

Food and the farmer

The global food crisis is threatening to slow down growth worldwide

Much as the United States President George W. Bush and the US secretary of state Condoleezza Rice would like to believe that 'apparent improvement' in the diets of people in India and China is among the causes of the current global food crisis, the food crisis is the result of other factors as well, not the least important among them being the diversion of food for bio-fuels. Sometimes the metaphors are colourful. Mariann Fischer Boel, commissioner for agriculture and rural development of the European Union, joined the chorus, "Those who see bio-fuels as the driving force behind recent food price increases have overlooked not just one elephant standing right in front of them, but two. The first is the huge increase in demand from emerging countries like China and India. These countries are eating more meat."

Irrespective of how much more meat Indians and Chinese are eating, the fact remains that there is a global food crisis that is having a real impact in at least 36 countries, 21 of which are in Africa. The impact of food shortages has a devastating impact on the lives of the people. There have been wide-spread protests and riots in several countries spread across the five continents, sparked by the non-availability and incessant increase in staple food prices.

North Korea has seen a near 300 per cent rise in rice, from the level of 700-900 won per kg in April 2007 to 2,000 won per kg currently. Maize prices have also doubled. And it's not just in North Korea. All countries have, in varying magnitude, witnessed a steep price increase over the last couple of years. In China, the inflation, sparked off primarily by food, is hovering at a 12 year high of 8.5 per cent. Food prices have gone up by a fifth and pork by two-thirds of the prevailing prices a year ago. In the US, the inflation has touched 3.2, while in the EU it is 3.6.



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"Based on a rough analysis, we estimate that doubling of food prices over the last three years could potentially push 100 million people in low-income countries deeper into poverty," pointed out World Bank president Robert B. Zoellick at the International Monetary Fund-World Bank meetings in Washington recently. The food crisis, like the sub-prime crisis, is not something which has surfaced out of the blue. The pressure had been building up for quite some time. Low levels of food, bad harvests following climatic changes, rising prices of crude, which topped \$125 a barrel, and diversion of corn for bio-fuels, which in turn led to wheat being diverted to animal feeds – the causative factors of the shortage are well known. It is only now that the repercussions are surfacing and being felt.

At a meeting in Madrid, Haruhiko Kuroda, president, Asian Development Bank, said that, "This price surge has a stark human dimension and has greatly affected over a billion people in Asia and the Pacific alone." The problems confronting the food crisis are not insurmountable. One or two good crop seasons in the major exporting countries could douse the runaway inflationary trends; but till such time, the restricted supply has led to a sharp upswing in the prices and unleashed inflationary pressures across the globe.

According to the IMF's *International Financial Statistics*, global consumer price inflation is now running at an annual pace of nearly 5.5 per cent, compared with less than 4 per cent in recent years. This, as also the other contributory factors like the rise in oil prices and the sub-prime issue, is likely to impact global growth. According to the IMF's *World Economic Outlook*, released in the second week of May, global output growth will slow by a full percentage point in 2008 – to about 3.3 per cent – and remain at that pace in 2009.

Indian problem

The food problem in India is linked to global factors. India had a bumper wheat crop in the *rabi* season (winter sowing), leading to food grain

production in the country in 2007-08 reaching a record 227 million tonnes. Speaking at the conference of state ministers for agriculture and agricultural marketing, agriculture minister Sharad Pawar hoped that given a normal monsoon as forecast by the Meteorological Department, the production of food grains would see a further rise in the coming *kharif* season (monsoon sowing).

The Centre for Monitoring Indian Economy (CMIE) has projected a 2.3 per cent growth in the agricultural crop production for 2008-09. While this is the lowest growth in recent years, this will be the fourth consecutive year to register an increase in crop production.

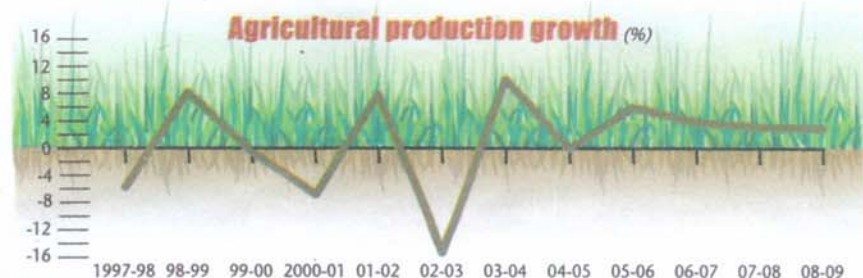
Till the first week of May, Central government agencies have reportedly mopped up close to 18 million tonnes of wheat from the various states including Punjab, Haryana, Rajasthan and Uttar Pradesh. This exceeds its target of 15 million tonnes, representing a fifth of the total estimated production of 76.8 million tonnes this season. The quantum of wheat purchased this season is twice the quan-

tity procured last season during this period and, going by the mood of the government, the total procurement may stop only at 30 million tonnes.

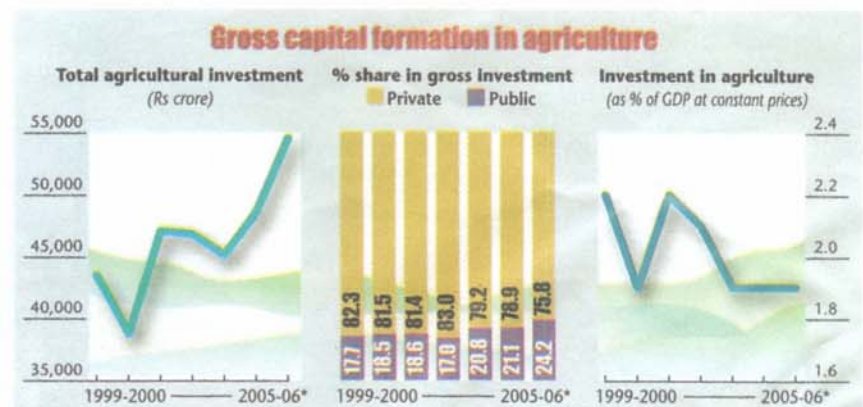
Unlike the global shortages, supplies in India are adequate for meeting its own requirements. The hike in the minimum support price (the price at which the government agencies undertake to buy the grains from the farmers in the open market) of wheat ahead of the *rabi* season in 2007 to Rs1,000 per quintal (100 kg), had induced farmers to switch to wheat crops in the *rabi* season of 2007.

The production of rice is also expected to be marginally higher at 95 million tonnes during 2008-09, according to CMIE estimates. CMIE expects cultivators to shift to rice and wheat during this year, following the steep decline in the prices of sugar cane.

"The Indian market is largely insulated and there is no immediate problem on the supply side," says C. Prabhu, associate director & head, strategic advisory, food & agribusiness, Rabo India Finance Ltd. Even on the global front Rabo Bank predicts a



Source: CMIE. 2007-08- estimate, 2008-09- forecast



*Quick estimates. Source: CSO

record production of 640 million tonnes this year, representing a 6 per cent year-on-year increase. Higher wheat planting in Australia and the EU is expected to exert a downward reduction in wheat prices, both in the spot as also the futures market. Most experts are predicting a sharp correction starting from the June quarter itself.

Prabhu feels that the global problems are temporary, both on the rice and wheat front, and points out that less than 6 per cent of rice production is globally traded. However India, like other major producing countries such as Vietnam, Egypt and Cambodia, have taken a series of preemptive measures to curb inflationary pressures, which in a way were mirroring the global runaway rise in prices. On 1 April, it banned the exports of non-basmati rice, increased the minimum export price of basmati rice to \$1,200 per tonne, extended the ban on pulses for a further period of one year till

April 2009 and reduced custom duties on maize and crude edible oil to zero per cent. In 2006-07, it had banned trading in futures of rice, wheat and lentils. This was extended to other commodities like rubber, soyabean oil, chick peas and potatoes in May 2008, following the weekly rise in inflation to 7.6 per cent, the highest in 42 months.

Rice production

India produces around 94-95 million tonnes of rice and is the second largest rice producer after China, which contributes around 130 million tonnes. It exports 4-5 million tonnes of rice of a total global export market of 30 million tonnes. The ban on rice exports by various countries saw prices go up to \$1,000 per tonne from the prevailing rates of \$350-400 per tonne at the beginning of the year. Thailand, which is the largest rice exporter (50 per cent of its total production of 18 million tonnes), was the biggest beneficiary.

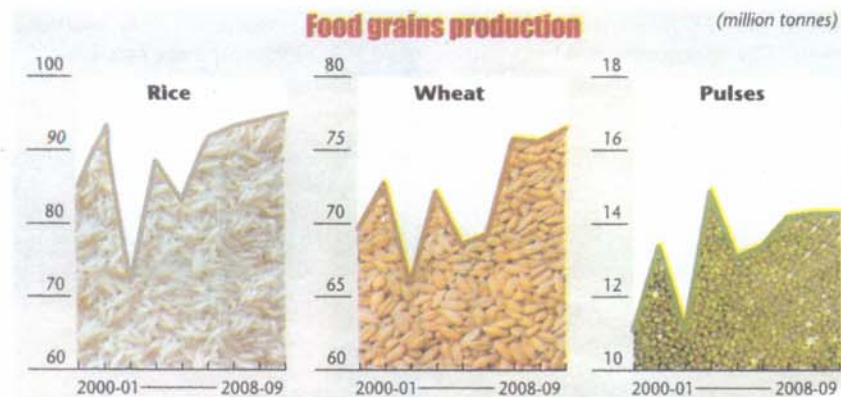
The measures announced have yet to impact prices in the local markets, but have drawn flak from various quarters. "Farmers are not getting adequately compensated," says Pankaj Kapoor, the new managing director at Harrison Malayalam. Kapoor feels that cost inputs have been rising over the last couple of years and trying to control the output price, without considering the input costs, may not work. "Inflation is inevitable when global supplies are low and food-grain crop is diverted for bio-fuels," he says. Like several others, he too feels that the current crisis has been brought about for want of adequate investments flowing in the agriculture sector over the last several decades.

Woong investments

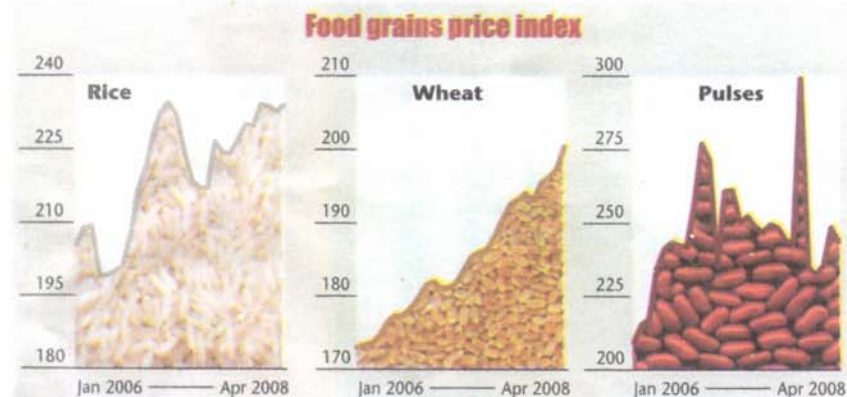
If agriculture growth is struggling to reach the targeted growth rate of 4 per cent a major reason is the lack of fresh investment in this crucial sector. Investment in agriculture, as a percentage of GDP, has been flat for the last three years at less than 2 per cent (see charts on page 57). In the 10th Plan (2002-07) period, irrigated land was not increased. "In the entire previous plan, the net addition to irrigated area was zero," laments N.A. Mujumdar, editor, *Indian Journal of Agricultural Economics*.

India has around 168 million hectares of arable land, of which more than 125 million hectares is used for crops. Of the land used for crops, over 30 per cent is irrigated, but this irrigated land accounts for half the crops output, clearly showing the benefits of irrigation.

Mujumdar's other concern is that the government has done nothing about watershed management, a key factor to increase agriculture productivity. "Governments prefer large-scale irrigation projects since these are politically remunerative; but they care little for watershed management, which have more long-run benefits for farmers," he adds. Indian agriculture suffers not just from limited land area, but also from low productivity. For instance, India's average rice yield is 2.9 tonnes per hectare, while it is 6.3 tonnes per hectare for China and 6.8 tonnes per hectare for South



Source: CMIE. 2007-08: estimate, 2008-09: forecast



2006-2007: Month-end prices average. 2008: Weekly prices at the month's end.
Source: Central Government