

## Economic cost of foodgrains to FCI

5.56 The economic cost of foodgrains to FCI is of strategic importance, as it influences not only the food subsidy bill but also the country's competitiveness in international markets for foodgrains. The FCI is reimbursed the difference between the economic cost of foodgrains and the issue price. The economic cost of foodgrains to FCI has been on the rise over the years (Table 5.21). The increase in the MSPs of rice and wheat, high State-level levies, which account for almost 50 percent of the procurement incidentals for foodgrains, and the rising trend in distribution costs have contributed to the increase in the economic costs of foodgrains over the years.

5.57 Fixing the MSP at a level equal to C2 cost (all cost in cash and kind, including the imputed cost of family labour) of the least cost

State would help in containing the rising trend in economic cost of foodgrains. The major procurement States- Punjab, Haryana and Andhra Pradesh - have been imposing State taxes and levies of over 10 per cent ad valorem on the procurement of foodgrains, thereby inflating the economic cost. There is scope for rationalisation of these State levies. More decentralised procurement will help in containing the increase in the distribution and hence economic costs.

5.58 The 2004-05 (BE) projects a reduction in economic cost of wheat from Rs 952.51 per quintal in 2003-04 to Rs 924.82 per quintal and a marginal increase in the economic cost of rice from Rs 1,253.04 per quintal in 2003-04 to 1,262.51 per quintal in view of decline in distribution cost of both wheat and rice in 2004-05.

**Table 5.21 : Economic cost of rice and wheat**

*(Rupees per quintal)*

Year	1999-00	2000-01	2001-02	2002-03	2003-04(P)	2004-05(P)
<b>Rice</b>						
Procurement incidentals	56.1	69.89	66.8	61.7	74.9	76.4
Distribution Cost	187.5	189.94	119.6	157.7	207.5	192.9
Economic Cost \$	1074.8	1137.07	1098.0	1165.0	1253.0	1262.5
<b>Wheat</b>						
Procurement incidentals	117.1	128.20	134.7	137.6	156.3	156.8
Distribution Cost	202.0	166.15	126.7	145.5	174.5	140.3
Economic Cost	887.5	883.78	852.9	884.0	952.5	924.8
<b>\$ Weighted average of common and grade-A rice taken together.</b>						