

CHAPTER 5

PRICES, PRICE POLICY AND THE PUBLIC DISTRIBUTION SYSTEM

Prices came under pressure during 1987-88 largely on account of the set back in agricultural production caused by the drought. The pressure on prices had started building up towards the second half of 1986-87, following the third successive year of poor monsoons. Rainfall deficiency resulted in a shortfall in the production of both food as well as non-food crops during 1986-87. Consequently, the usual seasonal decline in prices during the second half of last year was weak. Furthermore, the worst inflationary effects of a shortfall in crop production in any year usually spill over to the early months of the following financial year, when stocks get depleted. Hence, though the year 1986-87 itself ended with an inflation rate of only 5.3 per cent in terms of Whole-

sale Price Index (WPI), the shortfall in last year's crop production led to the commencement of a strong seasonal price rise from the beginning of the current financial year.

5.2 These pressures got aggravated when the intensity and dimensions of the current drought of 1987-88 became apparent around July. The prices of several essential agricultural or agro-based commodities such as pulses, edible oils etc. started rising sharply. By the end of August, the WPI had recorded an increase of 9.1 per cent as against 6.3 per cent during the corresponding period last year. There was a seasonal decline in prices thereafter, but it could not be sustained because of the shortfall in market arrivals from the kharif harvest.

TABLE 5.1

Price Variation Over the Previous Month
(Percentage change on a Point to Point basis)

	WPI (1970-71=100)*				CPI (1960=100)			
	1979-80	1982-83	1986-87	1987-88	1979-80	1982-83	1986-87	1987-88
April	+2.4	-0.4	+1.3	+1.7	+1.5	+0.4	+0.8	+0.7
May	+1.8	+1.7	+1.8	+1.7	+0.6	+0.7	+1.2	+1.7
June	+2.4	+2.5	+1.1	+1.3	+1.8	+1.7	+1.1	+1.7
July	+4.8	+1.9	+1.3	+1.6	+2.3	+1.7	+1.5	+1.3
August	+3.3	+0.3	+0.7	+2.5	+2.0	+2.1	+0.6	+1.7
September	+0.5	-1.8	+0.3	-1.1	+0.8	+0.2	+0.6	+1.2
October	-0.4	+0.7	+0.4	+0.5	+0.6	+0.4	+1.3	+0.7
November	+0.9	-0.5	-1.9	-0.2	+0.8	+1.0	+1.0	+0.7
December	+1.4	-0.2	+0.2	+1.0	+1.6	+0.2	-0.6	-0.4
January	+1.1	+0.9	-0.1		-0.8	-0.4	No ch	
February	+2.4	+1.0	-0.5		-0.5	+1.0	-0.3	
March	-0.9	+1.0	+0.6		+1.1	+0.4	Noch.	
April—March	+21.4	+7.3	+5.3	+9.8@	+12.3	+9.8	+7.5	+9.6**
	1980-81	1983-84	1987-88		1980-81	1983-84	1987-88	
April	+2.1	+2.3	+1.7		+0.5	+1.2	+0.7	
May	+1.8	+1.3	+1.7		+1.9	+2.6	+1.7	
June	+4.3	+0.8	+1.3		+1.1	+2.3	+1.7	

*Provisional from April, 87 onwards

**April to December

@ Upto 23rd January, 1988

5.3 The Government has taken a number of measures in advance by way of supply and demand management. While these steps have helped to moderate the extent of the price rise, the inflation rate in the current year is substantially higher than in the previous year. During the current financial year, upto 23rd January, 1988 the WPI had gone up by 9.8 per cent as against an increase of 5.4 per cent recorded during the corresponding period last year (Table 5.1). The index more appropriate for capturing the extent of price rise faced by consumers is the Consumer Price Index for Industrial Workers (CPI) which went up by 9.6 per cent during the current financial year upto December, 1987 as against 7.8 per cent upto December, 1986. The annual rate of inflation in terms of CPI in December, 1987 was 9.3 per cent as compared with 9.2 per cent recorded in December, 1986.

5.4 As pointed above, the current inflation is being driven largely by the shortfall in production of some essential agricultural or agro-based commodities. This is very clearly indicated by the movement of prices of different groups of commodities or individual items shown in Table 5.2. In particular, it will be noted that the largest increases in prices have been recorded in seasonal agricultural items such as edible oils, oil-seeds, pulses, condiments & spices, cotton and jute. In the case of manufactured products also, the bulk of the price rise in this group is accounted for by food products of agricultural origin. The prices of other manufactured items, especially the administered prices of items manufactured in the public sector had remained stable through most of the year. There was an increase in some of these prices, particularly coal and steel in the later half of December, 1987, in order to offset increases in costs, including wages.

5.5 While the inflationary effects of a drought as severe as the current one cannot be eliminated altogether, the price situation this year has not been as alarming as in earlier drought years. A comparison with some earlier years of severe drought shows that as against the inflation rate of 9.8 per cent recorded so far this year, upto 23rd January, 1988, the annual inflation rate of WPI, measured on a point to point basis, was 12.4 per cent in 1965-66, 15.5 per cent in 1966-67, 22.7 per cent in 1973-74 and 21.4 per cent in 1979-80.

Measures taken to contain the Price Rise

5.6 The availability of large stocks of rice and wheat, built up over the years to around 23 million tonnes by June, 1987 has, of course, been the single

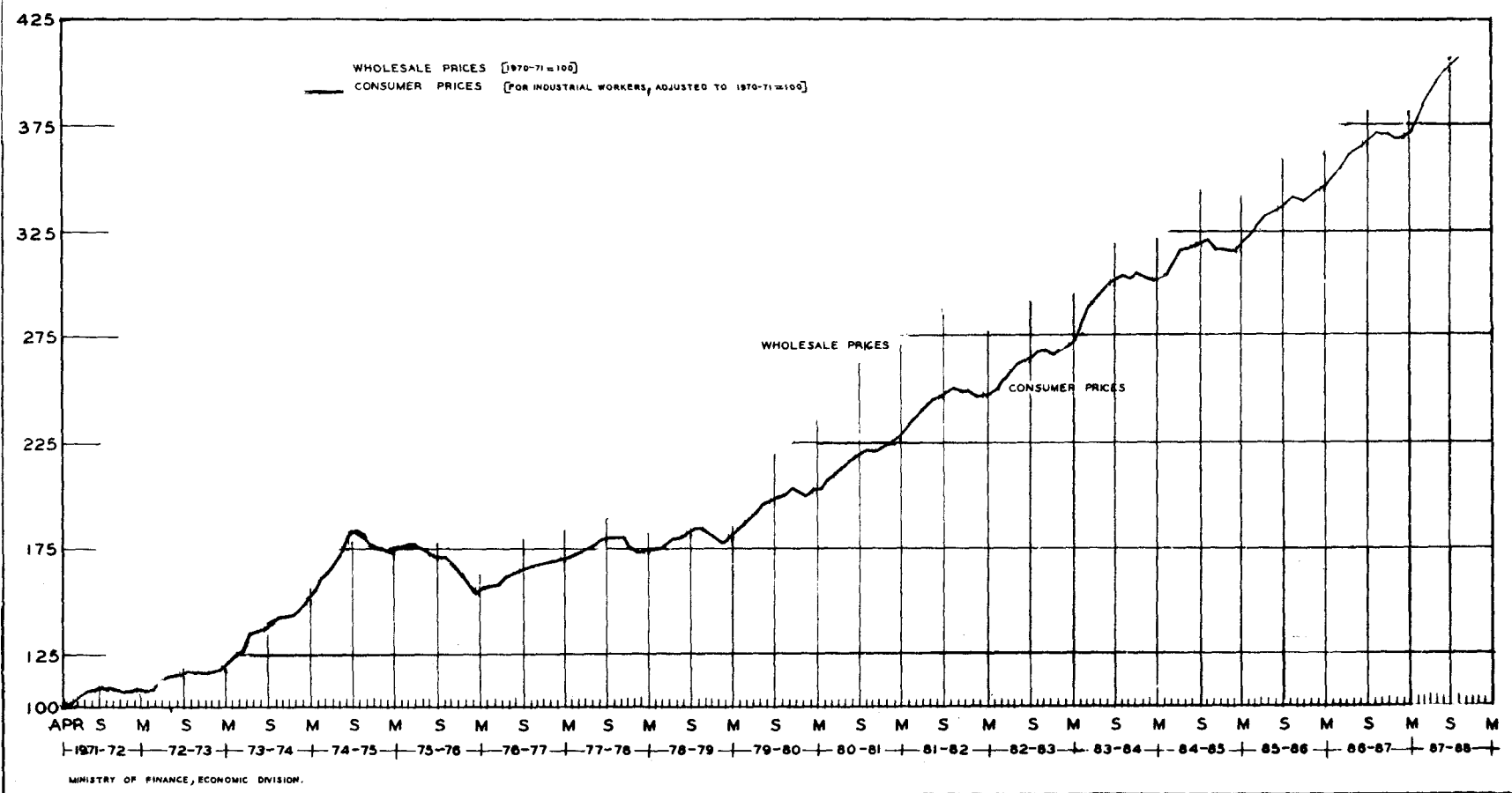
most important instrument of government policy in combating the drought and inflation. These stocks have made it possible to maintain the large scale releases of foodgrains through the Public Distribution System (PDS), the Special Employment Programmes, Relief Programmes and other channels. However, the Government has also taken several other measures in advance across a wide front. These include steps to minimise kharif production losses through the sowing of a second contingency crop, an action plan to maximise rabi production, augmentation of domestic supplies of essential commodities like edible oils and pulses through imports and the strengthening of the PDS. Around 5,600 additional fair price shops have been opened, of which 3,100 outlets including a large number of mobile distribution outlets are located in drought affected states. Efforts in demand management include measures to finance the huge additional expenditure on drought and flood relief largely through cuts in other expenditure and additional resource mobilisation. Increases have also been effected in the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) to curb excess liquidity in the monetary system. Action against hoarders and black marketeers has been intensified. A monitoring mechanism has been put in place, linking district monitoring cells to the Central Control Room in New Delhi via the state level authorities.

5.7 However, it must be borne in mind that the inflationary impact of drought in one year usually spills over to the early months of the following financial year as shown in Table 5.1. Prices will, therefore, continue to remain under pressure until the next kharif season, assuming that the next monsoon will not be deficient. While dealing with this situation in the months ahead, the policy stance will have to take into account the specific sources of the current inflation. While a restraint on monetary expansion is essential to avoid aggravating the price situation, the basic strategy of inflation control will have to rely on the maintenance of adequate supplies of essential commodities.

Price Behaviour in 1986-87

5.8 The overall rate of inflation in terms of WPI was 5.3 per cent during 1986-87 as against 3.8 per cent during 1985-86 and 7.6 per cent during 1984-85. At the retail level the CPI showed some deceleration in the rate of inflation to 7.5 per cent in 1986-87 from 8.9 per cent in 1985-86. However, the fact remains that the inflation rate in terms of CPI both in 1985-86 and 1986-87 was higher than the WPI. Apart from changes in the trade and transport margin, the

INDEX NUMBERS OF PRICES

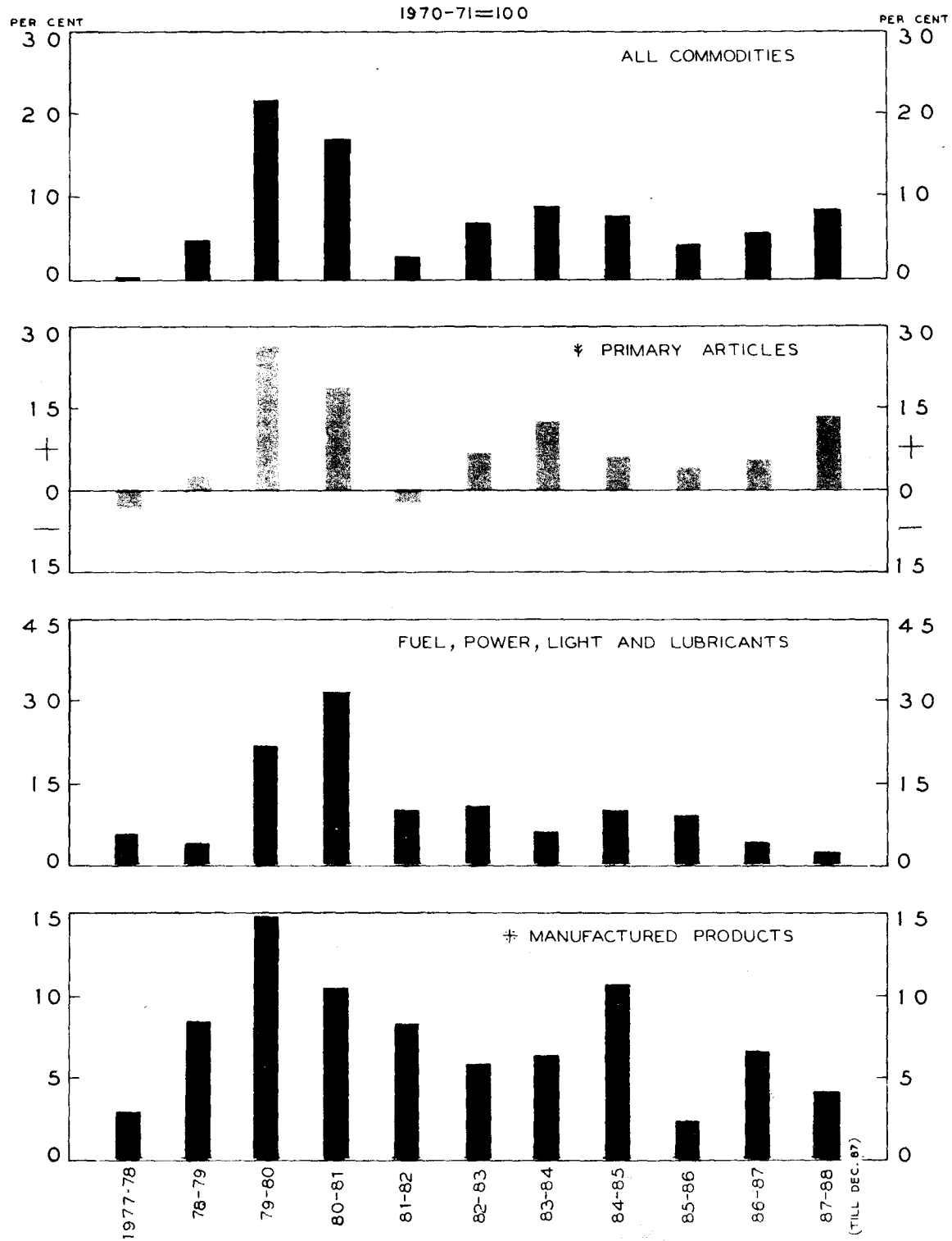


ANNUAL INFLATION RATES

[POINT TO POINT]

WHOLESALE PRICE INDEX

[GROUP WISE]



MINISTRY OF FINANCE, ECONOMIC DIVISION.

‡ INCLUDES SUGAR, KHANDSARI, GUR & EDIBLE OILS
* EXCLUDES " " " " "

TABLE 5.2
Composition of Price Rise Measured in Terms of WPI

	Weight (percent)	1979-80 End March to 26th January		1985-86 End March to 25th January		1986-87 End March to 24th January		1987-88 End March to 23rd January	
		%change	%share	%change	%share	%change	%share	%change	%share
1	2	3	4	5	6	7	8	9	10
ALL COMMODITIES	100.00	19.73	100.00	3.38	100.00	5.43	100.00	9.84	100.00
A. Seasonal Items	52.29	18.09	43.22	3.51	47.94	10.04	85.29	13.90	67.10
Food-Articles	29.80	10.88	14.82	6.15	46.61	5.49	26.90	8.93	24.43
1. Cereals	10.74	16.39	7.42	7.47	16.80	2.08	3.14	14.42	11.46
(i) Rice	5.13	20.90	4.56	1.81	2.15	5.60	4.16	10.96	4.55
(ii) Wheat	3.42	5.47	0.80	8.58	5.35	1.65	0.72	16.39	3.69
(iii) Bajra	0.57	32.98	0.70	30.60	3.35	-11.60	-1.06	21.05	0.85
(iv) Barley	0.23	45.17	0.40	19.07	1.07	-13.40	-0.50	45.68	0.76
2. Pulses	2.18	1.42	0.20	10.02	8.03	-8.28	-4.14	32.61	7.79
(i) Gram	1.04	8.02	0.51	15.53	6.93	-27.04	-7.69	38.05	3.98
(ii) Arhar	0.62	-4.96	-0.19	8.65	1.32	48.09	4.75	35.11	2.73
(iii) Masoor	0.16	-5.80	-0.06	35.90	1.76	4.33	0.16	31.09	0.56
3. Fruits & Vegetables	6.13	15.81	4.07	13.93	22.37	6.91	8.11	-4.25	-2.93
(i) Vegetables	2.48	38.39	2.95	62.03	23.17	-0.56	-0.23	-3.04	-0.61
(a) Potatoes	1.01	42.56	0.72	81.58	6.15	-8.24	-1.07	-3.42	-0.18
(b) Onions	0.19	91.89	0.84	48.74	1.98	-61.17	1.66	-4.98	-0.14
4. Condiments & Spices	1.09	-12.33	-0.55	-15.75	-3.86	-0.81	-0.10	43.35	2.68
(i) Chillies	0.50	-9.39	-0.16	-27.37	-3.18	-33.46	-1.53	95.41	1.68
5. Tea	1.15	23.06	1.42	-11.38	-5.24	23.74	4.99	-5.70	-0.75
Non-Food Articles	10.62	13.83	6.99	-7.79	-21.69	18.47	27.88	27.39	25.01
1. Fibres	3.17	0.00	0.00	-31.20	-25.17	21.23	6.49	32.93	6.70
2. Oilseeds	4.20	24.93	4.23	-0.93	-0.97	35.43	21.26	33.54	13.15
Food Products	13.32	37.12	22.02	6.59	24.14	13.86	32.04	14.03	18.33
1. Sugar, Khandsari & Gur	7.24	54.43	17.50	12.42	26.18	2.11	2.93	11.30	7.73
(i) Sugar	2.19	22.33	2.08	21.84	10.20	1.72	0.60	5.28	0.95
(ii) Gur	4.56	68.99	13.94	10.43	15.78	2.90	2.76	13.51	6.24
2. Edible Oils	3.72	20.14	3.26	-0.13	-0.13	41.05	23.27	17.81	7.22
(i) Groundnut Oil	1.42	23.95	1.37	4.20	1.58	34.33	7.88	21.84	3.49
(ii) Mustard Oil	0.67	23.33	0.72	3.64	0.50	58.47	4.90	34.20	2.17
3. Oilcakes	0.91	21.71	0.94	-12.02	-3.03	32.93	4.30	29.92	2.71
B. Administered Items	15.66	31.49	33.89	3.73	28.03	-3.04	-14.42	7.27	17.67
1. Petroleum Crude & Natural Gas	0.60	120.29	16.10	0.00	0.00	-38.96	-21.01	0.00	0.00
2. Petroleum Products	4.91	19.99	7.36	0.08	0.21	0.08	0.13	2.65	2.18
3. Coal Mining	1.15	54.80	3.58	13.16	8.20	-0.03	-0.01	16.29	3.61
4. Electricity	2.40	6.51	0.90	21.21	18.61	7.98	5.22	6.71	2.55
5. Fertilisers	1.25	2.06	0.11	0.00	0.00	-0.03	-0.01	-0.14	-0.01
6. Iron, Steel & Ferro Alloys	3.47	19.33	2.96	0.75	1.19	0.72	0.69	15.29	7.77
7. Non-Ferrous Metals & Alloys	1.18	20.83	1.47	3.92	1.55	2.40	0.58	9.33	1.32
8. Cement	0.70	10.11	0.40	-5.73	-1.72	-0.06	-0.01	2.93	0.26
Manufactured Products	49.87	19.71	49.87	3.36	47.31	6.89	60.10	8.61	41.83

* Includes Food Articles, Non-Food Articles, Sugar, Khandsari & Gur, Edible Oils and Oilcakes.

difference in the movement of the WPI and CPI are largely explained by differences in the weighting diagrams used to construct the two indices. The WPI is constructed to reflect the average price movement of all commodities including inputs, basic goods and capital goods which are excluded from the CPI. On the other hand the WPI does not capture the movement in prices of non-tangible services like housing, transport, health and education which are reflected in the CPI.

5.9 The group-wise analysis of the WPI shows that the increase upto the end of August, 1986 was recorded by the seasonal items such as the sugar group, the oilseeds and oil group and fruits and vegetables. The prices of cereals remained relatively stable, such as rice prices increased by 6.7 per cent while the prices of pulses registered a marked fall. The price index for Fuel, Power, Light and Lubricants registered only a marginal increase. Upto the end of September, 1986 the prices of fibres remained stable but recorded a sharp contra-seasonal increase in subsequent months. Similarly, there was also a contra-seasonal increase in the prices of edible oils and oil-seeds. Though weak, the seasonal decline in prices helped to bring down the annual rate of inflation during the year to 5.3 per cent by end-March, 1987. The rate of inflation based on CPI, which was 8.9 per cent in 1985-86, came down to 7.5 per cent by March, 1987. The prices of administered items as a group remained fairly stable, while the index of petroleum group actually registered a fall because of the decline in POL prices in the international market. There was some increase in the index of electricity prices following the revision in electricity rates by the State Electricity Boards.

Price Behaviour in 1987-88

5.10 The seasonal rise in prices continued upto the end of August, 1987 when the index recorded an increase of 9.1 per cent over end-March, 1987. This was followed by a decline during the month of September but the declining trend was not sustained and an upward trend resumed thereafter. By 23rd January, 1988 the WPI had registered an increase of 9.8 per cent. The CPI recorded an increase of 10.1 per cent upto November but declined to 9.6 per cent by December 1987. The annual rate of inflation on a point to point basis was 9.3 per cent compared to 9.2 per cent in the corresponding period of last year.

5.11 The index for cereals as a group registered an increase of nearly 14 per cent upto 23rd January, 1988. There was a hardening of wheat prices because

of the damage caused by unseasonal rains during March and April. Thereafter wheat prices tended to stabilise. However, of late, wheat prices have again shown an upward trend. To check this upward tendency in cereals prices, the Government has been releasing stocks at the rate of about 1.5 million tonnes per month through various channels. Such releases are expected to continue over the next few months.

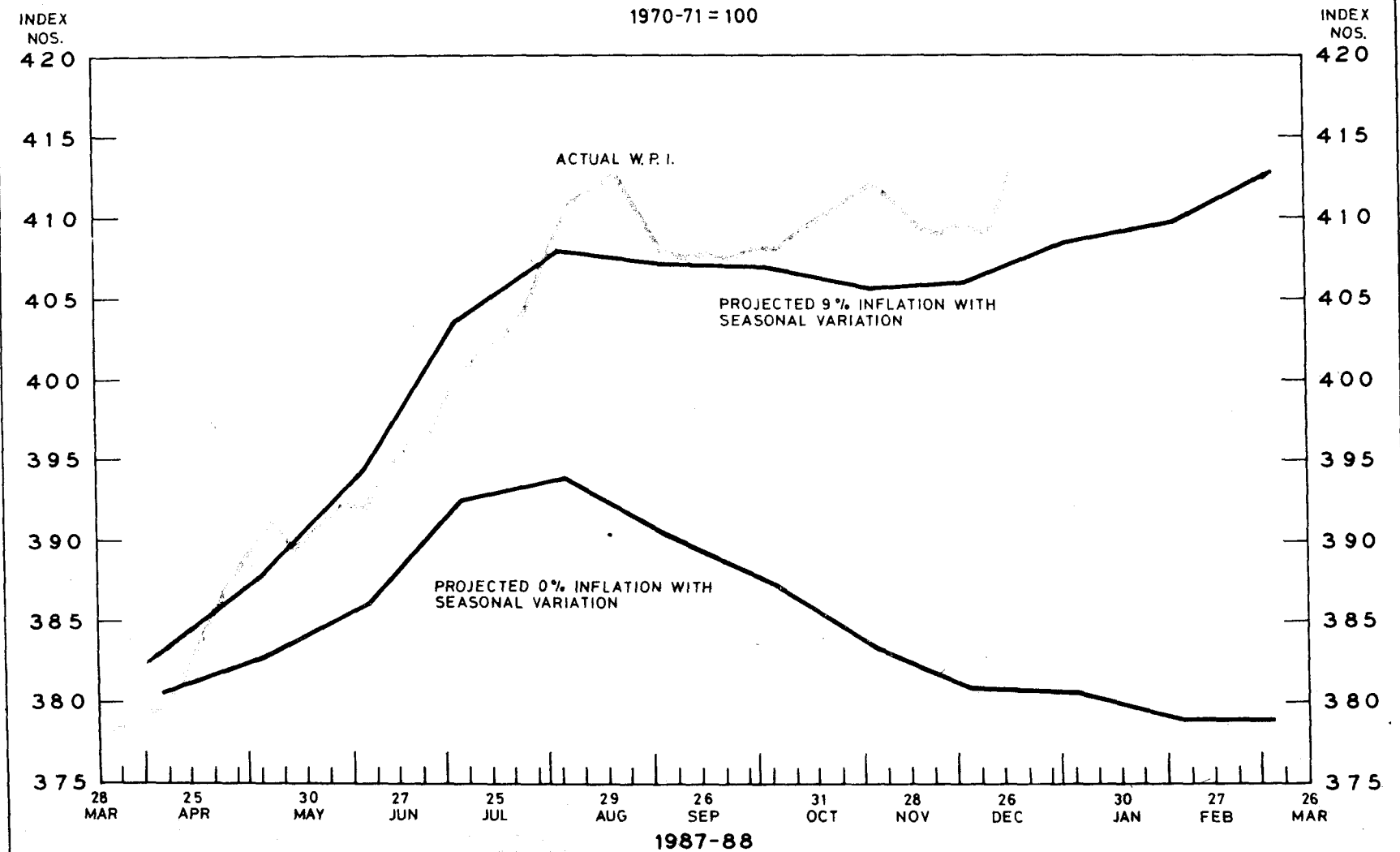
5.12 In so far as pulses are concerned, with their stagnant production and increasing domestic demand, there is a growing demand-supply gap even in normal years. This year the problem has been aggravated by a severe shortfall in production. Consequently, the price index for pulses has gone up by 32.6 per cent during the current year upto December against a decline of 11.4 per cent last year. It was, therefore, decided to import pulses on government account in addition to imports under OGL. The price index for fruits and vegetables registered an increase of 11.3 per cent upto end of August, 1987 but stabilised thereafter. The prices of potatoes and onions have come down considerably.

5.13 The prices of milk and milk products and condiments and spices have also recorded sharp increases. While prices of the former have gone up by 12 per cent upto end-December, 1987 those of the latter have gone up by 42 per cent up to end-December, 1987. The increase in prices of milk and milk products is understandable since the drought has created an acute shortage of fodder resulting in lower production of milk. In order to meet the shortage about ten thousand tonnes of skimmed milk powder and ten thousand tonnes of butter oil are being imported. With these imports and the commencement of the flush season in November, 1987 the milk supply position has improved. Supply constraints in respect of important spices like red pepper, turmeric, garlic and ginger have also pushed up the index of condiments and spices quite considerably.

5.14 The increase in edible oil prices this year has come on top of a very large increase recorded in 1986-87. As in the previous year the group oilseeds, edible oils and oil cakes has again turned out to be the most important source of inflation. It accounts for 23.0 per cent of the total increase in prices during the current financial year upto 23rd January, 1988. The release of imported edible oils for PDS as also to the vanaspati industry is being maintained at a high level and imports have been stepped up to support these enhanced releases.

SEASONAL MOVEMENT OF WHOLESALE PRICE INDEX

1970-71 = 100

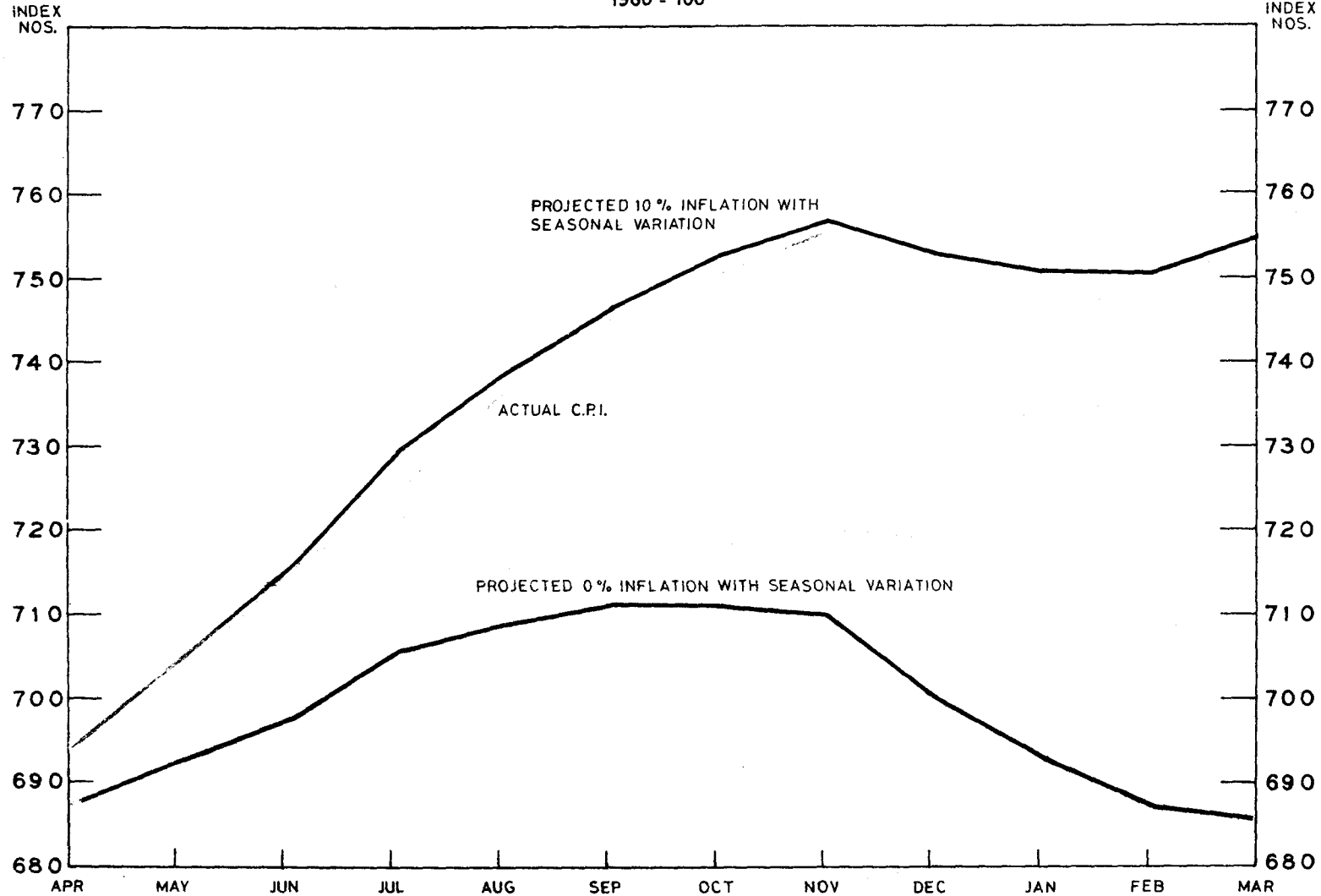


MINISTRY OF FINANCE, ECONOMIC DIVISION.

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SEASONAL MOVEMENT OF CONSUMER PRICE INDEX

1960 = 100



MINISTRY OF FINANCE, ECONOMIC DIVISION.

1987-88

5.15 Among manufactured non-food products the price index for the textiles group has recorded a rise of 7.2 per cent upto 23rd January, 1988. This has been on account of the continuous increase in prices of important fibres. Raw cotton prices have gone up by nearly 38 per cent because of a sharp decline in production in the previous year.

5.16 Even though prices of the sugar group as a whole have remained relatively stable during the current year, gur prices have been quite volatile and not easily amenable to control. The price index for gur recorded a sharp rise of 33.5 per cent upto end-August, 1987 but declined appreciably thereafter. During 1986-87 season sugar production reached a record level of over 85 lakh tonnes. This year also despite drought conditions the sugar production has been maintained at a high level.

Outlook

5.17 The price situation has been a cause of concern in 1987-88 and it will have to be carefully monitored in 1988-89. As pointed out above, this high inflation rate during 1987-88 is mainly attributable to supply shortages and inflationary psychology generated by the unprecedented drought. It has been

emphasised in earlier Surveys also that the demand supply balance for many critical items in the Indian economy is fragile and disturbances like the drought can have a strong adverse impact on prices of these items. This proneness to price instability in respect of particular commodities and other long term constraints, such as the relatively low growth in production of certain items like pulses and oilseeds, have added to the complexity of price management.

Price policy framework and developments

Agricultural Prices

5.18 Agricultural price policy continued to be guided by the need for providing remunerative prices to farmers, procuring sufficient quantities of rice and wheat for running the public distribution system plus bufferstocking and promoting a desirable inter-crop balance. Under this policy, on the recommendations of the Commission for Agricultural Costs and Prices (CACP), the Government has been making upward revisions in the support/procurement prices of major agricultural commodities taking into account costs and other factors. The revisions made during the marketing years 1982-83 to 1988-89 are given in Table 5.3.

TABLE 5.3
Minimum Support/Procurement Prices of Agricultural Commodities

Commodity		(Rs. per quintal)						
		Marketing year*						
		1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1. Wheat	(Procurement Price)	142	151	152	157	162	166	173
2. Paddy (Common Variety)	-do-	122	132	137	142	146	150**	
3. Coarse grains	-do-	118	124	130	130	132	135	
4. Barley	(Minimum support price)	..	122	124	130	132	135	135
5. Gram	-do-	..	235	240	..	260	280	290
6. Arhar	-do-	215	245	275	300	320	325	
7. Moong	-do-	240	250	275	300	320	325	
8. Urad	-do-	230	245	275	300	320	325	
9. Mustard	-do-	..	355	360	385	400	415	430
10. Groundnut	-do-	295	315	340	350	370	390	
11. Sunflower seed	-do-	250	275	325	335	350	390	
12. Soyabean (Black variety)	-do-	220	230	240	250	255	260£	
13. Cotton (Kapas 320F/J-34 variety)	-do-	380	400†	410†	425†	430†	440†	
(Kapas Hybrid-4)	-do-	..	527	535	535	540	550	
14. Sugarcane	(Statutory minimum price)	13.00	13.50	14.00	16.50	17.00	18.50	19.00
15. Jute (W-5 Grade Ex-Assam)	-do-	175	185	195	215	225	240	
16. VFS Tobacco (F2) (Black soil)	-do-	875	..	1115	1115	1115	1125	

* Marketing year (April—March) for wheat, gram, barley and mustard (July—June) for Jute, (September—August) for cotton and (October—September) for paddy and other kharif crops.

** Rs. 154 per quintal for fine variety and Rs.158 per quintal for superfine variety.

.. Not announced.

£ Rs.300 per quintal for yellow variety.

† F-414/H-777 variety.

5.19 *Foodgrains* : On the recommendation of the CACP, the Government announced an increase of Rs. 4 per quintal in procurement price of Paddy for 1987-88. The procurement prices of all varieties of paddy in the common group of fair average quality have been raised from Rs. 146 per quintal during 1986-87 to Rs. 150 per quintal for 1987-88. The price for fine variety of paddy has been fixed at Rs. 154 per quintal and for super fine variety at Rs. 158 per quintal for 1987-88. The procurement price of wheat has been raised by Rs. 7 for 1988-89 to the level of Rs. 173 per quintal.

5.20 The procurement price of coarse grains viz., jowar, bajra, maize and ragi for fair average quality has been raised by Rs. 3 per quintal to Rs. 135 per quintal for 1987-88. The minimum support price for barley has been raised by Rs. 3 per quintal to Rs. 135 per quintal for 1987-88. For 1988-89, the price remains the same. In case of gram, the minimum support price has been raised by Rs. 10 to Rs. 290 per quintal for 1988-89. The minimum support prices for kharif pulses (Arhar, Moong and Urad) were raised by Rs. 5 per quintal to Rs. 325 per quintal for 1987-88.

5.21 *Oilseeds* : In case of kharif oilseeds the price of groundnuts (in shell) has been stepped up by Rs. 20 to Rs. 390 per quintal for 1987-88 and that of Soyabean (yellow variety) by Rs. 10 to Rs. 300 per quintal. The increase in case of Soyabean (black variety) is only Rs. 5 a quintal, pegging the new price at Rs. 260 a quintal. As a measure to facilitate expansion of sunflower cultivation, its minimum support price has been enhanced by Rs. 40 per quintal to Rs. 390 per quintal for 1987-88. For mustard, the minimum support price has been raised by Rs. 15 per quintal to Rs. 430 per quintal for the 1988-89 marketing season. For Safflower the minimum support price has been fixed at Rs. 415 per quintal for 1988-89. It is the same as for the last season. For toria, the price has been raised by Rs. 25 to Rs. 400 per quintal for 1988-89.

5.22 *Sugarcane* : For sugarcane, the statutory minimum price was earlier fixed in November 1986 at Rs. 18 per quintal for the marketing season 1987-88. However, in view of drought and floods in many parts of the country, the Government decided in December 1987, to revise the price to Rs. 18.50 per quintal, linked to a recovery of 8.5 per cent for the marketing season 1987-88. The statutory minimum price of sugarcane for the 1988-89 marketing season has also been announced. It is Rs. 19 per quintal linked to a recovery of 8.5 per cent.

5.23 *Fibres* : The minimum support price for the fair average quality of cotton (F-414/H-777) for 1987-88 season has been raised by Rs. 10 per quintal to Rs. 440 per quintal. For the long staple variety Hybrid-4 the price has been fixed at Rs. 550 per quintal for the 1987-88 season. The statutory minimum price of raw jute (W-5 grade Ex-Assam) has been raised by Rs. 15 per quintal to Rs. 240 per quintal for the 1987-88 season.

5.24 *Tobacco* : The minimum support prices in respect of Farm Grade Flue-Cured virginia tobacco for black soil and for light soil for 1987-88 season have been raised from Rs. 1,115 and Rs. 1,200 per quintal to Rs. 1,125 and Rs. 1,220 per quintal respectively.

Administered Prices

Industrial Prices

5.25 *Coal* : With effect from December 23, 1987, the weighted average price of coal charged by Coal India Limited was increased to Rs. 219 per tonne (15 per cent) from the weighted average realisation of Rs. 190 per tonne. This increase allowed after a gap of nearly two years since the last revision has been necessitated by increases in wages granted to coal workers and cost of other inputs since then. The increase has been permitted following an in-depth study of production costs in the coal industry undertaken by the Bureau of Industrial Costs and Prices (BICP).

5.26 *Iron and Steel* : Pig iron and steel prices were revised upwards by the Joint Plant Committee (JPC) by 15.6 per cent on an average with effect from December 24, 1987. The price rise was necessitated by a sharp increase in prices of a number of raw materials used by the Steel Industry and the hike in railway freight. This increase again has been allowed after a gap of nearly three years since the last revision.

5.27 *Petrol* : The price of motor spirit (petrol) was raised by one rupee per litre with effect from January 9, 1988. Including local taxes, the revised retail price of petrol is Rs. 8.50 per litre in Delhi, Rs. 9.14 in Bombay, Rs. 8.70 in Calcutta and Rs. 8.98 in Madras. The earlier retail prices were Rs. 7.43 per litre in Delhi, Rs. 7.99 per litre in Bombay, Rs. 7.60 per litre in Calcutta and Rs. 7.84 per litre in Madras respectively. No increase has been effected in the price of diesel, kerosene and domestic cooking gas.

5.28 *Drugs* : The Government announced the new Drug Price Control Order (DPCO) on August 27, 1987. Under the DPCO, every company has to make a specific application for a revision in prices on

the basis of a changed maximum allowable post-manufacturing expense (MAPE) in respect of controlled drugs. The number of price controlled bulk drugs has been reduced from 347 to 166 under the new DPCO. The new order replaces the 1979 DPCO. The new order lists for price control 27 bulk drugs which are required for the National Health Programme.

5.29 The new DPCO has two categories of formulations and bulk drugs in place of the present three categories for the purposes of price control. Category-I consists of drugs required for the National Health Programme and Category-II, consists of drugs other than those in category-I but which are also considered essential for health needs. The new DPCO has a MAPE of 75 per cent for drugs in category-I and 100 per cent for those in category-II. The new DPCO aims at a system of price control which would on the one hand encourage production by ensuring a reasonable return to the producers of essential drugs and on the other hand, ensure that there is no undue increase in prices. Under the new Order, the prices are expected to increase by 10-20 per cent. According to the new DPCO, while fixing the prices of bulk drugs, the Government will take into consideration a post tax return of 14 per cent on net worth or a return of 22 per cent on capital employed or, in respect of new plants, an internal rate of return of 12 per cent based on long term marginal costing.

5.30 *Molasses and Alcohol* : The new molasses and alcohol policy was announced on September 7, 1987 and became effective from October 1, 1987. The revised policy viz. the Molasses Control Order and Ethyl Alcohol (Price Control) have a bearing on the earnings of the sugar mills and on the use of sugarcane in the production of Sugar, Gur and kandsari. The main features are : (a) increase in the prices of sugar molasses and kandsari molasses raising them to Rs. 120 per tonne and to Rs. 180 per tonne respectively; (b) Central excise duty on molasses has also been raised from Rs. 30 to Rs. 60 per tonne. A full rebate, however, is being given for identified alcohol based chemical units depending on indigenous alcohol in order to minimise the impact of the price hike in molasses.

5.31 *Aluminium* : In view of the rise in input costs, the ex-factory average sale price of aluminium was revised by the Government with effect from January 19, 1988 from Rs. 23,928 per tonne to Rs. 25,309 per tonne, registering an increase of 5.8 per cent. The earlier revision was effected on 1st March, 1987. The prices are exclusive of excise duty.

Public Distribution System

5.32 The Public Distribution System (PDS) built up over a number of years, along with buffer stock operations in foodgrains, has emerged as the principal instrument of Government policy in mitigating the effect of drought and containing inflation this year. The system was put to severe test because of the scale of operations required this year and it is a matter of satisfaction that the system has effectively served the role assigned to it by reaching essential commodities to all parts of the country, particularly to areas severely affected by drought.

5.33 The basic objective of the Public Distribution System is to ensure that the essential articles of daily use are made available at reasonable prices to the public, particularly the vulnerable sections of the society. This form of market intervention helps to check the rise in open market prices while at the same time helping to maintain minimum standard of consumption by providing essential commodities at affordable prices which are fixed. The public agencies of the Central and State Governments are required to arrange for procurement, stocking, transportation and distribution of various essential commodities through the authorised outlets.

5.34 Under this system (PDS), the Central Government has assumed responsibility for procurement and supply of seven essential commodities to States/Union Territories. These seven commodities are (i) wheat, (ii) rice, (iii) levy sugar, (iv) imported edible oils, (v) soft coke, (vi) kerosene oil and (vii) controlled cloth. The State Governments are free to include other commodities for distribution. They can themselves make arrangements for procurement and distribution of these commodities with a view to making more commodities of mass consumption available to the consumers. The Central Government has issued detailed guidelines to ensure effective monitoring and operation of the system.

5.35 Some of the State Governments like West Bengal, Orissa, Tamil Nadu, Himachal Pradesh etc. have included pulses and also some manufactured items like matches, torch cells etc. to supply to consumers through selected PD outlets of their respective areas. The responsibility of the State/Union Territories is to make the required arrangements for transportation, stocking, distribution, inspection and monitoring of these commodities at the State/Local level.

5.36 During the current year the PDS was further strengthened. About 5,600 additional fair price shops (FPS) have been opened between April and December 1987. More than 3,100 shops of these have

been opened in drought affected areas. In addition, a large number of mobile vans have been operating as distribution outlets in the drought affected areas. The total number of FPS in the country at the end of December 1987 was about 3.43 lakhs.

Foodgrains Operations

5.37 The procurement of foodgrains this year was lower compared to last year because of drought and untimely rains during the harvesting period in 1987-88. As may be seen from Table 5.4, the procurement of rice was 4.7 million tonnes during April—December 1987 compared to 6.4 million tonnes during April—December, 1986. Similarly, the procurement of wheat has been 7.9 million tonnes during April—December, 1987 compared with 10.5 million tonnes during April—December, 1986.

TABLE 5.4
Procurement, Public Distribution and Stocks of Foodgrains*
('000 tonnes)

	1985-86	1986-87		1987-88
		Full year	Upto Dec. '86	Upto Dec. '87
A. Procurement				
Rice	9,654	9,471	6,430	4,745
Wheat	10,347	10,536	10,529	7,854
Total Foodgrains	20,134	20,026	16,976	12,671
B. Public Distribution				
Rice	7,435	9,060	6,797	7,402
Wheat	10,210	7,416	4,867	6,066
Total Foodgrains	17,819	16,706	11,874	13,535
C. Stocks**				
Rice	10,356	10,043	9,448	6,483
Wheat	10,301	9,440	14,135	7,569
Total Foodgrains	20,859	19,533	23,630	14,143

*Provisional. **End-period basis.

5.38 The demand for foodgrains from the PDS has increased significantly during the current year because of the drought. Requests for additional allocations of rice, wheat, sugar and edible oils were received from several States. Availability and distribution have been carefully planned and monitored. The Government has made additional special allocation of 4.9 lakh tonnes of rice for PDS to States during

August/October 1987. Also additional quantities of rice and wheat have been allocated for drought/calamities relief operations in Madhya Pradesh, Gujarat, Rajasthan, Jammu and Kashmir and Himachal Pradesh.

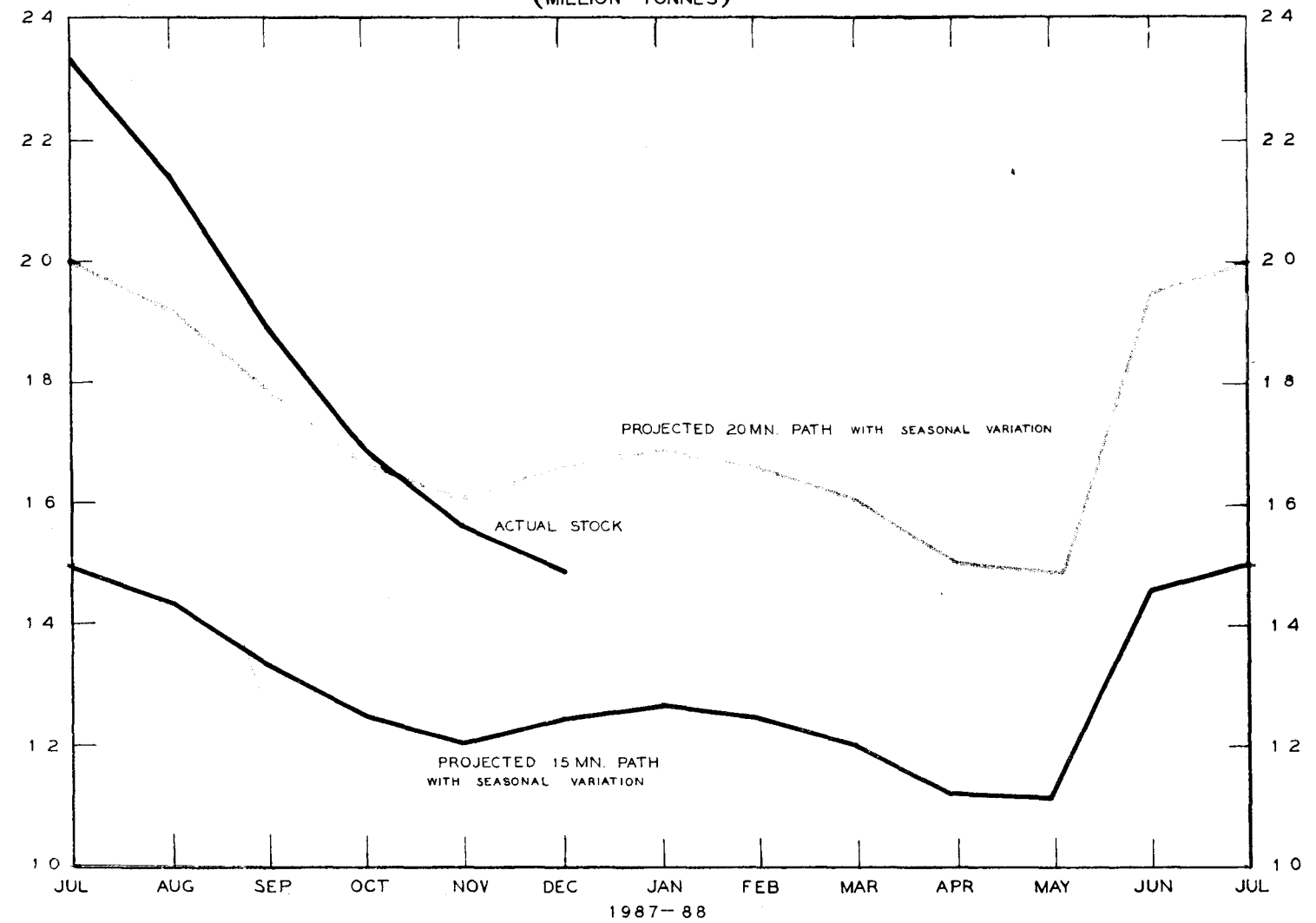
5.39 The central issue price of wheat for the PDS was increased from Rs. 190 per quintal to Rs. 195 per quintal with effect from 1st May 1987. For supply to the roller flour mills, the issue price was raised to Rs. 210 per quintal from Rs. 205 per quintal. The issue price of wheat for distribution in the Integrated Tribal Development Programme areas was raised by Rs. 5 per quintal to Rs. 130 per quintal from May 1, 1987. The issue price of common variety of rice sold through the PDS remained unchanged at Rs. 239 per quintal. For fine and superfine varieties, however, the issue prices were raised by Rs. 13 per quintal with effect from October 1, 1987. The revised rates were Rs. 264 per quintal for fine variety and Rs. 279 per quintal for superfine variety. The issue price of rice for distribution in the integrated tribal development programme areas for common variety of rice also remained unchanged at Rs. 160 per quintal. For the fine and superfine varieties, the issue prices were raised by Rs. 13 per quintal with effect from October 1, 1987. The new prices are Rs. 183 per quintal for fine variety and Rs. 198 per quintal for superfine variety.

5.40 Flour milling industry has been delicensed since July 1986. The Government is not under any obligation to supply wheat to the roller flour mills. However, in order to ensure availability of wheat and wheat products at reasonable prices, the Food Corporation of India (FCI) sells wheat under open sales to mills and traders at the rate of Rs. 210 per quintal. Under the scheme of open sales, the FCI sells wheat to the mills at the stipulated rate of Rs. 210 per quintal in important consuming cities for upto 75 per cent of their assessed capacity, keeping in view the trend in the prices of wheat and wheat products in the region. During the period January 1987 to September 1987, 28.9 lakh tonnes of wheat has been sold under open sales to mills/traders. The FCI has also decided to conduct auctions of wheat to improve the availability of wheat especially to roller flour mills and to contain grain prices in the market.

5.41 Total distribution of foodgrains, including distribution under National Rural Employment Programme, (NREP), Rural Landless Employment Guarantee Programme (RLEGP) and relief operations, has been higher at 13.5 million tonnes during April—December 1987 compared with 11.9 million tonnes during April—

TOTAL STOCKS OF FOODGRAINS WITH THE PUBLIC AGENCIES

(MILLION TONNES)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MEND-868/1/F/87-88

December, 1986. The distribution during 1987-88 has been higher in the case of both rice and wheat.

5.42 Taking advantage of the high stocks of foodgrains built up in the last few years the Government has followed a policy of releasing adequate foodgrains in the market to ensure availability and restrain the impact of drought on prices. Stocks at 14.1 million tonnes of foodgrains held at the end of December 1987, comprising 6.5 million tonnes of rice and 7.6 million tonnes of wheat, are adequate to meet the requirements of the PDS and other programmes (Table 5.4). The Government also proposes to continue open market sales in areas affected by drought to maintain adequate availability.

5.43 The building up and maintenance of buffer stocks has been an important plank of national food policy. According to a decision taken by the Government in March, 1984, the size of the buffer stock to be maintained by the public agencies in the country should be 10 million tonnes, comprising 5 million tonnes of wheat and 5 million tonnes of rice. This buffer stock would be over and above the operational stocks which on different dates of the year would range between the lowest figure of 6.5 million tonnes on the 1st April and the highest figure of 11.4 million tonnes on the 1st July of the year. This buffer stocking policy has stood the test of time and has been instrumental in ensuring national food security in the country during the period of severe drought in the current year.

TABLE 5.5
Monthly Pattern of Offtake of Major Items of Distribution by the Public Distribution System

Month	Rice (Offtake)*		Wheat (Offtake)*		Edible Oil@ (Allocation)		Sugar** (Releases)	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
April	603	682	451	428	48.9	58.8	713	752
May	620	670	453	516	56.7	59.9	763	762
June	666	746	465	677	65.5	65.0	763	762
July	798	893	555	582	70.0	70.4	763	762
August	861	910	654	784	94.6	126.4	763	762
September	884	933	792	798	101.9	158.8	813	857
October	873	850	522	666	119.9	186.0	813	857
November	717	871	413	776	81.9	189.4	763	782
December	775	847	563	839	57.6	188.9	738	782
January	752		573		55.9	149.1	713	822
February	695		695		55.9	100.6	742	782
March	816		1281		58.8		752	
Total	9060	7402 (6797)	7416	6066 (4867)	867.6	1353.3 (808.9)	9099	8682 (8347)

* Provisional.

** Total of levy and free sale sugar.

@ Including small packs.

Note :—Figures in brackets give total for the corresponding months of 1986-87.

Sugar Operations

5.44 Sugar production during 1986-87 (sugar year) increased to 85.04 lakh tonnes which is a record high. Total imports during 1986-87 (sugar year) are estimated to be 9.53 lakh tonnes compared with 16.26 lakh tonnes during 1985-86 (sugar year). The releases of sugar (both levy and free sale) amounted to 90.99 lakh tonnes during the financial year 1986-87 as against 85.46 lakh tonnes during 1985-86.

5.45 During the current financial year upto February, 1988 (Table 5.5) the releases added up to 86.82 lakh tonnes compared with 83.47 lakh tonnes during the same period in the financial year 1986-87. The monthly levy quotas of sugar, which are allotted on uniform norms, were revised to 3.32 lakh tonnes per month from February 1987 onwards compared with 3.13 lakh tonnes maintained since October, 1983. This is based on the per capita availability of 425

grams for the projected population as on 1-10-1986. Consequent to the increase of statutory minimum price (SMP) of sugarcane from Rs. 17 per quintal for 1986-87 to Rs. 18.50 per quintal for 1987-88, the issue price of sugar has been increased from Rs. 4.85 per kg. to Rs. 5.10 per kg. with effect from first January, 1988. The ratio of levy to free sale sugar, however, remains unchanged at 50 : 50 during the sugar year 1987-88.

Edible Oil Operations

5.46 The allocation of imported edible oils to State Governments for public distribution is made by the Central Government on a monthly basis, taking into account the demand and supply position. As the prices of edible oils have been ruling quite high during the current financial year, the supply of imported edible oils for PDS was kept at a high level throughout the year (Table 5.5). In order to narrow the gap between issue prices of imported oils and the minimum support price-equivalent of indigenous oils, the issue prices of imported edible oils for PDS were increased from Rs. 9,000 per tonne to Rs. 11,000 per tonne for supply in bulk with effect from December 23, 1987.

5.47 For vanaspati industry the allocation of imported edible oils was also kept at a high level during this period. On 26th August 1987 the Government and the vanaspati industry agreed on a voluntary price control on vanaspati resulting in an immediate reduction of about Rs. 2 per kg. for the consumer. An additional allocation of imported oils, for upto 15 per cent of requirement, was also made at the commercial rate of Rs. 18,000 per tonne. This was in addition to the normal allocation of imported edible oils being supplied at the rate of Rs. 15,000 per tonne upto 70 per cent of requirement. From December 1, 1987, the allocation of imported edible oils at commercial rates has been reduced from 15 per cent to 10 per cent requirement. It is necessary to carefully regulate supply of imported oils to vanaspati industry in order to ensure that maximum support is provided to the growth of minor oils in the country. While in the lean season the allocations at the concessional price can be liberal, these need to be reduced in the peak season when market arrivals are high. The Government has provided substantial fiscal incentives for use of oils, such as rice bran oil, in vanaspati. It is a matter of satisfaction that production of these oils has increased sharply in the last two years. This process needs to be strengthened further.