

# High Food Prices in India: Factors, Consequences and Mitigation



## Study Report



# High Food Prices in India: Factors, Consequences and Mitigation

**C|e|n|t|a|d**  
Centre for Trade & Development

Copyright Centad, 2008

About the Authors:

Linu Mathew Philip  
Research Fellow, Centad

Disclaimer:

This document is not a formal publication of Centad. The views, analysis and conclusions expressed are solely of the author's only and may not necessarily reflect the views of position of Oxfam and Centad. The document may, however, be freely reviewed abstracted, reproduced or translated, in part of whole, due acknowledgment, but is not for sale or for use in conjunction with commercials\ purposes.

Published by:

Centre for Trade & Development (Centad)  
A1/304, Safdarjung Enclave,  
New Delhi - 110029  
Tel.: + 91-11-41459226  
Fax: + 91-11-41459227  
E-mail: [centad@centad.org](mailto:centad@centad.org)  
URL : <http://www.centad.org>

# FOREWORD

---

Across the world, food prices after falling in real terms for many years, have shown an increasing trend in the recent past. For developing countries, the implications can be particularly devastating especially for the vulnerable sections forcing the poor to reduce food consumption and nutrition and pushing the near poor back into poverty. For low income, food importing countries, the heavy increase in cost of imported food can have implications on reserves of foreign exchange in the country. At the national level, across countries, coping with rising inflation as well as the consequent social unrest are also phenomena that have been observed. All this can put a halt on growth and development of a country.

This current report attempts to look at the Indian situation in the above context. Specifically it tries to: understand cause of food price rise; evaluate current policy measures taken to deal with the same and resultant impact; and propose additional measures that can help in controlling the price rise. This report is an outcome of the quick survey and analysis carried out by Linu Mathew Philip, Research Fellow, Centad across four states in India. It is part of Centad's initiative to explore policy issues critical to development of the South Asian area region through cogent research. Centad has brought forward policy briefs on the food issues pertaining to the region as an effort to better understand causes of the rising food prices and the policies that are needed to mitigate the adverse impact of high prices. It is hoped that the findings of the report will be useful to policy makers, researchers and civil societies. We look forward to your feedback and help us in our effort to build a better world free from hunger and poverty.

Amita Puri  
Executive Director  
Centad

# ACKNOWLEDGMENTS

The current study was completed in a short time period of two months which included primary survey and secondary analysis conducted in five states viz, Punjab, Maharashtra, Andhra Pradesh, West Bengal and Assam. I would like to give my special thanks to the whole team comprising of seven researchers from each states; without their help it would not have been possible to complete the study. I would like to express my heart felt gratitude to Jayashree Gopalan, Programme Officer, Centad for not just logistical support but also the valuable comments in the different stages of the study. I would also like to specially thank Sampathkumar Raghavan, Consultant whose help all along the project was indispensable. I would also like to thank Oxfam India for supporting the project and Palash Kanti Das from Oxfam International for motivating us all throughout the project. Last but not least all kudos to Kamal Grover and his team for the final layout designing and printing in the shortest possible time.

Author

Linu Mathew Philip  
Research Fellow  
Centad

# ABBREVIATIONS

BPL	Below Poverty Line
C	Chennai
CPI	Consumer Prices Indices
Crores	100 million
CRR	Cash Reserve Ratio
CTT	Commodity Transaction Tax
CVD	Counterveiling Duties
D	Delhi
EPW	Economic Political Weekly
FAO	Food and Agriculture Organisation
FPS	Fair Prices Shops
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
GoI	Government of India
IFPRI	International Food Policy Research Institute
K	Kolkatta
Lakhs	Lakhs or 1/10 million
M	Mumbai
MCEX	Multi Commodity Exchange
MEP	Maximum Export Price
MSP	Minimum Support Prices
OECD	Organisation Economic Co-operation and Development
OMSS	Open Market Sales Scheme
PDS	Public Distribution Scheme
RBI	Reserve Bank of India
Rs/kg	Indian Rupees per kilogram
Tons	stands for metric tonnes
TRQ	Tariff Rate Quota
USD	United States Dollars
WPI	Whole Sale Price Index (India)
YoY	Year on Year

# Executive Summary

Over the last two years the global agricultural market has been witnessing structural changes wherein international prices of agricultural commodities have been rising. This is part of the structural pattern of the long-term trade cycle contributed by immediate short-term causes with long-term trends. Globally, this turnaround in food prices has been attributed to demand-supply imbalances. In India, rising food prices have come in the background of an impressive growth in Gross Domestic Product (GDP). Rising food prices can reverse the growth in GDP since the poorest quartile of consumers spends about three-fourths of their income on food. India faces a daunting task of becoming an efficient producer and exporter of food while at the same time securing food access for more than two-thirds of its economically under-privileged population living on less than US\$2 a day. This can be a tough call if volatility in foreign exchange rates destabilises domestic prices or inflation outpaces income growth.

The Wholesale Price Index (WPI) of food products in India increased at around 21 percent from 2005. Since 2007, prices have risen by around 4 percent. Domestically, staples like rice and wheat, and other products like milk, edible oil, vegetables and fruits reported high price rise. This is despite the rise in energy costs (eg. diesel used in farm appliances) not being passed on to become part of the cost of agricultural production and the price of urea not being raised for a couple of years.

Price is a necessary component in the food economy of the country. There is huge difference in prices across different stages of the marketing and consumption chain, which adds value in both form and reduces instability in prices across seasons besides making trade viable. Though these differences make domestic trading viable they distort prices further during volatile time. Inter-state movement of goods was found to be a key factor contributing to the rise in prices. There is a need to reduce these restrictions by building better infrastructure to reduce transportation costs. It was also found that prices were more volatile in urban pockets and specific regions (food deficit states). In India, it was found that almost all the food needs are met from the domestic markets and domestic supply chain plays a crucial role.

Since both international and domestic prices have been rising simultaneously, many of the factors are common. There seem to be a high correlation between MCEX Comdex and the food prices trends. In the auction and market theory, the best options for stabilising the prices is forward trading and hedging. But in India speculative future markets were stoking volatility. The values of trade in these exchanges were more than seven times the values of agricultural commodities in the country. The government's moves to tax these transactions show that it was contributing to the volatility in the domestic markets. Theoretically, these markets are meant to bring stability in prices for farmers but the latter find it difficult to participate because of the large lot size, daily margining and high membership fees.

Another factor contributing to the high prices in the countries was the asymmetric growth phenomenon wherein sub-sectors mining, manufacturing, construction and services reported higher valuation in domestic products thereby increasing cost structure across the supply chain. The higher liquidity in the economy contributed to inflation. The most disconcerting feature was that inflation outpaced growth in per capita income during this phase.

India faces a serious challenge in its population growth exceeding the foodgrain productivity. Domestic availability of wheat, pulses and edible oils have been diminishing over time, which is accentuated by the diminishing foodgrain area in the country that threatens India's food security in the long run. There is lack of preference for foodgrain crops and local foods are disappearing as farmers prefer cash crops and other high-value crops.

The lack of effective food policy interventions for mitigating rising prices is another big problem. Most of time, these interventions fall short of expectations. For the last three years there has been sharp reduction in offtake of rice and wheat. Offtake has three components, viz the PDS supplying food grains to those below the poverty line, welfare schemes like the mid-day meal schemes and the release of foodgrains stocks to stabilise prices in the open market - popularly known as Open Market Sales Scheme (OMSS). There is a high negative correlation between the release of open market sales and the CPI of industrial workers.

India's swelling food imports have not effectively controlled the prices. Even duty-free wheat imports did not help check the price rise. On the contrary, the rising global prices impacted the domestic market in a subtle way. Even as the export ban has, to some extent, reduced speculation and the rise of food prices, the high prices in the neighbouring countries contributed to some extent in the increase in domestic prices.

High food prices have most affected the marginalised and weaker sections of society, especially women and children. It is generally believed that high prices result in better returns to the farmers. But in reality it is the intermediaries who make the best gains from this appreciation. It leaves the landless labourers with less food as wages and subsequently becomes the biggest loser. This calls for comprehensive intervention aimed at containing rising food prices and protecting the vulnerable groups from the negative consequences.

The lagging PDS system needs a major turnaround along with other subsidy mechanisms to keep the balance between the producer costs and consumer prices. Scaling up off-take of foodgrains is to be considered to assure the poor and a large section of society sufficient supply of foodgrains while the OMSS could stabilise domestic prices considerably.

There is need to enhance the income of the poor households especially in the non-farm sector. Though NREGS has indirectly helped raise wages as well as employment opportunities in the rural areas, there is a long way for the direct employment effect to be conspicuous. Besides, human capacity building of the rural poor will help improve access to more productive employment opportunities and enhancing income to bear the brunt of rising food prices.

Financial support schemes almost often do not reach the targeted beneficiaries e.g. fertilizer subsidies (indirect) often do not always reach the farmers. Availability of farm credit is often favourable to mainly large farmers and the system maliciously excludes the vulnerable resource-poor small and marginal farmers who are forced to depend on and local money lenders. The government must go beyond the usual practice of waiving farm loans to a more inclusive policy framework to help the farming community better.

Reducing the market speculation by private traders at the wholesale and retail levels has not helped the farmers much when the international prices are ruling high. Recent initiatives of removal of the commodities transaction tax (CTT) on options and futures on the lines of the existing securities transaction tax (STT) and bringing the commodity futures exchanges in the ambit of service tax must help in reducing manipulation apart from banning futures trading in agricultural products - perhaps temporarily - till the market comes back to normalcy.

The present crisis mandates stringent review in agricultural trade policies. India's billion strong population cannot afford to rely on imports. But it is also difficult to shun away mounting import pressures from other producer countries (e.g. wheat from US). Hence, a balanced approach for “regulated imports” is required to ensure sufficient stock availability in the open market as well as the PDS to prevent steep price hikes. The current trend in food prices reinstates the invocation of development provisions of the multilateral agreements such as Special Products linked to Food Security and urges the need to build Trade Safety Nets through effective market safeguards to bring more predictability and stability in domestic food prices. Even though the export ban has resulted in temporary relief to the domestic consumers in the short term, it illustrates the lack of effective long-term focused domestic policies to ensure food availability and accessibility. Even the agricultural import policies do not factor in the seasonality of agricultural products. There is a need for specific season-based responses to provide border protection and give space and time for the rural produce to reach the inflated city centers. There are huge losses at both the consumers' and producers' ends. Season-specific import duties can help generate revenue from imports that are imperative and can contribute to a level playing field for rural producers to overcome the poor rural infrastructure and fill the demand gap. By administering season-specific duties or cess, imports matching peak harvest periods will be discouraged while enhancing the opportunities for local producers to rake up their quantities in the markets. If imports are to continue, additional revenue is generated, which can be ploughed back to improve the rural infrastructure or giving supports to farmers or any other developmental activities. For successfully administering the season-specific duties, a major overhauling of the present paper-based customs and import documentation systems is essential.

While trade protectionism could provide some relief, investments should be made to improve productivity of crops and revival of rural infrastructure. These two aspects must go hand-in-hand to achieve food self-reliance for a billion plus mouths.

There is a need for reenergizing the local food resource to meet the local food demands and insulate the large population from the instabilities in food access. The most needed step is to initiate local food consumption habits which will save considerable valuable resources and mitigate the severe consequences of high food prices. At the local level there is a need to initiate safety mechanisms for the poor people. In the time of rising prices, the poor should have access to subsidized food. The recent atta dal scheme by Punjab is one such example where wheat and pulses are provided much below the market price.

There is an imminent need for increased food production through superior technological innovations to improve productivity and to enhance the attributes of crops destined for both food or non-food uses and management of food resource by cutting waste. It is high time to prioritise and balance the needs of food and energy security, besides making international trade free and fair through effective policy interventions both domestically and globally.

As the country's agri-food market turns more market-driven and consumer-focused, involvement by private sector is critical to attract increasing levels of investments, skilled manpower and technology infusion with the government taking the role of a facilitator. Recent initiatives in contract farming and organised retailing signal the dawn of a reformed agricultural marketing system. Yet a large number of small and marginal farmers remain outside its purview owing to increased transaction costs, inequality in bargaining power and inappropriate legislative framework. These need to be changed to help mould the system into a more inclusive and beneficial one for the sake of the majority of small stakeholders.

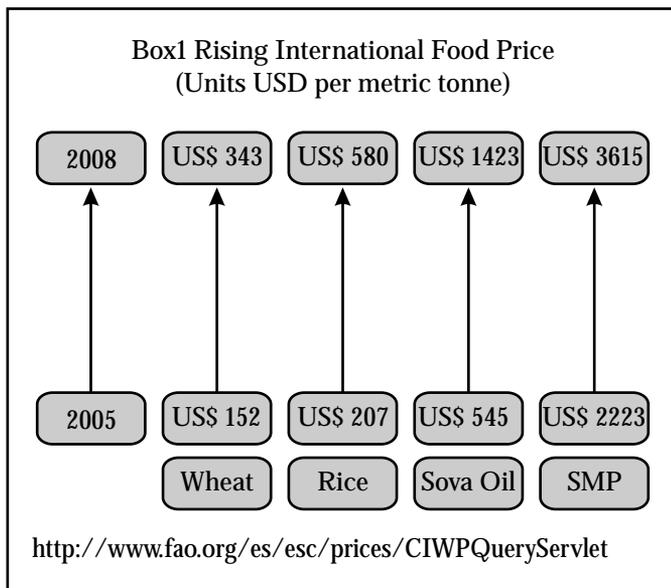
# Contents

Foreword	
Acknowledgments	
Abbreviations	
Executive Summary	i-iii
1. Introduction	1
2. Food Prices: Pattern, Factors and Consequences	2
2.1. Global vs Domestic Food Prices	2
2.2. Domestic Food Price Structure	3
2.2.1. State-wise Price Differences	3
2.2.2. Price Differences in the Supply Chain	4
2.2.3. Comparison of Different Prices over products and regions	7
2.3. Factors Contributing to the rise in Food prices	8
2.3.1. Forward Trading and Speculation	8
2.3.2. Asymmetric Growth Phenomenon and Food Prices	9
2.3.3. Crude Oil Prices and Food Commodity prices	10
2.3.4. Declining foodgrain area and availability	11
2.3.5. Food Policy Interventions	11
2.3.6. Initiatives by the Government to regulate food prices	11
2.4. Food Prices and malnutrition	12
3. Advocacy and Policy Intervention in Mitigating Food Prices	13
3.1. Improving food accessibility and availability	13
3.1.1. Removal of barriers movement of food grains between states	13
3.1.2. Revival of PDS	13
3.2. Promoting Non-Farm employment	14
3.3. Reforming Agricultural Subsidies	14
3.4. Reducing speculation in the commodity markets	14
3.5. Review of Agricultural Trade policies	14
3.6. Localisation and evergreening the agricultural sector	15
3.7. Private players	15
4. References	16
5. Annexures	17
6. Project Team	21

# 1. Introduction

Since last two years the global agricultural market is witnessing structural change wherein the international prices of agricultural commodities are witnessing an upward trend<sup>1</sup>. The current shifts are said to be part of the structural pattern of the long term trade cycle contributed by immediate short term causes with the long term trends. Globally this turnaround in food prices has been attributed to imbalances in demand and supply conditions. On one side, we have a fast growing demand for biofuels, population and income growth in developing countries and increased consumption of animal products in China and India and recent financial and commercial speculation on agricultural commodities as a preferred asset class for the investors. On the supply side, we find lower production due to natural disasters<sup>2</sup>, declining trend in arable land and availability of good irrigation water and the slowdown in yield gains, rising production and transport costs linked to the oil price hike, and export restrictions or embargoes on food products by several countries<sup>3</sup>.

The FAO food price index in September 2007 at 172 points, witnessed a year-on-year jump of roughly 42 percent in July 2008. At a disaggregated level, biggest contribution to this rise has been from 'cereals' followed by oils & fats, dairy, sugar and meat. The sudden surge in food prices has been transmitted in varying degrees from international to local markets. In India, the contribution of food price inflation to overall inflation has been less than 20 percent during 2007-08, but was strong enough to create political concerns the monetary, fiscal and trade interventions that absorbed much of the shock in global food and energy prices<sup>4</sup>. Many countries were not insulated from this phenomenon and sharp increase in food prices resulted in sporadic food riots<sup>5</sup>. Rising food prices have come in the phase when India is witnessing an impressive GDP growth. Even the latest World Bank study on poverty has taken cognizance of the increased economic growth along with a modest decline in poverty in 2005 since early 1980s<sup>6</sup>. Rising food prices can reverse this trend since the poorest quartile of consumers spends close to three-quarters of its income on food. India faces a daunting task to balance the two diverging needs of becoming an efficient producer and exporter of food while at the same time securing food access by more than two-thirds of its population that is economically under-privileged, living under US \$2 a day and spending about 30- 50 percent of their income on food. This aspect can be alarming if the volatility in foreign exchange rates destabilize domestic prices or if inflationary factors outpace the income growth. The current case study tries to understand the pattern of food price rise, the impact on the lives of people especially the women and the children, factors contributing and to suggest policies that can control the rising prices.



<sup>1</sup> <http://www.tradeobservatory.org/library.cfm?refID=102429>

<sup>2</sup> G Chandrashekhhar Business Line 2 April 2008 <http://www.blonnet.com/2007/05/01/stories/2007050100221400.htm> (visited 3 April 2008)

<sup>3</sup> <http://www.bread.org/learn/rising-food-prices/congressional-research-service-on-food-price-inflation.pdf> (visited 17 June 2008)

<sup>4</sup> IFPRI (2008) 'High Food Prices: The What, Who, and How of Proposed Policy Actions' IFPRI Policy Brief 2008

<sup>5</sup> Damien Millet and Eric Toussaint (2008) 'Why a food Crisis?' Global Research September 2008 <http://www.globalresearch.ca/index.php?context=va&aid=10311> (Visited 24 September 2008)

<sup>6</sup> Shaohua Chen and Martin Ravillon "The developing world is poorer than we thought, but no less successful in the fight against poverty" Policy Research Working Paper 4703, World Bank Development Research Group, August 2008.

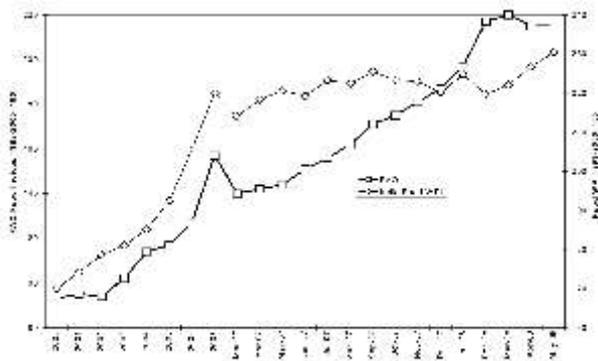
## 2. Food Prices: Pattern, Factors and Consequences

In normal economic theories price movements follow a cyclical phenomenon with peaks and troughs. Both these turnarounds leave a trace indelible in the lives of people since most often poor consumers and producers find it increasingly difficult to adjust to these sudden changes.

### 2.1. Global vs Domestic Food Prices

World Food prices have increased at a very fast pace. The pattern of food prices based on the Global FAO food indices indicates the structural shift in food has arisen since 2006 (Fig 1). In the last three months there has been a decline (- 2%) in food prices (for more details refer to Table Annexure 1). As compared to the year 2005, food indices have nearly doubled in recent months (July 2008). Disaggregated level analyses indicated that the biggest contributor to this rise in prices were cereals followed by the oil and fats then dairy, sugar and meat (Annexure Figure 1).

Fig 1 Food Prices Movement Globally and Domestically



Source FAOSTAT and Ministry of Industry, GoI.

Rise in food prices in India was not far removed from the global pattern. International food prices exhibited more instability than the domestic prices (Table 1). Sharp increases in domestic prices were recorded in the year 2006-07, according to the Economic Survey 2006-07, primary articles recorded an inflation rate of 9.76 per cent in the year ending 2007 and contributed 34.87 per cent to overall inflation. Commodity-wise analyses of inflation in primary products revealed that in cereals and pulses sub-groups, eight commodities urad,

moong, gram, wheat, maize, ragi, jowar and arhar had inflation in excess of 5 per cent. Duty-free import of wheat and pulses to ameliorate the shortfall in domestic output relative to domestic demand had limited impact on domestic prices because of firm international prices. This increasing trend in international prices has continued in the year 2008 but as point-to-point inflation from the previous year the increase has decelerated and in the last few months there has been a decline globally.

Table 1 Comparison of International and Domestic Food Prices

Period	FAO Food Indices	Food WPI Indices
Last Three Years (2005-2008)	83.76	19.72
Last Year (2007-2008)	51.41	5.54
Last Three Months March 08 to May 08	-2.27	3.74

Source: FAOSTAT and Ministry of Industry, GoI.

Some studies had reported food inflation in India below 10 per cent and much lower than what is being experienced globally<sup>7</sup>. An important reason for this is that India has not passed on the increase in energy prices to the cost of agricultural production. The price of urea has not been raised for a couple of years and diesel prices have gone up by far less than in global markets. The minimum support price (MSP) for paddy was raised by around 20 per cent in 2007 and that for wheat by 18 per cent in 2008. These instruments are crucial for farmers as their livelihood depends on them and they impart considerable stability to the domestic prices. Such government interventions through procurement have also been criticised by many economists especially when international prices rule lower than the domestic prices, but these policies encouraged farmers to grow more foodgrains without calibrating to the domestic and global demand. This further depresses the prices and leads to wastage of resources as witnessed in the year 2001 when government granaries were overloaded and grains were rotting.

<sup>7</sup>EPW(2008) Editorial 'Global Crisis in Food' 26 April 2008

Domestically, sweet potato, apple, brinjal, sapota, pineapple, tomato, grapes, onion, banana and orange were the commodities in the group 'vegetables and fruits' with high price rise even when seasonality is taken into account by measuring inflation on year-on-year basis. Sweet potato, tomato, orange and onion had fairly high inflation in the previous year as well (Economic Survey 2006-07). A closer examination of the latest wholesale price Index (WPI) computed by the Government of India (Table 2) reveals that in all commodities there was an increase of over 17 percent over 2005 while over the previous year the increase has been close to 6 percent. The biggest contributor to the average inflation in food prices had been food articles, which formed around 15 percent of the weight in the total indices. Food articles including grains, cereals and pulses have notched up at a faster pace close to 20 percent and above. Even milk commodities have witnessed a similar increase over 18 percentage points. In nutshell, prices though have increased over the medium range between 2005 and 2008, but simmered since last year. Commodities like the fruits and vegetables have shown a definite decline in 2008 over 2007 but dairy, poultry and meat products have continued their increasing pattern.

Commodities	1997 - 2000	2000 - 2005	2005 - 2008	Q4-07 and Q1-08	Over Last Year
All Commodities	14.49	28.29	17.06	2.47	5.74
Food Articles	17.87	11.31	21.26	0.32	3.79
Food Grains	21.64	2.65	22.19	1.48	3.24
Cereals	22.96	2.55	20.07	1.86	5.14
Fruits and Vegetables	0.67	31.60	18.11	-3.38	0.43
Pulses	11.91	3.68	38.26	-1.10	-8.15
Fruits	9.21	48.37	3.90	3.91	-4.43
Milk	25.40	22.47	18.42	1.19	9.04
Meat, Eggs and Fish	19.65	2.41	24.54	1.23	1.20

Source: Office of the Economic Adviser to the Government of India Ministry of Industry, Government of India

The WPI of Food products has increased at around 21 percent from 2005. While the point to point increase

over the last year the prices have surged around 4 percent. Most often the movement at the wholesale level does not reflect the price the final consumers pay and retail price movements are captured by the CPI indices. The point of deviation to note is that domestic consumer prices have moved faster than other countries. India witnessed a higher inflation of six percent (Annexure Table 2) while Brazil and OECD countries witnessed lower increase of 5 and 4 percent respectively.

## 2.2. Domestic Food Price Structure

Price is a necessary component in the food economy of the country. For the policy makers the biggest dilemma has been how to increase the prices for the primary producers but at the same time maintain a reasonable stable price structure affordable for the common man. As discussed earlier, the problem of inflation poses serious challenge if the rate of growth of food prices surpasses the rate of disposable income of the average consumers.

### 2.2.1. State-wise Price Differences

There lies huge difference in prices across different stages of the marketing and consumption chain which adds value in both form and reduces instability in prices across seasons besides making trading viable. The diverse consumption pattern in India also contributes to wide differences in food prices. This also arises on account of different crops and varieties that farmers grow and preference by the local consumers. For example price of Punjab wheat ranges from Rs 9000-10000 per tonne while the Madhya Pradesh wheat is 20 percent more around Rs. 12000-15000 per tonne. These variations arise on account of the difference in varieties and qualities. Similarly in the case of rice, prices range in Punjab from Rs 10000-14000 per tonne to Rs 16000 -20000 per tonne in Kerala. These differences also arise on account of the price spread and transport cost and statutory charges, which are the main elements of price spread and the price band can be narrowed down by curtailing these costs<sup>8</sup>. Many

<sup>8</sup>Ramesh Chand (2003) 'Government Intervention in Food Grain Markets in the New Context' Policy Paper 19, National Centre for Agricultural Economics and Policy Research (NCAP), Pusa, New Delhi

states have movement restriction and cess which add substantially to the final prices of consumers. According to the study by Ramesh Chand in 2003, price spread from farm to the retail level varies according the place where it is being transported and the season. The average percentage difference comes to the extent of 70-80 percent of the farm harvest price. Though these differences make domestic trading viable they distort the prices further when prices are volatile. There is a definite need to reduce these restrictions in interstate movements that increase cost of transportation and contribute to further escalation in food prices.

### 2.2.2. Price Differences in the Supply Chain

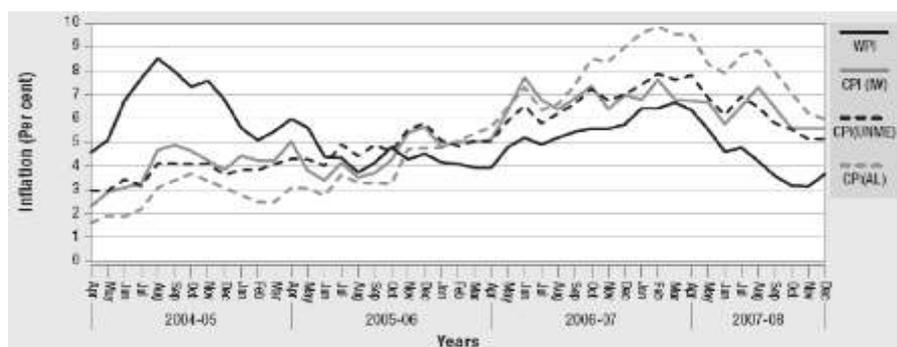
In India, almost all the food needs are met from the domestic markets and it is important to understand the supply chain and ascertain where the price hike is making huge differences. Inflation in India is measured at the whole sale level however the pattern of price increases suggests that the increase at the retail level has been much higher as compared to other countries. Retail prices are compiled as consumer prices indices (CPI) compiled by the Ministry of Labour under the guidelines provided by the International Labour Organisation (ILO). The pattern of CPI illustrated two important findings (Fig 2). Firstly, the WPI inflation has always remained higher than CPI prior to 2005-06 while post 2005-06 the CPI has surpassed the WPI. Second the highest increase is being reported for the Agricultural labourers than for Industrial workers. This change in pattern implies the challenge confronting the

Agricultural labourers category to face the maximum brunt since their income in kind is anticipated to decline with increase in the food prices and exposing these workers to reductions in food intake and malnutrition.

#### 2.2.2.1. Impact of Food Prices on Urban Households

The household survey from the states revealed that the average household income increased by almost 40 per cent in case of both the Above Poverty Line (APL) families and Below Poverty Line (BPL) families in the urban areas. The total food expenditure has increased (by 60 percent) in the households APL as compared to the increase of those below poverty line (47.2 per cent increase). It reflects that the absolute increase in household incomes in the urban areas has been more than the absolute increase in household food expenditure. However, proportionate rise in incomes is less than that of the food expenditure, which means that a large share of the rise in income of urban households has been diverted to fend off the impact of rising food prices. The increase in household food expenditure is spread across all the types of food items, including cereals, pulses, fruits/vegetable, oilseeds, sugar, milk, tea and coffee, etc. Another important feature noted in the consumption pattern is that the increase in expenditure on most of the food items is less in case of BPL families. This is indicative of serious deviation to cut down their consumption by a small extent to avoid huge surge in the food prices cutting out on food intake.

Figure 2 Annual Inflation as percentage of different indices (percent)



Source: Economic Survey 2007-08, <http://indiabudget.nic.in>

#### 2.2.2.2. Impact of Food Prices on Rural Households

In case of rural households, household incomes of APL families increased 24.1 per cent and that of BPL families increased 44.3 per cent. Total food expenditure of households above poverty line increased by 37.0 per cent while those below poverty line increased by 19.9 per cent increase. As in the

urban areas, absolute increase in rural household incomes was more than the absolute increase in household food expenditure. Two observations have emerged from the rural survey. Firstly, the expenditure on wheat and pulses followed a decline in case of BPL families. Second, the percentage increase in the expenditure on different food items was relatively less in the rural areas as compared to the urban areas. As rural households were able to cultivate food grains by themselves thereby contained rise in food expenditure to some extent when compared to the urban areas. The rise in food prices has significantly influenced the consumption pattern in the rural as well as urban areas in Punjab. There was no decline in the food consumption in quantitative terms for relatively richer households in urban areas and farming households in rural areas. There was however, a significant rise in the expenditure on food and the poor were the worst sufferers. There was a decline in the quantity of food items consumed adversely affecting their nutrition and health. However, the famous atta-dal scheme in the state which provides subsidized wheat grain and pulses to very poor has helped them maintain the quantity consumed of grains and pulses, though access to this scheme in urban areas is an issue. The poor wage labour households in urban areas and the landless households in rural areas have indirectly benefited from the National Rural Employment Guarantee Scheme (NREGS) in country as the inflow of migrant labourers in the state has declined. This has improved the opportunities for wage work and wages as well. The wages have increased by about 40 per cent and there has also been a rise in work-days (about 5 every month) finally raising the household income. This phenomenon coupled with atta dal scheme has saved the poor households from nutritional insecurity for a short while. In cities like Andhra Pradesh there has been an increase in the income of all the households during the past two years. The general increase in the services and the boom in the construction sector appears to have contributed to the increase in income of the urban poor. And NREGA provided 100 days of

employment and has contributed to the increase in income of the poor in rural areas thereby diminished the impact of food hike to some extent. Most local consumers had access to PDS and their marginal food needs were met. The critical impact of rising food prices is quite obvious among the migrants who did not have access to PDS cards. The women led households are the worst affected from high food prices, which may have long-term adverse impacts on their livelihood (Box 2).

#### Case 1: Maya Kaur, a widower, wage worker and a mother of two



Maya Kaur is 32 and a widower. Her husband Rana Singh died of illness four years ago. She has two sons Janta Singh (15) and Karam

Singh (13). According to her "I work for three farm families getting on average Rs 200 per month from each household. I also get widower pension of Rs 250 per month which was increased by just Rs 50 during recent times by the state govt. With this income I am unable to send my the children to school. Rising food prices has severely affected our lives. I get food, pulses and vegetables as grants from the farm families I work in and atta-dal scheme provided my other needs of cheaper grains and pulses. I fear the govt. schemes may terminate any time and farm labour may not provide food if food prices increase further"

#### 2.2.2.3. Food Prices and Gender

The biggest victims of the current spurt in food prices have been the women. The field survey from Maharashtra and Assam indicated that women eat last managing with whatever is available or left-over because quantity of the food cooked reduced. It was observed that men are less concerned and leave it to the

women for managing the crisis in the household. There were reports that the current crisis has also helped women in especially rural area become more attentive towards health related issues and overall cleanliness at their level. They feel that cleanliness will help them to keep away diseases which will automatically reduce the expenses. In the field case study from Assam, it was found that the women were responsible to bring food home and cooking. More than 60 per cent say decisions on food expenses are taken jointly by the male and female members while 20 percent decide it independently on their own. The impact of higher food prices showed reduction on expenditures on children education and medical expenses. The gender feedback revealed that 26 per cent of respondents feel that low productivity of agricultural commodities is the prime reason leading to rise in prices of food commodities, 20 per cent blames it on high population and corruption, 19 per cent are unsure about the reasons for the price rise of food commodities, 7 per cent blame it on drought conditions, 7 per cent feels that hoarding is responsible for the present situation of rise in prices of food commodities, 7 per cent of the respondents are unaware of the reasons, 7 per cent feels that policy failures on part of the government has brought the situation to this pass, 7 per cent also feels that conflict situations and frequent agitations are responsible for the price rise.

**2.2.2.4. Food Prices and Farming House holds**  
For all price-workings, the Farm Harvest Prices forms the base and all costs add onto it until the final consumers. The study found that the whole sale prices for staple rice and wheat varied considerably across states and the variation across different states had increased between the reference period 2008 and 2007 (Annexure Table 3 and 4). Farm harvest prices have shown an increase along with lesser variations indicative of equitable distribution of prices at the farm level. The survey of farm prices from Punjab revealed

### Case 2: Kanti, washer women from Assam

Kanti Devi heads a family of five persons, her husband and three daughters. She is a washer woman by profession. Living and heading a large family with low incomes is a great challenge she said to the interviewer. However, she strongly denied any incidence of domestic violence because of the rising prices of food commodities. She earns a paltry 1500 INR per month and her husband earns a small income by pulling cart. Three of her children are girls and they go to school and at times they help her in her work like ironing, washing and drying of the clothes of her clients. They also sometimes go fetching clothes on holidays from the clients to be washed. However, the earnings of the family are too meagre. The level of nutrition for the children is too low; there is no intake of fruits and milk in the family, because they are too expensive and it is beyond the means of the family. She says that vegetables worth 30 INR is bought almost daily. As a mother, Kanti Devi feels very guilty for not being able to properly sustain the education of her daughters which is very expensive. The rise in food commodity prices has restrained her from providing a nutritious diet to the kids. She understands the nutritious value of green vegetables and milk but there is no intake of milk in the family because the price of milk per litre has been raised from 20 INR to 25 INR. With an extreme shoestring budget, it is precarious for the family. However, she is of the opinion that humans have the inherent capacity to make adjustments at any situations. She rues the fact of an almost ineffective PDS.

that almost 45 to 65 percent of the farmers confirmed an improvement in the farming situation due to recent rise in food prices. While none of the farmers expressed that the situation in agriculture has deteriorated, almost one-third of them reported no-change from past. These responses are indicative of the view that output prices have risen more sharply as compared to the input prices in agriculture. Majority of the farmers (54 percent) experienced an increase in the farm income due to output price rise, which may be a welcome sign. These trends are in correspondence with

the size of operational holding. As marginal farmers are largely the net buyers of the food items, the recent rise may have affected them negatively. There could be no change in the case of small farmers with only the large farmers appropriating the bigger pie of rising food prices. Almost three-fourth of the farmers agreed with the idea that the minimum support prices (MSP) played an important role in sustaining their livelihoods with almost 92 per cent farmers expressing that the MSP helped the farmers in raising their income. As the crop yields have started showing stagnation with corresponding sharp rise in the input prices during the late nineties, farmers were, for long, raising demands for a commensurate increase in MSP to ensure that the farm incomes do not fall. The recent food crisis compelled a sharp rise in MSP which averaged at about 12 to 14 per cent (simple annual increase in MSP from 2003-04 to 2007-08 in paddy and wheat). The farmers believe that such price rise in case of paddy and wheat

crop will boost the stagnating production in the state and will turn farming an economically viable occupation. With food prices shooting up, the land owners prefer cash terms (with no free lunch and tea) increasing the food vulnerability farming wage earners.

Majority of surveyed farmers in Andhra Pradesh and West Bengal felt there has not been much improvement in their income. Startling results from Punjab and other states clearly illustrates the difference in farming structure. In Punjab, there large farmers are prevalent in Andhra Pradesh and West Bengal small farmers were found in large numbers. Since many of them are net buyers of food they have been affected severely by the food crisis.

2.2.3. Comparison of Different Prices over products and regions  
Analyses on the long term pattern of the various broad indices reveal that the price increase has decelerated in

### Case 3 : Jaspreet Singh, a young farmer in Punjab



Jaspreet Singh is a young farmer of age 30 in village Galib Khurd of Ludhiana district. He is a matriculate with a family of six comprising his parents, wife and two children. He owns 4.75

acres of land and has leased-in 5.5 acres of land at annual rent of Rs 20000 per acre in order to enhance his income from farming. He also rears a cow and seven buffaloes and sells milk to ensure regular flow of income. He is also a member of Kisan Club of Punjab Agricultural University, Ludhiana and regularly attends its monthly meetings to have insight into recent developments in agriculture.

According to Him

“Increasing cost of production does not bring any gain from increase in food prices, we are now judiciously managing the food that we consume for better income”

He was happy with recent rise in MSP of paddy and wheat during the last two to three years. However, the recent rise in input prices has made him a worried lot. The land rent has increased from Rs 16000 to Rs 2000 per acre in one year. The wages for casual labour have shot up from Rs 70 to Rs 100-120 due to shortage of migrant labour in the peak season. The inflow of migrant labour has declined significantly during this year due to success of National Rural Employment Guarantee Scheme (NREGS) in states such as Bihar and Uttar Pradesh. His calculation on how his profitability will be eroded is a classical example of all the farmers tending to achieve economies of scale in farming by enlarging their operational holdings through leasing-in of land. He puts the rise in costs and returns per acre during the last year as follows.

- |   |         |
|---|---------|
| 1. Increase in gross returns from         | Rs 6500 |
| increase in MSP                           |         |
| 2. Increase in land-rent                  | Rs 4000 |
| 3. Increase in labour cost                | Rs 200  |
| 4. Increase in pesticide cost             | Rs 1000 |
| 5. Increase in diesel costs               | Rs 500  |
| 6. Other minor increase                   | Rs 300  |
| 7. Final increase in net returns per acre | Rs 500  |

the recent months and inflation of wholesale level prices has fallen behind the retail prices. For a country as huge as India the increase in food prices means differently to different regions and it becomes pertinent to understand the movement of different prices across different groups of commodities. Price movements at the wholesale level may not be true indication of the real food price inflation due to huge differences in the price structure across the states, different crops and varieties grown and preference by the local consumers. Annual Consumer prices of few selected commodities have been presented in Table 3.

Article	Unit	June-07				June-08				% Change			
		D	M	C	K	D	M	C	K	D	M	C	K
Rice	Kg.	12.3	19.3	12.2	16.0	15.3	21.7	13.9	17.6	24%	12%	14%	10%
Wheat Whole	Kg.	8.1	15.4	12.0	6.5	9.0	17.1	15.4	6.7	12%	11%	28%	03%
Arhar Dal	Kg.	40.0	39.5	40.5	39.2	44.0	45.1	44.6	46.8	10%	14%	10%	19%
Mustard Oil	Litre	53.0	55.4	61.1	54.8	71.0	71.6	71.8	75.0	34%	29%	18%	37%
Dairy Milk	Litre	18.0	18.0	15.1	17.0	20.0	20.0	16.7	19.0	11%	11%	11%	12%
Onion	Kg.	11.6	13.2	13.5	11.6	10.9	8.3	8.6	11.7	-6%	-37%	-37%	1%

Source: Ministry of Labour Database for Estimation of CPI  
D – Delhi, M – Mumbai, C – Chennai, K – Kolkata

From the comparison of prices across the country at the retail level it is evident that prices have risen on key commodities to the extent of 16 percent over the period of 2007 to 2008. The difference in price movement is evident across different cities. For wheat, the prices have been highest in the Chennai region while oil has been most volatile in West Bengal (Kolkata). This high volatility indicates another feature that regions where there are deficits in domestically produced food items there has been higher volatility. The field study from West Bengal too corroborates that volatility on key food products have resulted on account of supply constraints due to low procurement quantities, poor infrastructure and/or

time required for the food stocks to reach consumption points.

### 2.3. Factors Contributing to the rise in Food prices

Globally food prices have been rising since 2005 and many of the factors contributing internationally seem to be contributing equally to the domestic markets. No single factor seems to be sole-contributor to the current crisis. Some of the factors believed to have caused the present turmoil are discussed further.

#### 2.3.1. Forward Trading and Speculation

In the auction and market theory, the best options for stabilizing the prices is forward trading and hedging. This brings considerable stability to food prices and does not allow prices to fall. However, in the context of uncertainty in food supply and high prices these markets have further contributed to increase in prices. The speculative future markets had remained exorbitantly high ever since Government of India in 2003-04 had

initiated major steps towards introduction of futures trading in commodities. The momentum gathered in 2003-04 continued in 2004-05 and manifested itself in increases in volumes, participation, number of commodities traded (59 in January 2005 to 94 commodities as of December 2006). Fearing further backlash and its impact on prices of certain essential commodities speculative trading and, futures trading in wheat, rice and pulses like tur and urad were suspended by the Forward Markets Commission. The volume of trade increased from INR 16 lakh crores to 36 lakh crores between 2005 and 2007 and the daily value of trade varies from INR 13,000 crores to

15,000 crores. The value of trade is to the extent of more than seven times the size of not just the value of the individual product but the total of all agricultural commodities. This surge volume also reflects the level of speculative transactions generated in these markets. Often there is a wrong notion that the farmers are benefiting from the existing futures trading in the country but in reality, they get the lowest price for their produce in the season at harvest and thereafter, the produce passes into the hands of traders and corporate houses that manipulate high prices as farmers have no opportunity to participate in this. Farmers find it difficult to participate in these markets because of the large lot size, daily margining and high membership fees. These markets enable the prices to remain speculative and yield high returns if contracts are committed. There is a high correlation in MCEX Comdex and the food prices trends of important commodities, which needs to be closely examined further to understand the clear linkages (Table 4).

high growth rate. The disconcerting feature is the inflation outpacing growth in per capita income during the current phase resulting in increased food prices (Annexure Table 5). In other words, the monthly food expenditure has been surging - mainly by price increases in staples and vegetables - at a faster rate than the monthly household income, which is perilous to those who spend close to half or two thirds of their income on food.

A notable feature of the current growth phase is the sharp rise in the rate of investment in the economy. Investment, in general being a forward looking variable, reflects a high degree of business optimism. The revival in gross domestic capital formation (GDCF) that commenced in 2002-03 has been followed by a sharp rise in the rate of investment in the economy for four consecutive years. This is also bringing in more liquidity in the capital flows which is contributing to the inflation. If one can note in the

growth patterns, the construction sector has increased tremendously in the period, along with rapid urbanization and high economic growth experienced by the urban centers in the last few years resulting in an upsurge in property values. These values have a definite link to the current prices as cost of real estate increases the rental value of land and so will the cost of storage and cost of production which have a

strong influence on the price structure of agricultural commodities. The field survey from all states indicated that the cost on rental value of land has increased and so have the cost of cultivation of most inputs. This increase in cost of production is coming about in spite of government spending huge resources on subsidies. The impact of the growth on the farming income is not evident from the lesser growth in agricultural sector. This raises serious question on how these subsidies are helping in reducing the food prices.

Table 4 Turnover on commodity market exchange (Rs crores)

Exchanges	2004-05	2005-06	2006-07*
Multi Commodity Exchange, Mumbai (MCX)	165,147	961,633	1,621,803
National Commodity Derivatives Exchange, Mumbai (NCDEX)	266,338	1,066,686	944,066
National Multi Commodity Exchange, Ahmedabad (NMCE)	13,988	18,385	101,731
National Board of Trade, Indore (NBOT)	58,463	53,683	57,149
Others	67,823	54,735	14,591
<b>All Exchanges</b>	<b>571,759</b>	<b>2,155,122</b>	<b>2,739,340</b>

\* Till December 31, 2006  
Source: Forward Markets Commission.

### 2.3.2 Asymmetric Growth Phenomenon and Food Prices

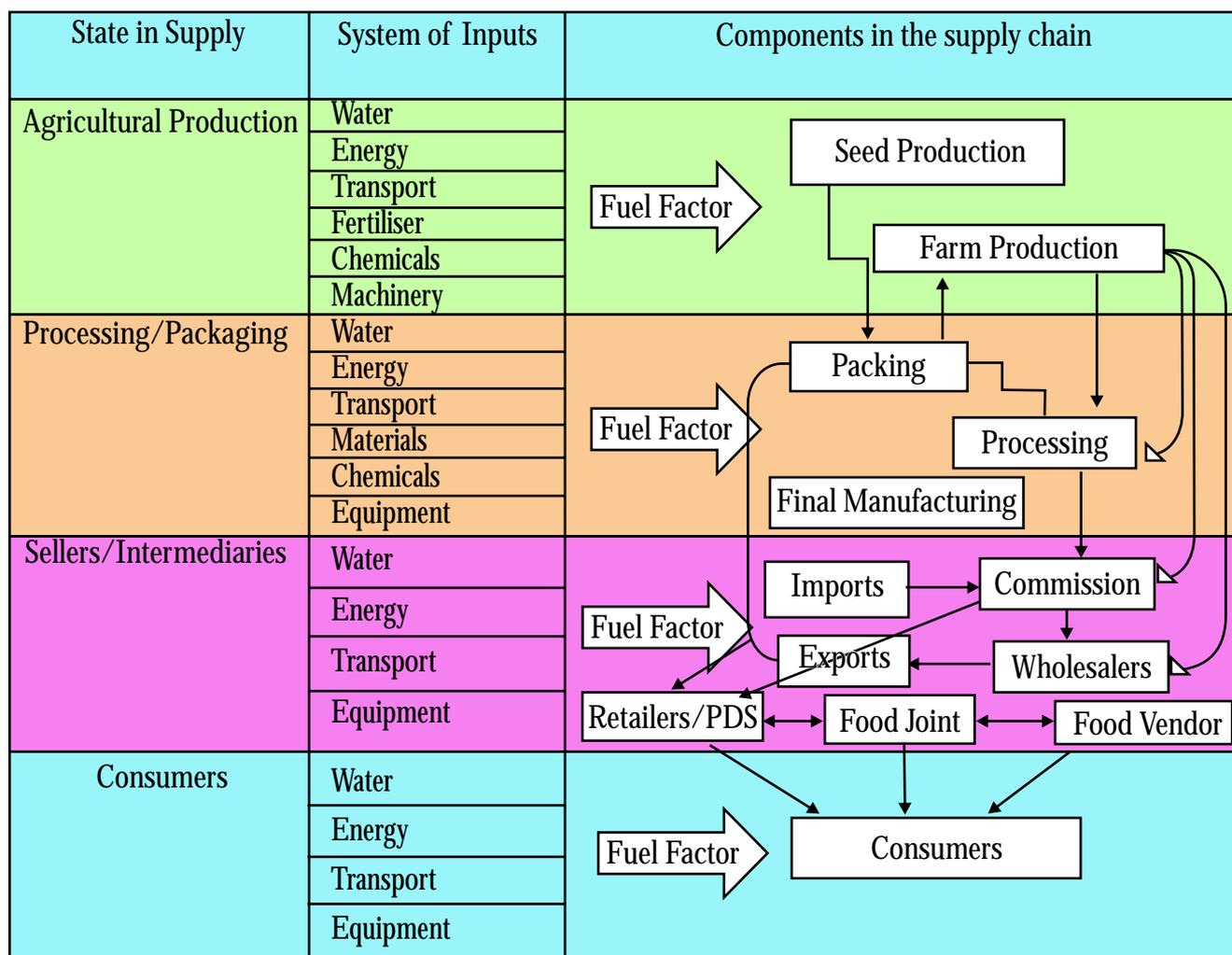
India experienced a phenomenal 11 percent growth in GDP at the current prices and 7 percent at constant prices from 1999 to 2006-07, basically driven by mining, manufacturing, construction, and service sectors. However, agriculture recorded a lackluster growth of 2.41 percent at constant prices. This difference in growth at current and real prices is indicative of inflationary factors contributing to the

### 2.3.3. Crude Oil Prices and Food Commodity prices

Crude prices since 2002, soared past USD 24 to 140 recently and affected the prices of inputs such as fertilizers and fuel (esp. diesel), transport costs over long distances, prices of commodities that have energy-intensive production processes and prices of energy substitutes (biofuels - ethanol from maize and sugarcane; biodiesel from rapeseed and other oils). But

price of urea has not been raised for long and diesel prices have gone up by far less than in global markets in India. However, the increase in crude oil affects the prices of other commodities as prices of inputs like fertilizer cost, transportation cost (including shipping cost), cost of packaging (plastic bags etc) and business operation linked to these supply chain. Even cost of packaging of food product linked to crude oil.

Box 2 'Indian Food Supply Chain and Oil Linkage'



Source: Centad policy brief 2 [http://www.centad.org/tradepolicy\\_2.asp](http://www.centad.org/tradepolicy_2.asp)

<sup>9</sup>Economic Survey 2007-08, Government of India.

2.3.4. Declining foodgrain area and availability  
 Food scenario in India is becoming critical population is growing at over 1.5 percent while productivity of foodgrains is lagging behind at meager 1 percent which poses serious threat to food security in the long-run (Annexure Table 6). On the supply side, shortfalls in the domestic availability of wheat, pulses and edible oils in 2006-07 aggravated the demand-supply mismatch. Growth of 1.5 percent in population outpaced the meager 1 percent growth in foodgrains production and yield. This differential growth has had a bearing on foodgrains availability. Foodgrain consumption of cereals has declined from a peak of 468 grams per capita per day in 1990-91 to 412 grams in 2005- 06, indicating a decline of 13 percent while consumption of pulses declined from 42 grams per capita per day (72 grams in 1956- 57) to 33 grams during the same period<sup>9</sup>.

Diminishing foodgrain area in the country spells real trouble in the long run (Annexure Table 6). Lack of preference for foodgrain crops is evident from all states. Vanishing local food crops like millets and coarse cereals has been identified as one of the main reasons for the increasing price of food. Even though rural pockets (Andhra Pradesh) were better placed to tide over the hikes in food prices than urban pockets there is increased preference of processed foods. In Maharashtra, traditional Bhakar (a jowar roti) is seen being replaced by wheat roti as it required less quantity of subzi (vegetable curry preparation). Demand for processed food is also forcing farmers to grow more cash crops and traditional food crops are vanishing further exacerbating the food supply. No state had reported deviation of agricultural land to biofuel crops so far.

### 2.3.5. Food Policy Interventions

Another most important reason contributing to the present price situation is the lack of effective food

policy interventions for mitigating the rise in prices. This is even corroborated by the survey conducted in all states. Interventions include the PDS and other welfare programmes and food aid supplied by the governments. Most of times these interventions fall short of expected performance levels. For the last three years there has been sharp reduction in offtake of rice and wheat. Offtake has three components viz the PDS supplying food grains to the people below poverty line, welfare schemes like the mid-day meal schemes etc and the most crucial one – release of foodgrains stocks to stabilize the prices in the open market - more popularly known as Open Market Sales Scheme (OMSS). If we correlate the release of open market sales and the CPI of industrial workers, we get high correlation coefficient of -0.73 indicating strong link between the open market sales and the consumer prices.

Scheme	2001-02	2003-03	2003-04	2004-05	2005-06	2006-07
TPDS	138	203	242	297	314	175
Welfare Schemes	72	114	135	106	98	31
Open Market Sale	56	57	13	3	2	0.10
Total	313	498	493	415	247	206

Source: Economic Survey 2007-08, Ministry of Finance, Government of India

### 2.3.6. Initiatives by the Government to regulate food prices

Lack of effective regulation included trade policy interventions such as unilateral withdrawal of duties as recently import duties were brought to zero in the month of April to mitigate the price of essential food commodities. India's food import bill has blown bigger from about USD 2.6 billion in 2000 to more than USD 4.9 billion in 2007 primarily driven by steep increases in imports of vegetable oils, wheat and pulses and specific sensitive items such as edible oil, peas and fruits & vegetables since last March posing serious concerns for India's terms of trade. Wheat imports of about 6

<sup>10</sup> Jafri, A. (2008). Food Crisis Exposes Failings of India's Agricultural Reforms. Mainstream , Vol XLVI (No. 33).

million tonnes valued at around USD 1.2 billion in 2007 formed the single major chunk of the food items. Swelling import bills, if not managed appropriately will throw India once again open and vulnerable to the ebbs and flows of international commodity market particularly at this time of global upswing in food prices. The situation was grim when India had to import 5.5 million tonnes of wheat in 2006 at US \$ 178.75 to US \$ 228.94 a tonne. In 2007, 1.8 million tonnes of wheat was imported - despite 74.82 million tonnes of domestic production - at prices upto Rs 16,000 per tonne, double the MSP of Rs.8500 per tonne, which led to a sharp increase in local wheat and

wheat flour prices making it dearer for the poor<sup>10</sup>. In the Economic Survey 2006-07 the Government reported that duty free wheat imports did not help to check price rise, rather the rising global prices impacted the domestic market in a subtle way. Even as the export ban has, to considerable extent, reduced the speculation and rise of food prices, the high prices in the neighboring countries did contribute to some extent in increase in domestic prices. Keeping in view the current disturbing food price trend, several initiatives were taken up by the Government of India as summarized in the Box below,

### Box 3 Chronological record of GoI's initiatives

Apr 2007	- Customs duty on palm oil cut by 10 %; 5-10% across all vegetable oils (Jul 2007); additional 4% CVD removed.
Oct 2007	- Increased MSP for wheat by Rs.150 to reach Rs.1000 and for rice by Rs.125
Oct 2007	- MEP (Minimum Export Price) for onion was raised by USD 150 to restrict exports. Mar 2008 - Customs duty on semi/wholly milled rice reduced to zero from 70%.
Apr 2008	- Customs duty on maize reduced to zero from 15% over the half a million tonnes of TRQ.
Apr 2008	- Ban on export of pulses extended to Apr 2008; Export of edible oils was prohibited.
Apr 2008	- Export of non-basmati rice (except Pusa 1121) was banned. Apr 2008 - MEP of rice (Basmati) was raised to USD 1200 a ton; Duty of Rs.8000 was introduced with reducing MEP to USD 1000 a ton.
Jun 2008	- Farm loans of Rs.71.6 billion (USD 1.8 billion) were waived off.
Jul 2008	- Sale of subsidised edible oil through PDS shops
Jul 2008	- Fixed Repo Rate increased by 50bp to 9%
Aug 2008	- Announced Open Market Sales Scheme from the reserves.
Sep 2008	- Tamil Nadu introduced sales of rice at Re.1/kg at PDS outlets
Aug 2008	- Wheat procurement doubled to 22.5 million tonnes from last year. Rice procurement to touch 27.7 million tonnes.

## 2.4. Food Prices and malnutrition

Food constitutes a bigger share of the consumers' expenditure both in rural and urban areas. Even though the poverty rate is declining over time at the all India level there is high proportion of poor dispersed across the country. The prevailing rate of poverty is close to 22 percent particularly more in the rural sector as compared to the urban. According to the international standards more than 80 percent of population falls below \$2 a day and food still forms the major component in the average monthly consumption

expenditure across all states. India is also home to the largest number of severely malnourished children in the world. Four hundred million children suffer daily, which is a greater problem than in Sub-Saharan Africa. Childhood malnutrition is a massive crisis caused by a combination of factors including inadequate or inappropriate food intake, childhood diseases, harmful childcare practices, and improper care during illness all contributing to poor health and millions of deaths annually. It affects growth potential and the risk of mortality and morbidity in later years of life.

<sup>11</sup>Michele Gragnolati, Meera Shekar, Monica Das Gupta, Caryn Bredenkamp and Yi-Kyoung Lee (2005) 'India's Undernourished Children: A Call For Reform And Action' Health, Nutrition and Population (HNP) World Bank Discussion Paper.

<sup>12</sup>'Malnutrition Getting Worse in India' [http://news.bbc.co.uk/2/hi/south\\_asia/7445570.stm](http://news.bbc.co.uk/2/hi/south_asia/7445570.stm)

Substantial improvements have been made in health and well being since India's independence in 1947 but still more than half of all children under the age of four are malnourished, 30 percent of newborns are significantly underweight, and 60 percent of women are anemic. The early years of life are the most crucial because it is when the body develops the most mentally and physically and is most vulnerable to disease and illness<sup>11</sup>. The recent reports of extreme malnutrition in the state of Madhya Pradesh where facts reveal that close to 60 percentage of children are malnourished<sup>12</sup>. The current rise in food prices is not a local phenomenon but is spread globally. The impact of the high prices has left an indelible mark on most poor and vulnerable groups. It has affected most seriously

the marginalised and the weaker sections of the society, especially the women and children who are predominantly not earning members. It is generally believed that high prices usher better returns to the produce to the farmers as high food prices should mean higher prices for the producers. However, the grim reality is that intermediaries make the best gains from this appreciation. It leaves the landless labourers in the farmyard with less of food as wages and subsequently end up as the biggest loser in terms of putting more labour and losing out on the expensive food that they now have to pay for their labour. This calls for comprehensive set of intervention to contain the rising food prices in future and to protect the vulnerable groups from the negative consequences.

### 3. Advocacy and Policy Intervention in Mitigating Food Prices

#### 3.1. Improving food accessibility and availability

##### 3.1.1. Removal of barriers movement of food grains between states

It is not surprising to see huge differences in the availability and prices of commodities that are produced in a state and transported to other consuming areas in India. These differences arise due to different tax regimes, excise, and other regulations prevailing in the states that restrain the movement of food grains such as rice and wheat (notified under Essential Commodities Act) between the states. These restraints simply add to the misery of the producers as they are deprived of choices in marketing their produce and the complexity of the system makes it difficult to help the stocks reach the consumption points (especially metros) matching with the demand pushing the prices up affecting particularly the urban poor. Further, illegal transportation of stocks from one state to the other makes mockery of the regulatory system adding to the costs of policing and paves way for corruption and

malpractices. In line with reviewing the APMC regulations and replacing them with the Model Act, comprehensive reforms in this front to make the system more transparent, easy and uniform across states can help prevent artificially created supply scarcities that neither benefits producers nor the consumers but only those with vested interests to exploit the situation of higher process for personal monetary gains.

##### 3.1.2. Revival of PDS

The lagging PDS system needs a major turnaround along with other subsidy mechanisms to keep the balance between the producer costs and consumer prices. Scaling up off-take of foodgrains is to be considered to assure the poor and a large section of society sufficient supply of foodgrains while open market sale scheme could stabilize domestic prices considerably. There is a strong need for revamping the PDS system to enhance the accessibility of food crops including edible oils up to the far flung and remote areas across the country.

### 3.2. Promoting Non-Farm employment

There is need to enhance the income of the poor households especially in the non-farm sector. Though NREGS has indirectly helped to raise the wages as well as employment opportunities in the rural areas, there is a long way for the direct employment effect to be conspicuous. Besides, human capacity building of the rural poor will go a long way in improving access to more productive employment opportunities and enhancing income to bear the brunt of rising food prices.

### 3.3. Reforming Agricultural Subsidies

It is observed in many instances that financial support schemes almost often do not reach the targeted beneficiaries e.g. fertilizer subsidies (indirect) often do not always reach the farmers. Availability of farm credit is often favourable to mainly large farmers and the system maliciously excludes the vulnerable resource-poor small and marginal farmers who are forced to critically dependent on and are highly prone to exploitation by local money lenders. The government must go beyond the usual practice of waiving farm loans to a more inclusive policy framework to help the farming community in a better way. Fuel subsidies too often help the urban consumers and leave their rural counterparts and the farmers usually disadvantaged.

### 3.4. Reducing speculation in the commodity markets

Reducing the market speculation by private traders at the wholesale and retail level has not helped the farmers much when the international prices are ruling high. Recent initiatives of removal of the commodities transaction tax (CTT) on options and futures on the lines of the existing securities transaction tax and bringing the commodity futures exchanges in the ambit of service tax must help in reducing manipulation apart from banning futures trading in agricultural products - perhaps temporarily - till the market comes back to normalcy. These measures will result in effective monitoring of price movements and price discovery for the traded commodities and curb speculation and hoarding.

### 3.5. Review of Agricultural Trade policies

The present crisis mandates stringent review in agricultural trade policies that do not complement the domestic realities. India's billion strong population cannot afford to rely on imports but on the other side it is also highly difficult to shun away mounting import pressures from other producer countries (e.g. wheat from US), a dilemma usually faced by any high-volume importer like India becoming a hostage who, due to critical national mandates, get its willingness to pay leveraged to the maximum by the opportunistic global suppliers. Hence, a balanced approach for "regulated imports" is required to ensure sufficient stock availability in the open market as well as the PDS to prevent steep price hikes threatening livelihoods of millions especially the urban poor and the landless rural mass. The current trend in food prices reinstates the invocation of development provisions of the multilateral agreements like Special Products linked to Food Security and urges the need to build Trade Safety Nets through effective market safeguards to bring more predictability and stability in domestic food prices. Even though the export ban has resulted in temporary relief to the domestic consumers in the short term, it clearly illustrates the lack of effective long-term focused domestic policies to ensure food availability and accessibility. Even the agricultural import policies do not factor in the seasonality of agricultural products, which are needed from the producers' point of view. There is a need for specific season-based responses to provide border protection and give space and time for the rural produce to reach the inflated city centers. Prevalent exploitation of producers by the intermediaries through either reducing uptake of domestic stocks or forcing the prices down at the farm gate but with no intention of doing so at the consumers end will keep the prices higher enough for them to make quicker supernormal profits. Hence, there are huge losses at both the consumers' and producers' ends. Season-specific import duties - applicable to imports during peak domestic arrivals of foodgrains - can be a wise move to generate revenue from imports that are imperative and can contribute to a level playing

field for rural producers to overcome the poor rural infrastructure and fill the demand gap. By administering season-specific duties or cess, imports matching peak harvest periods will be discouraged while enhancing the opportunities for local producers to rake up their quantities in the markets. If imports are to continue, additional revenue is generated, which can be ploughed back to improve the rural infrastructure or giving supports to farmers or any other developmental activities. For successfully administering the season-specific duties, a major overhauling of the present paper-based customs and import documentation systems to make them efficient and transparent is essential through the use of IT innovations and infrastructure for real time transmission of data help track arrivals at different ports accurately and efficiently for levying duties accordingly.

### 3.6. Localisation and evergreening the agricultural sector

As a temporary relief, trade protectionism is just one side of the coin as the other side being enhanced investments in improving productivity of crops and revival of rural infrastructure – processing, storage, transport and communication – to keep the local food system fairly immune to the vagaries of the international markets. These two aspects must go hand-in-hand to achieve the much needed food self-reliance for a billion plus mouths as Chand (2008)<sup>13</sup> explains the global market becomes less dependable and freight charges become too high, food self-sufficiency would become crucial for food security, particularly in developing countries, which would not be able to afford costly imported food.

There is a need for reenergizing the local food resource to meet the local food demands and insulate the large population from the instabilities in food access. The most needed step is to initiate local food consumption

habits which will save considerable valuable resources and mitigate the severe consequences of high food prices. At the local level there is a need to initiate safety mechanisms for the poor people. In the time of rising prices, the poor should have access to subsidized food. The recent atta dal scheme by Punjab is one such example where wheat and pulses are provided much below the market price.

There is an imminent need for increased food production through superior technological innovations to improve productivity and to enhance the attributes of crops destined for both food or non-food uses and management of food resource by cutting waste considerably. If productivity in land & labour increases equal to the growth in global food demand, the world can be saved from hunger and malnutrition. It is high time for renewal; a relook of thoughts and actions of the past; to prioritize and balance the diverging needs of food security, energy security besides making the international trade free and fair through effective policy interventions both domestically and globally.

### 3.7. Private players

As the country's agri-food market transforms into becoming more market-driven, consumer focused, involvement by private sector is critical to kick start and sustain the momentum in attracting investments, skilled manpower and technology infusion with the government taking the role of a facilitator. Recent initiatives in contract farming and organized retailing signal the dawn of a reformed agricultural marketing system, yet a large number of small and marginal farmers are at present out of its purview owing to increased transaction costs because of lack of cooperation, inequality in bargaining power and appropriate legislative framework which are to be changed to help mould the system as more inclusive and beneficial to majority of the small holders.

# References

- Agriwatch Market Prices  
[http://www.agriwatch.com/commoditylife/spot\\_prices.php](http://www.agriwatch.com/commoditylife/spot_prices.php)
- BBC (2008) 'Malnutrition Getting Worse in India'  
[http://news.bbc.co.uk/2/hi/south\\_asia/7445570.stm](http://news.bbc.co.uk/2/hi/south_asia/7445570.stm)
- Damien Millet and Eric Toussaint (2008) 'Why a food Crisis?' Global Research September 2008  
<http://www.globalresearch.ca/index.php?context=va&aid=10311> (Visited 24 September 2008)
- DES (2008) Statistics at a Glance 2007, Directorate of Economics and Statistics, Ministry of Agriculture, GoI
- EPW(2008) Editorial 'Global Crisis in Food' 26 April 2008
- FAO (2008) Crop and Food Situation  
[www.fao.org/docrep/010/ai465e/ai465e00.htm](http://www.fao.org/docrep/010/ai465e/ai465e00.htm)
- FAO STAT (2008)  
<http://www.fao.org/corp/statistics/en/>
- G Chandrashekhar (2007) 'Bio-diesel demand to propel grain, oil prices higher' Business Line 2 April 2008  
<http://www.blonnet.com/2007/05/01/stories/2007050100221400.htm> (visited 3 April 2008)
- GoI (2007) Economic Survey 2007-08, Government of India.
- IFPRI (2008) 'High Food Prices: The What, Who, and How of Proposed Policy Actions' IFPRI Policy Brief 2008
- Jafri, A. (2008). Food Crisis Exposes Failings of India's Agricultural Reforms. *Mainstream*, Vol XLVI (No. 33).
- Khasnobis, Basudeb Guha (2007) Food Security Indicators, Measurement and the Impact of Trade Openness, Oxford University Press, London
- Michele Gragnolati, Meera Shekar, Monica Das Gupta, Caryn Bredenkamp and Yi-Kyoung Lee (2005) 'India's Undernourished Children: A Call For Reform And Action' Health, Nutrition and Population (HNP) World Bank Discussion Paper.
- Ministry of Industry (2008) WPI Indices Office of the Economic Adviser to the Government of India Ministry of Industry, Government of India
- NSSO (2007) Survey 523 61st Survey, Year 2005-06
- OECD Database (2008)  
[www.sourceoecd.org/database/development](http://www.sourceoecd.org/database/development)
- Ramesh Chand (2003) 'Government Intervention in Food Grain Markets in the New Context' Policy Paper 19, National Centre for Agricultural Economics and Policy Research (NCAP), Pusa, New Delhi
- Ramesh Chand (2008) The Global Food Crisis: causes, severity and outlook' Economic and Political Weekly, VOL 43 (26 and 27) June 28 - July 11, 2008.
- RBI (2008) Monthly Bulletin, August 2008, Reserve Bank of India,  
<http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/86274c.pdf>
- Robert Paarlberg 'It's not the price that causes hunger'  
<http://www.iht.com/articles/2008/04/22/opinion/edpaarlberg.php> (visited 20 June 2008)
- Shaohua Chen and Martin Ravillon "The developing world is poorer than we thought, but no less successful in the fight against poverty" Policy Research Working Paper 4703, World Bank Development Research Group, August 2008.
- Sidhu, R.S., Vatta, Kamal and Sidhu, J.S. (2008) Factors affecting fertiliser consumption in India, Research Report, Agro Economic Research Centre, Department of Economics and Sociology, PAU, Ludhiana
- Vashishtha, Prem. S and Linu Mathew Philip (2008) 'Buffer Stocking policy for the Tenth Plan' Glimpses of Indian Agriculture Micro and Macro Aspects (Two Volumes) Edited S.M. Jharwal et. Al Academic Foundation.
- Wiggins, Steve (2008) Rising food prices: a global crisis, Briefing Paper, Overseas Development Institute, London.

# Annexure

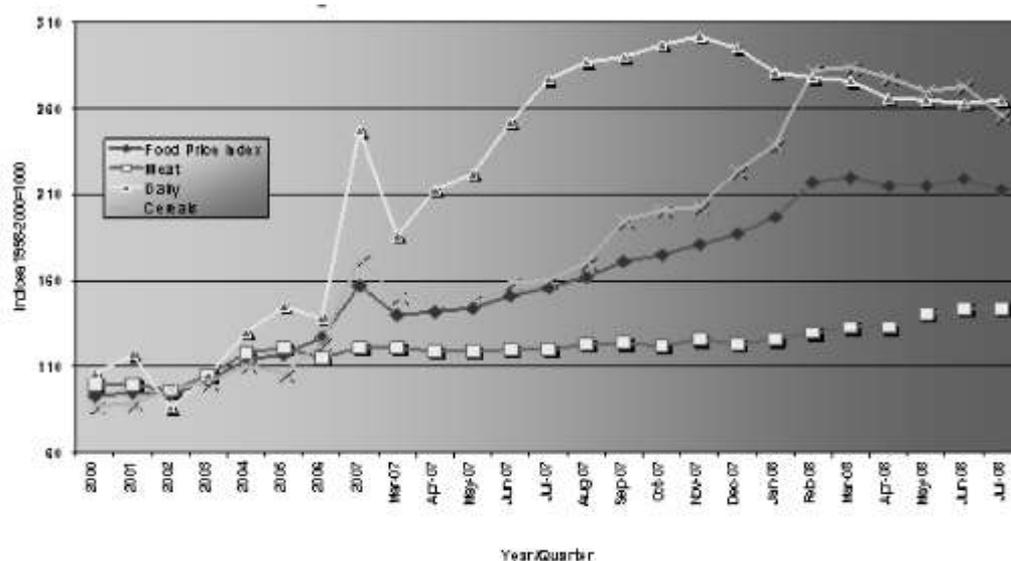
## Table Annexure 1

Changes in selected global commodities indices and food prices

Year/Quarter	Food Price Index	Meat	Dairy	Cereals	Oils and Fats	Sugar
2000	93	100	106	87	72	105
2004	114	118	130	111	117	92
2005	117	121	145	106	109	127
2006	127	115	138	124	117	190
2007	157	121	247	172	174	129
Mar-07	140	121	186	151	138	134
Apr-07	142	119	213	148	150	125
May-07	144	119	222	150	161	121
Jun-07	151	120	252	150	170	119
Jul-07	156	120	277	160	175	131
Aug-07	162	123	287	171	181	126
Sep-07	171	124	290	195	190	125
Oct-07	175	122	297	201	202	128
Nov-07	181	126	302	203	221	130
Dec-07	187	123	295	224	226	137
Jan-08	197	126	281	230	250	154
Feb-08	217	130	278	262	273	173
Mar-08	220	133	276	264	285	169
Apr-08	215	132	266	278	276	161
May-08	215	141	265	270	280	155
Jun-08	219	144	263	273	292	156
Jul-08	213	144	265	256	274	183
% Increase in Indices						
3 months 2008	-2	11	-1	-22	-3	22
Last year	57	24	-12	96	99	52
Over three years	96	23	120	150	165	56

Source: FAOSTAT

Annexe Figure 1 Global Food Price Movements



Source: Crop and Food Situation April 2008

## Table Annexure 2

Trend in Consumer Price Index of India and select countries

Year	Brazil	India	OECD
2005	151.4207	121.5419	114.7486
2006	157.7554	128.5871	117.7775
2007	163.4998	136.7819	120.7241
Q4-2006	159.1618	132.8589	118.2887
Q1-2007	161.2079	133.2076	119.0707
Q2-2007	162.7003	134.9511	120.7051
Q3-2007	164.1582	138.7869	120.9963
Q4-2007	165.9326	140.1818	122.1245
Q1-2008	168.6794	141.5766	123.2676
% Increase			
2005-2008	11.40	16.48	7.42
2007-2008	4.63	6.28	3.52

Source: OECD Database

## Annexure Table 3

Changes in the Prices of Farm and Whole Sale prices across key markets across the country: Rice

Commodity: Rice		Jun-07	Jun-08	Jun-07	Jun-08	% Increase	% Increase
Market	Variety/Place	FHP (Rs/Qtl)	FHP (Rs/Qtl)	WP(Rs/Qtl)	WP(Rs/Qtl)	FHP	WP
Andhra Pradesh	Bhimavaram B P T	1750	2000	1800	2100	14.29	16.67
Assam	Cachar Fine	1380	1490	1600	1825	7.97	14.06
Bihar	Mohana Medium	950	1200	1060	1620	26.32	52.83
Gujarat	Vadocara Masuri	1100	1300	1275	1800	54.55	41.18
Jharkhand	Giridih Fine	1650	1900	1700	2000	15.15	17.65
Karnataka	Bangalore Dappa	1100	1200	1230	1350	9.09	9.76
Kerala	Other	1300	1650	1500	2200	26.92	46.67
Maharashtra	Pune 1009 Kar	1100	1550	4700	8500	40.91	80.85
Orissa	Sambalpur Other	1050	1320	1120	1500	25.71	33.93
Uttar Pradesh	Faizabad Other	1000	1300	1032	1325	30.00	28.39
West Bengal	Birbhum Fine	1150	1300	1170	1360	13.04	16.24
Variation Coefficient of Variation	Across region	82.04	18.33	77.90	89.05		

Source: Agriwatch Market Prices [http://www.agriwatch.com/commoditylife/spot\\_prices.php](http://www.agriwatch.com/commoditylife/spot_prices.php)

## Annexure Table 4

Changes in the Prices of Farm and Whole Sale prices of Key domestic markets across the country: Wheat

Market	Variety	Jun-07	Jun-08	Jun-07	Jun-08	% Increase	% Increase
		FHP (Rs/Qtl)	FHP (Rs/Qtl)	WP(Rs/Qtl)	WP(Rs/Qtl)	FHP	WP
Bihar	Mohana UP 308	960	1060	990	1150	10.42	16.16
Gujarat	Vadodara Deshi	1000	1025	1000	1100	2.50	10.00
Haryana	Ballabgarh Other	875	1000	900	1015	14.29	12.78
Jharkhand	Sahebganj White	850	900	975	1050	5.88	7.69
Karnataka	Nargunda H.D.	1040	1000	1080	1013	-3.85	-6.20
Madhya Pradesh	Hardha Local	890	925	985	1946	3.93	97.56
Maharashtra	Aurangabad Other	1025	1100	1101	1301	7.32	18.17
Delhi	Najafgarh Dara	900	1010	940	1080	12.22	14.89
Punjab	Abohar Other	882	1005	890	1010	13.95	13.48
Rajasthan	Bundi Other	852	991	950	1235	16.31	30.00
Uttar Pradesh	Ghaziabad Other	900	1040	960	1100	15.56	14.58
Uttarakhand	Khateema Other	860	1000	880	1025	16.78	16.48
West Bengal	Balurghat Other	905	930	950	980	2.76	3.16
Variation Coefficient of Variation	Across region	7.16	5.52	6.79	22.15		

Source: Agriwatch Market Prices [http://www.agriwatch.com/commoditylife/spot\\_prices.php](http://www.agriwatch.com/commoditylife/spot_prices.php)

## Annexure Table 5

Gross Domestic Product by Economic Activity (At 1999-2000 prices) (Rs Crores)

Sector/Sub-Sector	1999-2000	2006-07(A)	Growth 1999-00 to 2006-07 % per annum
1. Agriculture, Forestry & Fishing	446515	526127	2.41
2. Mining & Quarrying	41594	56551	4.80
3. Manufacturing	264113	438440	7.25
4. Electricity, Gas & Water Supply	44526	61817	4.89
5. Construction	102007	194184	10.06
6. Trade, Hotels & Restaurants	254143	446168	8.49
7. Transport, Storage & Communication	133371	322588	13.51
8. Financing, Insurance, Real	233550	398503	7.89
9. Community, Social & Personal Services	266707	399643	5.88
10. Gross Domestic Product at	1786526	2844022	6.87
11. Total Net Domestic	1600932	2537249	6.80
12. Net Factor Income from Abroad	-15431	-21877	
13. NNP at Factor Cost	1585501	2515372	6.83
14. Per Capita income (in Rupees)	15839	22379	5.08

Source: Agricultural Statistic At a Glance 2007

## Annexure Table 6

Trends in Food grain area production and yield

Year	Area	Production	Yield
1991-92	121.87	168.38	1382
2000-01	121.05	196.81	1626
2001-02	122.78	212.85	1734
2002-03	113.86	174.77	1535
2003-04	123.45	213.19	1727
2004-05	120.08	198.36	1652
2005-06	121.60	208.60	1715
2006-07	124.07	211.78	1707
Growth 1991-07	0.10	1.09	1.20

Source: Statistics at a Glance 2007, Directorate of Economics and Statistics, Ministry of Agriculture, GoI

## PROJECT TEAM

- 1) Linu Mathew Philip, Fellow  
Research Fellow, Centad
- 2) Sampathkumar Raghavan  
Consultant, Centad
- 3) Dr. Debasish Sarkar  
Lecturer, Senior Assistant Professor in Agril. Economics, Department of Agricultural Extension, Agricultural Economics and Agricultural Statistics (EES), Palli Siksha Bhavana (Institute of Agriculture), Sriniketan, Birbhum, West Bengal
- 4) G. Muralidhar  
Thought Leader, Akshara, Network for Development Support Services
- 5) Kamal Vatta  
Research Officer, Department of Economics and Sociology Punjab Agricultural University, Ludhiana
- 6) Prashant Gawande  
Consultant, ERG, Pune
- 7) Soma Bhowmick  
Independent Researcher, Assam

Centre for Trade and Development (Centad) is an autonomous, not-for-profit institution that seeks to strengthen the abilities of governments and communities in South Asia to make economic globalisation work for development. Established in 2004, it strives towards becoming a global centre of excellence in policy analysis through evidence-based policy research that, in turn, provides a platform for more informed policy-making at multilateral, regional, and national levels.



**Centad**

Centre for Trade & Development

Centre for Trade & Development (Centad)  
A1/304, Safdarjung Enclave, New Delhi - 110029  
Tel.: + 91-11-41459226, Fax: + 91-11-41459227  
E-mail: [centad@centad.org](mailto:centad@centad.org), URL : <http://www.centad.org>