

# Wheat Crisis in India

July 12, 2022

## **Manifest Pedagogy:**

From an all-time high last year, procurement of wheat is set to hit a 15-year low this season, falling below existing stocks for the first time. Factors like the Russia- Ukraine crisis, warmer weather, and higher fertilizer prices are responsible for it. The government has a challenging role to contain inflation and at the same time ensure food security for the vulnerable and poorer sections of the society.

**In news:** The government lowered its wheat output forecast for the crop year ending in June, 2022.

**Placing it in the syllabus:** Agriculture and Economy.

## **Static Dimensions:**

- About Wheat crop

## **Current Dimensions:**

- Background of the Issue
- Why has wheat production dwindled?
- What is the government procurement?
- How will this impact the public distribution of grain?
- Possible solutions to overcome the problem

## **Content:**

### **Background of the Issue-**

- The government lowered its wheat production estimates by **5.7% to 105 million tonnes (MT) from the projected 111.32 MT** for the crop year ending June.
- Till May 4, wheat procurement in the ongoing winter (rabi) marketing season too had seen a drop, with the Centre procuring 17.5 MT of wheat, which is likely to

touch 19.5 MT when the season ends.

- In the last marketing year, the government had purchased 43.3 MT of wheat from farmers, and this year it had set a target of 44.4 MT.
- The announcement came around the same time as a report by the World Food Programme, which said the “unfolding war in Ukraine” was likely to “exacerbate the already severe 2022 acute food insecurity forecasts” in countries.
- India suspended the export of wheat effective 13 May 2022.
- The Directorate General of Foreign Trade (DGFT) issued a notification justifying the ban stating that soaring global wheat prices have put pressure on food security, not only in India, but also in neighbouring and vulnerable nations.

### **Why has wheat production dwindled?**

- **Russia- Ukraine Crisis**– India is the second-largest producer of wheat in the world, with China being the top producer and Russia the third-largest . Ukraine is the world’s eighth-largest producer of wheat. (India’s top export markets are Bangladesh, Nepal and Sri Lanka and United Arab Emirates (UAE)).
- **Unprecedented heat waves** across the north, west and central parts of the country, and March and April being the hottest in over 100 years, have caused substantial loss to the yield at 6%, with 20% of the wheat grain shriveling up.
  - The production is expected to fall on account of unusually warm weather conditions that persisted during March to April in most parts of the key grain-producing States of Punjab, Haryana, Madhya Pradesh as well as Uttar Pradesh.
  - For instance, according to crop cutting experiments, conducted by the Punjab Agriculture

Department every year, the State's yield per hectare could have fallen 5-10% compared to last year's yield.

- **Lower output coupled with strong export demand** then pushed local prices higher, often above the government's fixed procurement price.
  - That prompted farmers to sell wheat privately instead of to the state, whose purchases to run welfare schemes slumped due to tight supplies.
- **Fertilizer prices have more than trebled** since the Russia-Ukraine war broke out. It will likely lead to lower sowing of wheat across the world and thus, the tight supply situation may continue into 2023.
- **Other Factors**
  - Poor Planning and forecasting of crop harvest every year.
  - Flawed MSP policy leading to **Cob-Web** phenomenon.
  - Lack of integrated markets across the country. Many States have not yet joined e-NAM .
  - Lack of scientific storage of grains as every year tons of grains get wasted due to rotting because of poor storage. I
  - Limited cold storage, food processing avenues for the crops.

### **Impact on government procurement-**

- This year the government's wheat purchase has seen a dip owing to several reasons from lower yield to higher market prices being offered by private traders.
- A large quantity of wheat was being bought by traders at a higher rate than the minimum support price (MSP).
  - Private traders have been prompted to buy more wheat from farmers as the price of wheat at the international level has shot up and is expected to

rise due to the ongoing conflict between Russia and Ukraine.

- In Madhya Pradesh, Uttar Pradesh, Rajasthan and Gujarat, farmers are selling to traders-exporters at prices (₹21-24 per kg), which is better than the MSP (rate of ₹20.15 per kg).
- Farmers are holding on to some quantity of wheat, expecting higher prices for their produce in the near future.

### **How will this impact the public distribution of grain?**

- Wheat procurement is undertaken by the state-owned Food Corporation of India (FCI) and other agencies at MSP to meet the requirements under the Public Distribution System (PDS) and other welfare schemes such as the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) introduced during the pandemic.
- The government has revised the grain allocation under PMGKAY for May to September 2022.
  - According to the new guidelines, the FCI will fill the gap left by wheat with an increased allocation of rice. An additional 5.5 MT rice is being allocated to the States to fill the gap in supplying wheat grain.

### **Impact**

- As government wheat procurement has dipped, concerns are being raised about the stability of prices in the country and the availability of grain for internal consumption, which many agri-experts argue should be a priority.
- Wheat, along with rice, is the most important Indian diet staple. The price spiral upwards will affect very adversely the poor and the marginal wheat consumers.
- If a couple of big business enterprises decide to swoop in on the Indian wheat market and corner huge quantities

of wheat for export, it will upset the food security of India, and domestic wheat prices will skyrocket.

### Possible solutions to overcome the problem-

- **Crop estimates**– There has to be a robust and reliable system to get timely estimates of the crop.
- **FASAL soft**– Resetting the National Crop Forecasting system including “FASAL soft”.
- **Technology**– Use of Drone-Artificial Intelligence-Blockchain technologies to prepare a correct estimate of the crop well in time, for the government to plan and act ahead of any crisis.
- **MSP-** Enforce a flexible MSP policy. In some of the most important wheat-producing states like Punjab, Madhya Pradesh, Uttar Pradesh, Rajasthan and Gujarat farmers are selling wheat to traders at the minimum support price of Rs 21-24 per kg while New Delhi offers only Rs 20.15 per kg.
  - New Delhi must quickly act to revise the MSP upwards to plug the sale of wheat to private manipulators.
- **Open market sale**-The wheat buffer stock must be released under the Open Market Sale Scheme to control the domestic wheat price.
- **Reporting of price** (not just the APMC price data) of all large (limits can be defined) transactions are a must. Price movement is an important indicator of the supply-demand mismatch.
- **Private Stocks**-The government should be aware of the quantum of private stocks, preferably in anonymised, aggregated formats.
- **Legal backing**– A provision to mandate the submission of anonymised stock data from all warehouses should be put in place.

### About Wheat crop-

- The wheat in India is largely a soft/medium hard, medium protein, white bread wheat, almost similar to U.S. hard white wheat.
- Wheat is a major cereal crop in India and is grown mainly in central and western India is typically hard, with high protein and high gluten content.
- It is a Rabi Crop sown in October-December and harvested during April-June.
- Temperature required: Between  $23\pm 3^{\circ}\text{C}$  and for good tillering temperature should range between  $16-20^{\circ}\text{C}$ .
- Better variety of wheat is produced in areas having cool, moist weather during the major portion of the growing period followed by dry, warm weather to enable the grain to ripen properly.
- Rainfall: 50 cm to 100 cm.
- Soil Type: Soils with a clay loam or loam texture, good structure and moderate water holding capacity are ideal for wheat cultivation.
- Wheat producing states in India: Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Rajasthan, Bihar and Gujarat.

### **Way Forward-**

- The futures market remains grossly under-utilized. A vibrant futures market can help plan better. A futures market should be allowed to function without knee-jerk interventions from the government.
- A robust system (drones, satellites, ground data) to monitor weather conditions like temperature, moisture stress, etc needs to be put in place immediately with a focus on key crops and major growing regions.
- It is important to strictly ensure that the market price for the domestic consumer is not determined by the private player.

### **Mould your thought:**

1. The government's wheat procurement has dipped, concerns

are being raised about the stability of prices in the country and the availability of grain for internal consumption. Discuss the factors responsible and possible solutions to overcome the problem. (250 words)

**Approach to the answer-**

- Background of issue and reduction in government procurement
- Causes of the problem
- What possible solutions can be adopted
- Wayforward and conclusion