

Wheat Export Debacle:
**Policy and Real Agenda Are
Responsible, Not Mere Bungling**

[May 24, 2022]

On May 13, the Modi government suddenly announced a ban on the export of wheat, after promoting it actively for two months. While this step has been widely criticised, the criticism has been largely from a neoliberal standpoint, not from the standpoint of people's interests. Even those who have made legitimate criticisms of the Modi government's steps on the export of wheat have tended to focus on the boastfulness and incompetence of the Government. What needs highlighting, however, is that the debacle was the result of Government policy.

Starting in February 2022, the Prime Minister,

the Finance Minister, the Commerce Minister, the Food Secretary, and various other officials declared that India would fill the void left by the exit of Russian and Ukrainian wheat from the world market; it would export 10 million tonnes of wheat and perhaps even more; indeed it could feed the world if the World Trade Organisation would allow it to do so. The Government slashed its public procurement target from 44 million tonnes to just 19.5 million tonnes. The Indian Railways added extra wagons for the transport of wheat, and the government of Madhya Pradesh waived *mandi* taxes on wheat to promote exports. On May 12 itself – one day before the ban – the Ministry of Commerce announced it would send trade delegations to nine countries to explore the possibility of boosting wheat exports from India.

All this was absurd and criminal, as was evident at the time itself. As we pointed out on April 18 (see preceding piece in this issue) India is not a land of surplus foodgrain, but the home of the largest number of undernourished people in the world. The so-called ‘excess’ supply of foodgrains reflects merely *the lack of purchasing power with the masses to buy privately held grain, and the failure of the Government to distribute public food stocks adequately*. At any rate, the so-called ‘excess’ stock with the Food Corporation of India (FCI) was falling, and the price of wheat was rising over the previous six months in

step with the rise of wheat exports.

Even the Reserve Bank of India (RBI), in its Monetary Policy Report of April 8, 2022, noted that the rise in wheat exports since September 2021 had already led to a sharp rise in domestic wheat prices, and it warned that “international prices could set a floor for domestic wheat prices through the export channel.” This means the Indian people would be forced to pay international prices for wheat produced in India. The leading fast-moving consumer goods companies were already jacking up the prices of products which contained wheat. Hence there was no shortage of signs for the Government to pick up.

“In spirit, the three farms laws are happening”

Why did the Government ignore these signs? One reason, no doubt, was its perennial urge to strut and preen on the world stage. But equally, as we noted in our piece, the Government tried to use the unusual situation to revive its neoliberal agenda with regard to foodgrains:

The recent peasant struggle against the Farm Acts forced the Government to temporarily retreat from dismantling the entire regime of public procurement and distribution. Peasants recognised that they would lose under a regime where giant agribusinesses would call the shots, and preferred the security of public procurement at the official Minimum Support Price (MSP). Now international prices have risen steeply,

and private traders are buying up the wheat crop at above MSP. This provides an opportunity to the Government to proclaim that the ‘free market’, including free external trade, benefits farmers. Simultaneously, it has a chance to reduce public procurement.

This was explicitly confirmed by Finance Minister Nirmala Sitharaman on May 7 at the Economic Times Awards: “Actually, many things related to the farm laws are happening. You can see them happening.... Farmers are selling for export. They do not want to come for MSP because they find a better price somewhere else.... *In spirit, the three farm laws are happening.*”¹

The exporters are large corporations

Indeed, within the space of a few months, we have been given a demonstration of what the farm laws, and the policy underlying them, mean for the Indian people, whether they “happen” openly or surreptitiously. First, large corporations such as ITC, Cargill and Adani have been buying up wheat and exporting it since mid-2021. As the Government drastically cut procurement in the present *rabi* marketing season, the existing network of private traders captured most of the crop. They have been supplying the large corporations:

1 Jayashree Bhosale, “Wheat demand doing what farm laws could have done”, *Economic Times*, May 14, 2022. Emphasis added.

A few commission agents on condition of anonymity said that in the last week, there have been many queries from global food retail giants and food grain exporters like ITC, Adani Group, Cargill, and the Australian Wheat Board. Their representatives are in the state to assess the volume of wheat they can buy from here.²

It is reported that about 4.5 million tonnes of export orders in all were booked. A record 1.4 million tonnes were exported in April. A dealer with a global trading firm was quoted as estimating that 1.5 million tonnes would be exported in May.³ Wheat prices continued to rise in March and April 2022.

What would have happened if exports continued? It is obvious that, if exports are freely allowed, the *domestic price must converge with the internationally traded price*, which itself is continuing to rise. The minimum support price (MSP) for wheat is Rs 2,015/quintal; farmers in Madhya Pradesh have been selling their crop to private traders at Rs 2,200-2,400/quintal⁴; but the export price of US

2 Ruchika M. Khanna, “Russia-Ukraine war fall-out: Demand from India soars; retail giants approach Punjab traders”, *Tribune*, March 5, 2022.

3 “India sells record 1.4 mt wheat in April, could export 1.5 mt wheat in May”, *Economic Times*, May 10, 2022.

4 Shagun, “Wheat prices going strong in Madhya Pradesh, courtesy Ukraine, loss of yield in North India”, *Down to Earth*, May 13, 2022.

wheat was over Rs 3,800/quintal in April 2022⁵, and would have risen further in May. As exports continued, domestic prices would have risen closer to the international price. It appears that at some point the Government saw that it was vulnerable (in parliamentary politics) on the question of price rise, and decided to do an about-turn.

Do “farmers” benefit?

Proponents of globalisation, such as Ashok Gulati, a member of the Supreme Court-appointed committee on farm laws, criticised the Government for sacrificing the interests of “farmers” by banning exports: “Farmers must be given free access to the best markets in the world. If the Government doesn’t allow that, it’s implicitly a tax on the farmers.”⁶ Another writer claimed that the Government’s “urban consumer bias... has kept our peasantry poor”.⁷ But while a section of farmers no doubt obtained Rs 200-400 over the MSP due to the export surge, most of the crop available for sale appears to have been

5 US hard red winter wheat, export price at US ports, World Bank Commodities Price Data, May 3, 2022, www.worldbank.org/commodities.

6 Interview, *India Today*, <https://www.indiatoday.in/india/video/dr-ashok-gulati-calls-govt-s-decision-to-ban-export-of-wheat-as-anti-farmer-1950695-2022-05-17>

7 Deepanshu Mohan, “India’s wheat ban is yet another instance of shoddy policy making that disregards consequences”, *Scroll*, May 17, 2022.

sold by mid-May, and purchases would be complete by end-May. Hence the benefits of any further rise in prices would accrue to private trade, not to farmers. Far from the export ban implying a tax on farmers, the freedom to export promised monopoly gains to private traders and large corporations. If about half the wheat crop all-India is retained by farmers⁸, and Government procurement this year winds up garnering less than 20 million tonnes, that might leave 30-35 million tonnes with private trade.

Moreover, the somewhat higher prices to some wheat growers this year (10-20 per cent over the MSP) are a transient phenomenon. It is rare that international wheat prices are higher than Indian wheat prices, as is the case this year. Rather, in most years, international wheat prices are well below Indian wheat prices. What would the longer term impact of this year's export of wheat be? On the one hand, the Government has set a precedent by stepping down wheat procurement, and it may use this precedent to persist with lower purchases in future; but in future Indian farmers would not be competitive in export markets. They would therefore receive lower prices from private traders for

8 Data of the National Sample Survey 70th Round indicate that slightly less than half the wheat crop was sold by farmers to different agencies. See *Key Indicators of Agricultural Households in India*, National Sample Survey 70th Round, Statements 16B and 18B.

their wheat, and suffer a drop in income, pushing them to abandon wheat for other crops. In such a setting, there would be fresh pressure for opening up to imports of wheat. Whether or not events actually unfold along these lines, it is clear that that is the longer term agenda.

Private traders hold the whip hand

Now the Government's failure to procure adequate wheat means that it does not have adequate stocks to provide wheat under the Prime Minister's Garib Kalyan Yojana, as it has done for the past two years; it will instead provide rice, of which it still has large stocks. But further still, the Government may not have adequate wheat stocks to intervene to bring down open market prices. Armed with the knowledge of relatively low Government stocks and high international prices, private traders may be able to keep prices elevated despite the export ban.

The Government could have procured sufficient wheat simply by offering a higher price. Indeed, given that farmers in several states may have lost 10-20 per cent of the crop due to high temperatures in a particular stage of the crop, a higher price to the farmer was justified to protect their total incomes. Moreover, if the Government had based the MSP for wheat on the most comprehensive cost of

production⁹ (the “C₂” cost) + 50 per cent, as long demanded by kisan organisations, the MSP would have been Rs 1,518 + Rs 759 = Rs 2,277. This is not far from the price which farmers actually obtained from private traders this season. If the Government had procured enough wheat, it would have had the power to check price rise through its public distribution and periodic open market sales. In other words, the real incomes of both cultivators and workers could have been protected to an extent. Instead the Government effectively withdrew from procurement, to leave the field open for private trade.

It is not the export ban, then, that deserves to be criticised, but the policy of Government withdrawal from procurement and the free hand given to private profiteers. The events leading up to the ban have offered one more vivid demonstration of the dangerous implications of this policy.

9 The C₂ cost is the comprehensive cost of production, including all paid out costs, the imputed value of family labour, the rental value of owned land, and the interest on the value of owned fixed assets; this has been estimated at Rs 1,518 for the 2022-23 rabi marketing season. The Government’s calculation is based on the “A₂+FL” cost, i.e., paid out costs and the imputed value of family labour, which is estimated at Rs 1,008. Even after giving a 100 per cent return on the A₂+FL cost, this comes to only Rs 2015. *Price Policy for Rabi Crops: The Marketing Season 2022-23*, July 2021.