements that will enhance the effectiveness of public provision, rather than as alternatives*".

Finally one should not view the PDS as a rigid institution not opened to structural reforms. For Ashok Gulati himself, "*One of the policy thinking is to reform the existing PDS and improve its functioning given the fact that India lacks the required infrastructure and incentive mechanism to roll out cash transfer programmes… It is difficult to liberalize the grain markets extensively owing to food security concerns and political will be driven by the mandate to provide food for all*"[46].

According to Reika Kheera, "*Tamil Nadu and Andhra Pradesh, belonging to the 'richer' south, have negligible leakages. But others, too, seem to be catching up. Bihar and Chhattisgarh – poorer states with relatively poorly-performing public services – have drastically reduced leakages over the past few years. In Bihar's case, leakages have gone down from almost 65 percent in 2009-10 to close to 15 percent in 2011-12. In Chhattisgarh's case, leakages slumped from 50 percent in 2004-05 to 10 percent in 2009-10*".

As an overall conclusion, all the arguments put forward by the developed countries to deny an approval at the WTO MC9 in Bali of the G33 proposal to change the AoA rules on the administered prices linked to food security stocks of developing countries are totally unfounded. With the example of India, we have shown that its new leadership in rice exports have nothing to do with dumped food security stocks and that the actual deficiencies in the working of the Public Distribution System are amendable and are a second best solution than replacing it by cash transfers in a country where most poor do not have a bank account.

[43] http://www.correiodopovo.com.br/Impresso/?Ano=116&Numero=190&Caderno=0&Noticia=278196
[44] http://www.clicaesperantina.com/a-problematica-do-bolsa-familia.html
[45] http://www.networkideas.org/briefs/dec2011/PDF/03_2011.pdf
[46] http://www.rrojasdatabank.info/WP2013-034.pdf