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India

Agricultural Situation

The Indian Budget - Agricultural Highlights

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Report Highlights:

On July 8, the GOI revealed its budget for Indian Fiscal Year 2004/05. The budget, adhering to the UPA's populist and rural election-mandate, offered no new market openings. Rather, it imposed an additional surcharge on all taxes, including customs duties, and focused on the financial health of the agricultural sector and poverty alleviation.

Includes PSD Changes: No
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The Indian Budget - Agricultural Highlights

On July 8, Finance Minister Chidambaram presented the new government's budget for Indian Fiscal Year (IFY) 2004/05 (Apr-Mar). Taking the Common Minimum Program (CMP) of the United Progressive Alliance (UPA) coalition government as the guiding light, the Budget puts increased emphasis on agricultural and rural development, poverty alleviation, employment, education, and health.

There is nothing in the Budget for additional market access for agricultural products. On the contrary, the Finance Minister has proposed a 2 percent education cess (special surcharge) on all direct and indirect taxes, including customs duties, which would result in higher tariff rates for most agricultural and other products (except for those where the current effective rate is at the WTO bound rate and for some specific notified items).

The Focus is on Agriculture and Agro-processing ...

Boosting agricultural growth through crop diversification and development of agro-processing industry is one of the objectives of the CMP. The Budget therefore proposes:

- Doubling the flow of agricultural credit by public and private sector banks in three years
- Increasing the budgetary allocation for the Accelerated Irrigation Benefit Program (for increasing irrigation coverage) and the Rural Infrastructure Development Fund. Increased emphasis is on restoring water bodies, water harvesting, and flood control.
- Setting up a National Horticultural Mission to double horticultural production from the current level of 150 million tons to 300 million tons by 2011-12.
- Providing risk mitigation to farmers through crop insurance.
- Helping farmers diversify into oilseeds by promoting superior seed-technology and an effective price support operation.
- Exempting new agro-processing industries that process, preserve, and package fruits and vegetables from 100 percent of income tax for 5 years, and from 25 percent for the following five years.
- Reducing the excise duty on meat preparations, poultry, and fish from 16 percent to 8 percent.

... and on Poverty and Unemployment

The Budget aims to empower the poor with universal access to education and health, and by facilitating their full participation in the growth process through gainful employment.

Therefore the GOI proposes:

- Expanding the *Antyodaya Anna Yojana* (a government scheme for the distribution of wheat and rice to the poorest-of-the-poor families at highly subsidized rates) from the current 15 million families to 20 million families.
- Strengthening and expanding the existing Public Distribution System.
- Introducing a new food-for-work program in 150 districts.

- Implementing a pilot Food Stamp Program.

Agricultural Market Access Further Curtailed

While reiterating the government's commitment to align India's tariff structure with those of ASEAN countries, the Budget does precious little to achieve this objective. On the contrary, market access has been further restricted with the introduction of a 2 percent education cess (surcharge) on all direct and indirect taxes, including custom duties, which would result in higher tariff rates for most agricultural and other products (except for those where the current effective rate is at the WTO bound rate and for some specific notified items).

To encourage value addition in India, the import duty on refined palm oil was increased to 75 percent from the current 70 percent, while maintaining the import duty on crude palm oil at 65 percent.

On the excise duty front, the Budget proposed lowering the excise duty on branded and packed preparations of meat, poultry, and fish from 16 percent to 8 percent; fully exempting tractors and dairy machinery; and raising the excise duty on cakes and pastries from 8 percent to 16 percent. Ice cream and non-alcoholic beverages that are prepared and dispensed by vending machines are already exempt from excise duty; this exemption has now been extended to malted food drinks and chocolate drinks dispensed through vending machines.

The Finance Minister's Budget Speech and various Budget documents are available at <http://indiabudget.nic.in/ub2004-05/ubmain.htm>. The pre-Budget Economic Survey, which contains useful information on the performance of the Indian Economy in IFY 2003/04, is available at <http://indiabudget.nic.in/es2003-04/esmain.htm>