

FARMERS ARE AT THEIR WITS' END

Relevant for: Indian Economy | Topic: Issues of Buffer stocks and Food Security

The [COVID-19 pandemic](#) has led to global concerns on the state of agriculture and food security. On the one hand, the Food and Agriculture Organization (FAO) has warned of a “food crisis” if countries do not protect vulnerable people from hunger and malnourishment. On the other, farmers face a stalemate as they are unable to work on their land, earn remunerative prices and gain access to markets. We can try to understand the impact of COVID-19 on agriculture with three questions. One, does the world have enough food to feed its people? Two, is food available at affordable prices? Three, how are farmers coping with the lockdown?

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According to the FAO, as on April 2, 2020, the total stock of cereals in the world was about 861 million tonnes. This translates to a stocks-to-use ratio (SUR) — i.e., proportion of consumption available as stocks — of 30.7%. The FAO considers this “comfortable”. The SURs for wheat, rice and coarse grains were 35.3%, 35.1% and 26.9%, respectively. But world stocks are different from national stocks. About 52% of the global wheat stocks is held by China, and about 20% of the global rice stocks is held by India. If the major holders of global stocks decide to turn precautionary and stop exporting, and if the lockdown is prolonged, countries dependent on rice imports will suffer.

Kazakhstan, a major wheat exporter, has banned exports. Russia, the largest wheat exporter, is expected to restrict its exports. Vietnam, the third largest rice exporter, has stopped its exports, which will reduce the global rice exports by 15%. If India and Thailand too ban exports, world supply of rice will sharply fall. In March 2020, the Philippines and the European Union, major rice importers, had inventories of rice enough to feed their populations for about three months. Others, however, had inventories to hold on for about one month only. If the lockdown continues beyond a month, these countries will face food shortages.

India’s foodgrain output is projected to be about 292 MMT in 2019-20. On March 1, 2020, the total stock of wheat and rice with the Food Corporation of India (FCI) was 77.5 MT. The buffer norms for foodgrain stocks — i.e., operational stock plus strategic reserves — is 21.04 MT. Similarly, for pulses, India had a stock of 2.25 MT in mid-March 2020. In both cases, the rabi harvest is slated to arrive in April 2020, and the situation is expected to ease further.

There is always an element of uncertainty on how prices will behave if both demand and supply fall together. Prices in different markets fluctuate considerably given differences in the extent of production, stocks, arrivals and supply disruptions. According to the FAO, the world food price index fell by 4.3% and world cereal price index fell by 1.9% between February and March 2020 due to the weakening demand for food and the sharp fall in maize prices owing to poor demand for biofuels. However, retail prices of rice and wheat have been rising in the Western economies in March 2020. The major reasons identified are panic buying by households, export restrictions by countries and continuing supply chain disruptions. Retail prices of beef and eggs have also been rising.

In India, wholesale and consumer price indices (WPI and CPI) for March 2020 have not been published yet. WPI and CPI for food in India were rising from mid-2019 onwards, reflecting a rise in vegetable prices, especially onion prices. January and February 2020 saw a moderate fall in

these indices, but vegetable prices have remained high. If food prices rise due to the lockdown, it will be on top of an already rising price curve.

However, unlike in the West, food prices in India have not risen after the lockdown. While supplies have declined, demand has fallen too. In the APMC mandi in Mumbai's Vashi, if about 600 to 700 trucks arrived per day before the lockdown, only about 200 trucks arrive per day after the lockdown. Yet, wholesale prices of foodgrains and vegetables in the mandi have been stable, with only the prices of pulses showing a tendency to rise. This is because there has been a sharp fall in the consumption of foodgrains and vegetables. Similarly, the consumption of milk has fallen by 10-12%.

Harvesting and marketing of crops are in crisis across India, because of (a) disruptions in the procurement of foodgrains by government agencies; (b) disruptions in the collection of harvests from the farms by traders; (c) shortage of workers to harvest the rabi crops; (d) shortage of truck drivers; (e) blockades in the transport of commodities; (f) limited operations of APMC mandis; and (g) shutdowns in the retail markets.

Second, these supply bottlenecks have led to a fall in farmgate prices. According to media reports, tomato growers in Maharashtra were receiving only 2 per kg. Wheat prices in Madhya Pradesh fell from 2200/Q to about 1,600/Q. In Punjab, vegetable prices fell from 15/kg to 1/kg. In Delhi, the price of broiler chicken fell from 55/kg in January to 24/kg in March. In Tamil Nadu, egg prices fell from 4/egg in January to 1.95/egg in March.

Third, the large-scale return of migrant workers to their homes has disrupted harvest operations, and farmers are being forced to leave the crop in the fields. While mechanical harvesters can be used, there is a shortage of drivers/operators. Most rice mills work with migrant workers, and their return home has meant that these mills are not buying paddy from farmers. There are also severe labour shortages in milk processing plants, cold storage units and warehouses.

Fourth, supply chains remain disrupted across India. Agricultural goods have been notified as essential goods. But about 5,00,000 trucks are reportedly stranded in the highways and State borders. Milk trucks are able to unload at the destination but unable to return empty, which has upset supply schedules. Trucks are in shortage as drivers have gone home. Imports of vegetable oils are not being lifted from ports due to shortage of trucks. Most APMC mandis are functioning only twice or thrice a week. Livestock feeds are in short supply, and this is breaking the back of livestock growers.

The world and India have adequate food stocks. But as global trade shrinks and supply disruptions persist, a prolonged lockdown will adversely affect food security in many countries. In the Western world, food prices are rising due to panic buying and stockpiling. Food prices are not yet rising in India. What has kept Indian food prices low is the severe decline in food consumption, especially among the poor, after the lockdown. That is, hunger may keep the food inflation in March 2020 low. Concurrently, farmers face acute labour shortages, falling farmgate prices and lack of access to input/output markets. It is unclear who is benefiting, but farmers, workers and the poor are at their wits' end.

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