

EXPLAINED

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

Not enough: According to new guidelines, the gap left by wheat will be filled with an increased allocation of rice. | Photo Credit: PTI

The story so far: On May 4, 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. 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. 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 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. After five straight years of a bumper wheat output, India has had to revise downwards its estimated production. Unprecedented heatwaves 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 shrivelling up.

Some estimates have pegged the shrivelling as high as 80% of the crop purchased by the government. 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.

Food Secretary Sudhanshu Pandey attributed the lower estimates to “early summer” affecting the crop yields in States, especially Punjab, Haryana and Uttar Pradesh.

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).

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Also, farmers are holding on to some quantity of wheat, expecting higher prices for their produce in the near future. Mr. Pandey admitted that the substantially low procurement was due to market prices of wheat being higher than the MSP being offered by the government. He gave two other reasons for the low procurement: stocks being held by farmers and traders in anticipation of further price rises, and lower production.

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. Mr. Pandey said rice procurement last year was about 60 MT and this year a similar quantity is expected. Under the National Food Security Act (NFSA), he said the annual requirement is roughly about 35 MT. Pointing out that from next year, fortified rice will be distributed to the entire Public Distribution System (PDS), he said with surplus rice stocks, the country is in a comfortable situation.

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. An agriculture domain expert and a former member of the Uttar Pradesh Planning Commission, Sudhir Panwar, points out that the government has to ensure that the market price for the domestic consumer is not determined by private players — “this can happen if one or two big business houses are buying chunk of the wheat crop.” The key question, according to Mr. Panwar, is in a scenario where private traders start dictating the price in the domestic market, will the buffer stock be used under the Open Market Sale Scheme to control the market price or will it be used for the NFSA and other welfare schemes.

The government has dismissed concerns about both prices and stocks, asserting that India is in a comfortable situation with the overall availability of grains and stocks expected to be higher than the minimum requirement for the next one year. Mr. Pandey stated that after meeting the requirement of welfare schemes in the year ahead, on April 1, 2023, India would have stocks of 8 MT of wheat, well above the minimum requirement of 7.5 MT.

Farmers will certainly benefit from the scenario as they are being offered a price above the MSP. Amid the Russia-Ukraine crisis, new markets in countries like Israel, Egypt, Tanzania and Mozambique have opened up for India.

However, on the other hand, if private traders continue to buy above MSP, eventually that could stoke inflation. Dr. M.J. Khan, Chairman of the Indian Chamber of Food and Agriculture, an apex agribusiness services body, opines that more private buying of wheat will help India expand the agri-export basket to new countries, riding the current crisis situation. This trade relationship will stay even when the global crisis is over, which means farmers will get about 10%-15% extra price as market prices are ruling above MSP.

Till now, 4 MT of wheat has been contracted for export and about 1.1 MT has been exported in April 2022. After Egypt, Turkey has also given approval for the import of Indian wheat. India has been eyeing deals with new export markets in European Union countries too. Compared to record wheat exports of 7.85 MT in the fiscal year 2021-22, the Centre had estimated exports of 12 MT for 2022-23, to cash in on the market rally in global prices following the Ukraine crisis.

Global wheat prices rose nearly 50% since the start of this year as supplies from Russia, the number one wheat exporter, and Ukraine, number six, were hit. Despite the crop loss and revision of the output estimate, the Centre maintained that no curbs would be placed on wheat exports and that it was facilitating traders. Market observers estimate exports will be lower than projected earlier at about 10 MT amid low or damaged output.

In order to meet the gap created by reduced Russian and Ukrainian exports, importers are turning to alternative markets, while wheat-producing countries like India are looking to increase

exports. According to the United States Department of Agriculture (USDA), the export estimates of Brazil, which is traditionally an importer of wheat, is pegged at 2.5 MT, nearly three times its total last year. The South American country has even found new markets, with its wheat exports to West Asian nations jumping over 400%, according to *Reuters*. Argentina, traditionally a big exporter of wheat, too saw a further rise in exports despite lower than usual production.

The USDA, however, says that these increased exports will not be enough to make up for the nearly 30% of global exports hit by the Ukraine crisis.

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