

## FOOD PRICE RISE – DIMENSIONS AND CHALLENGES

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Agricultural commodity prices rose sharply in the past two years and continued to rise even more sharply in the first half of 2008. Prices of food grains such as rice, corn and wheat reached record highs, sparking riots in about 30 countries. *The fact that this increase is very likely to continue means that we need to give it serious thought.* Though the prices have been temporarily contained in India, **the varied conditions that push up the prices of food commodities still persist.** Besides oil, these include diversion of food crops for bio-fuel particularly in developed countries, unregulated market of food grains in the liberalisation era, poor harvests due to climate change, and lack of enough attention to agriculture.

*The rise in prices of food grains has affected the poor in developing countries as their wages do not increase proportionately.* A World Bank estimate on poverty, based on 2005 data, says that India has 456 million people, 41.6% of its population, living below the new international poverty line of \$1.25 per day. The prices of rice and wheat – a staple food for most Indians – have gone up by 75% since 2005. *The rich-poor divide has widened.* India has a lot of poor but many people also share in the new prosperity. The privileged spend much of their income on food, and unless supply expands quickly, prices will increase. The poor now face higher food prices but with no greater income, and many begin to starve. While perhaps a third of India is eating more, the others are forced to cut down on food intake. While India boasts of 9% GDP growth, almost 50% of its children suffer from malnutrition.

The growth of the middle classes in India and China leads to greater food intake and variety, and more meat. People who used to

take meat in limited quantities mostly for taste now take it in large quantities. This places a greater stress on food grains supply as 4 to 8 kg of food grains are needed to provide 1 kg of meat. *The increasing grain demand has to be met by raising the land productivity through high-yielding crop varieties and better land use.* To some extent, higher prices can be a triggering factor for more productivity. Since so many millions in India live in poverty and directly depend on the farm sector for livelihood, **keeping food prices under check is a historic necessity.**

### Rise in Oil Prices

Oil prices are rising as petroleum is a non-renewable resource. This increases the cost of agricultural production by pushing up fertiliser and transport prices. Although oil prices dipped in the international market from \$147 to \$107 a barrel around September 2008, and much below later on, the prices of kerosene, diesel and petrol sold in India have not been lowered. Still, this had a stabilising effect on food prices. Interestingly, energy demand in India is yearly increasing by 6% whereas the world average is 2%. And oil continues to remain the major source of fuel!

### Food Grains for Bio-Fuel

*Of late, bio-fuel is projected as a supplement for oil, if not as a major alternative.* If oil prices are high enough, it may be more profitable, even without subsidies, to produce bio-fuel from grains rather than using them as food. Crops like corn, maize and sugarcane thus get diverted to bio-fuel, creating shortages for human consumption. *Producing fuel from corn and maize raises serious ethical questions.* Is it proper to fill the tank of a car with bio-fuel produced from an amount of grains that can feed an individual for a year?

Crop diversification from staple foods to cash crops is already taking place. Cultivable land is also being put into non-agricultural uses such as industry and housing. *The quest for bio-fuel may further accelerate this process.*

The massive shift of acreage to corn for bio-fuel in the US is the immediate cause of the fall in the global output of wheat. World Bank economist Don Mitchell (2008) concluded that bio-fuel and related low-grain inventories, speculative activity, and food export bans pushed

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prices up by 70 to 75% . Bio-fuel policies that encourage subsidised production need to be rethought because they are hurting poor countries. His study also found that higher oil prices and a weak dollar explain 25-30% of the total price rise. But the US Bush administration has estimated that bio-fuel production increased the food prices by only 2 to 3% .

Brazil, the world's second largest producer of ethanol after the US, is considered to have the world's first sustainable bio-fuel economy. Its government claims that Brazil's sugarcane-based ethanol industry has not contributed to the 2008 food crisis. In India, jatropha or pongamia cultivation is undertaken in small quantities. They are mainly tried out as small projects, particularly to electrify places where the electrical grid does not reach. Pongamia is drought-tolerant, and the oil extracted from it is also used for making soaps and cosmetics. This cultivation can be undertaken in wastelands and degraded forests without affecting lands earmarked for crops. Studies are also under way to produce third-generation bio-fuel from algae and other non-food stock.

### Unregulated Market

*The opening up of the market and the agricultural subsidies in developed countries moreover contribute to high global food prices. With their heavy subsidies, food products from developed countries flood the Indian markets, making the local product uncompetitive. On other occasions, food from India is exported without bothering about the quantum of food needed to feed over one billion people. To ensure that food is available for their local people, major rice exporters such as China, Brazil, India, Indonesia, Vietnam, Cambodia and Egypt have now imposed export bans on rice. On 30<sup>th</sup> April 2008, Thailand announced the creation of the Organisation of Rice Exporting Countries (OREC), with the potential to develop a price-fixing cartel for rice. Besides rice, the Indian government has also banned the export of wheat, pulses and oilseeds.*

*Since the liberalisation of the Indian economy in 1991, the growth rate in agriculture has fallen below the population growth rate. Now the world is considered a large stockpile, as contrasted with food self-sufficiency within the country. The Government imported 55 lakh tonnes of wheat during 2006-07 at an overall price of \$205.36*

*per tonne, when the domestic procurement was done at Rs 850 per quintal. Global wheat traders were thus paid much more. Despite increases in wheat production, the drop in wheat procurement by the Food Corporation of India (FCI) has been almost 40%, from 147.85 lakh tonnes during 2005-06 to 92.20 lakh tonnes during 2006-07. Rightly, the Government has banned futures in rice, wheat, urad and tur (lentil varieties).*

In 2007-08, the Indian Government imported wheat at a higher price for the second year in a row to increase the food stocks for the public distribution system (PDS). The local procurement would have been enough, but for the policy not to buy domestic arrivals at market prices, if above the minimum support price (MSP). The MSP is fixed on the basis of the actual costs of production to the farmer. But paying the farmers at the MSP is not remunerative when the market prices are higher. *In 2008-09, India will not import wheat.* Against a target of 17.5 million tonnes, the country is likely to procure 20 million tonnes. Raising the MSP of wheat from Rs. 750 to Rs. 1000 per 100 kg has helped. The wholesale prices of wheat and rice have respectively stabilised at around Rs. 1100 and Rs. 1500 per quintal in 2008.

In the two previous years, the Government's share of procurement fell as a percentage of the total arrivals. This affected the supply available for the PDS and left the field open for the private trade to corner the wheat arrivals at prices over and above the MSP but less than fair to the farmers, who would have benefited if the Government had entered as a buyer at the market price. The buffer stocks then fell and the Government was forced to import wheat from international traders at much above the domestic market price. Duty-free wheat imports did not help check the price rise, but the rising global prices impacted the domestic market. *The game is unfair for the domestic players as the farmers and the local traders are the losers.* Since 2006, the US has pressured India for wheat imports. **It is good that India has now woken up to the dangers!**

*As long as food is merely a commodity in societies that do not protect people's right to take part in the market, and as long as farming is left vulnerable to consolidated power off the farm, many will go hungry, farmers among them, no matter how good the harvests (Lappé, 2008). The strengthening of direct farmer-to-*

consumer marketing, such as farmers' markets (*ulavar chanthai*), bypasses centralised distribution systems, eliminates the middlemen and increases the farmers' profits.

*Globalisation has led to 200,000 Indian farmers committing suicide in a decade and a half, mainly due to debts. While farmers are starving, multinational companies involved in seed production and exports are prospering. The per capita availability of food has dropped during this period from 177 kg to 152 kg per year. Why is this contradiction?* Monsanto has bought every small seed company in India, Brazil and the United States and has become the biggest seed corporation. It has also bought a company that has the patent for a terminator technology that designs seeds to be sterilised. **Unless the traditional safety nets in India such as state procurements and subsidies are strengthened, the farmers will continue to suffer.**

### Poor Harvests and Climate

The food crisis has been accentuated by adverse weather conditions in major wheat producing countries like Ukraine, Argentina and Australia in the last couple of years. Prolonged droughts in Australia (where the annual rice harvest fell by 98% in the Murray-Darling Basin) and Southern Africa, floods in West Africa, and the winter's deep frost in China have affected crop yields. Erratic rain in Kerala in early 2008, which affected the paddy yield, is also attributed to changing climate. In Asian countries, several tonnes of food grains are destroyed due to flooding, cyclones, and drought. The lowering of the water table (in some places, from 30 feet to beyond 200 feet) results in added fuel costs (by the use of powerful pumps) and lower agricultural yields. *The viability of small farm and mixed cropping should be promoted to deal with the food crisis.*

### Needed Thrust on Agriculture

The yields per area unit are still low in India. After the Green Revolution of the 1970s, not much has been done for agriculture. High food prices generate incentives for increasing the yields, but this calls for R&D and social support to agriculture. The deepening agrarian crisis causes hunger and malnutrition in rural areas as there is a decline in purchasing power. More than 650 million of India's

population are directly or indirectly dependent on agriculture. **The strengthening of the agricultural base is absolutely necessary for food security.**

*More funds must therefore be invested into agriculture and agricultural research.* Salt-tolerant crops, vitamin-rich crops and disease-resistant crops should be developed, and the research advances should reach the farmers through a better access to high-quality seeds.

### The Way Ahead

The growing food demand from developing economies like India and China is one of the major factors responsible for the increasing food prices. **On the other hand, the rising prices mainly affect the poor who constitute most of the population.** The poor traditionally spend about 70% of their income on food. But when the food prices rise, this percentage also goes up. This may result in curtailing their other expenses, for instance on schooling and health.

While putting pressure on the developing world to abolish subsidies for the sake of trade liberalisation, the 'developed' countries largely keep their subsidies for their own farmers. **Countries like India should therefore strengthen their social nets with regard to farming rather than discard them.**

The cost for fertiliser raw materials like potash has been increasing. The use of inorganic fertilisers and the mismanagement of water resources have also spoiled the land. *There is a need to protect and restore the land by using organic farming*, which will also act as a deterrent against the rise in fertiliser prices. *Likewise, the management of water resources should be improved by creating watersheds and introducing new methods of agriculture.*

Food production needs to increase by 50% by 2030 to meet the rising demand. **Higher investments in agriculture are vital to ensure food security.** *Rising food prices should be seen as an opportunity to revitalise agriculture. The National Food Security Mission started in 2008 aims at substantially increasing the yield of three major staple crops – rice, wheat and pulses – by the end of the Eleventh Plan (2007-12). All this and much more needs to be done.*

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## REFERENCES

**1.** Lappé, Frances Moore. 2008. “The Only Fitting Tribute”, *The Nation*, April 7, 2008. **2.** Mitchell, Don. 2008. *World Bank Policy Research Working Paper*. July 4, 2008. **3.** *The Indian Social Institute* (24 Benson Road, Bangalore, 560 046) will soon publish a booklet by Dr. Jayati Ghosh, **Global Food Crisis and Its Effect on the Food Security for the Poor in India** (Price: Rs 25).