

**GOVERNMENT'S DECISION TO ENGAGE SPOT EXCHANGES FOR OPEN MARKET SALE
WELCOME: FICCI
ALLOW SMALL BUYERS TO PARTICIPATE IN AUCTION PROCESS FOR
EFFECTIVE PRICE REDUCTION AT RETAIL LEVEL**

New Delhi, March 15, 2010: ***"FCI's announcement to sell wheat under the open market scheme (OMS) using electronic platform provided by spot exchanges is a welcome move and highlights government's continuous efforts to contain the food inflation pressure"***, said Dr. Amit Mitra, Secretary General, FICCI.

"FICCI would however suggest two amendments to this move. First, is to extend this process to the whole country. Second, is to extend participation in the auction process to even small purchasers of 10 MT or even smaller lots of 1 MT", he added.

"For effective price reduction at the retail level, it is important that there be a very large number of buyers spread across the country. This will bring more transparency in the process and curtail any oligopolistic tendencies", observed Dr. Mitra.

"Bringing in smaller players directly into the sale process is all the more important as recent reports show that the open market grain sale to bulk consumers has not got a good response. Even the state governments, which are responsible to lift foodgrain and sell it through their shops to the consumers, have been found wanting in their task", said Dr. Mitra.

"The existing tendering process is time consuming. Connecting with the buyers through the electronic channel will expedite the sale and release of foodgrains. However, the efficacy of this move can be enhanced if FCI allows even small buyers to participate in the auction process. Currently, only bulk purchasers can participate in the auction process for foodgrains. FCI must fully leverage the advantages offered by electronic platforms and open the sale process for participation to even small buyers", observed Dr. Mitra.

FCI is scheduled to commence the first electronic auction of wheat through the National Spot Exchange from March 16, 2010. At this stage this is a pilot project launched in a few locations in the country. However, under this scheme only bulk consumers (Roller Flour Mills) are entitled to participate as the minimum purchase lot is as large as 100 MT.

FICCI believes that to make a real impact on the prices of foodgrains, FCI should extend the electronic auction and delivery facilities to other parts of the country. FCI should offer wheat at a pre-determined price backed by delivery at all these locations. Spot exchanges can provide storage and delivery facilities to FCI.

More importantly, FCI should consider offering wheat in smaller lots which may be 10 MT or even 1 MT. This will enable even the small buyers to participate in the auction process and purchase foodgrains directly from FCI. A move over to auction through smaller lots will not result in any incremental work for FCI. Rather, by increasing the size of the buyer pool, this will help in offloading wheat to a larger number of players directly and hence bring in greater efficiency in the marketing process.

In India, the market share of branded wheat flour is not more than 15%. In rural areas and in smaller towns and cities, inhabitants still believe in buying wheat from market and getting it processed themselves in local '*atta chakki*' / flour mills. Hence, the discounted pricing for bulk buyers (Roller Flour Mills) will have an impact largely in the urban centres and large cities. By offering wheat in smaller lots at large number of outlets through electronic spot exchanges across the country the government can better address the critical issue of food inflation. This will reduce cost of intermediation, ensure transparent pricing and make wheat available to the masses at a lower rate.

Data shows that of the 2.081 million tonnes of wheat allocated for bulk buyers for the period October 2009 to March 2010, only 1.174 million tonnes (about 56%) have been contracted for sale. In case of state governments, of the 2.07 million tonnes allocated only 372,593 tonnes (about 18%) has been sold.

Media Division