

Ban on Wheat Exports in India

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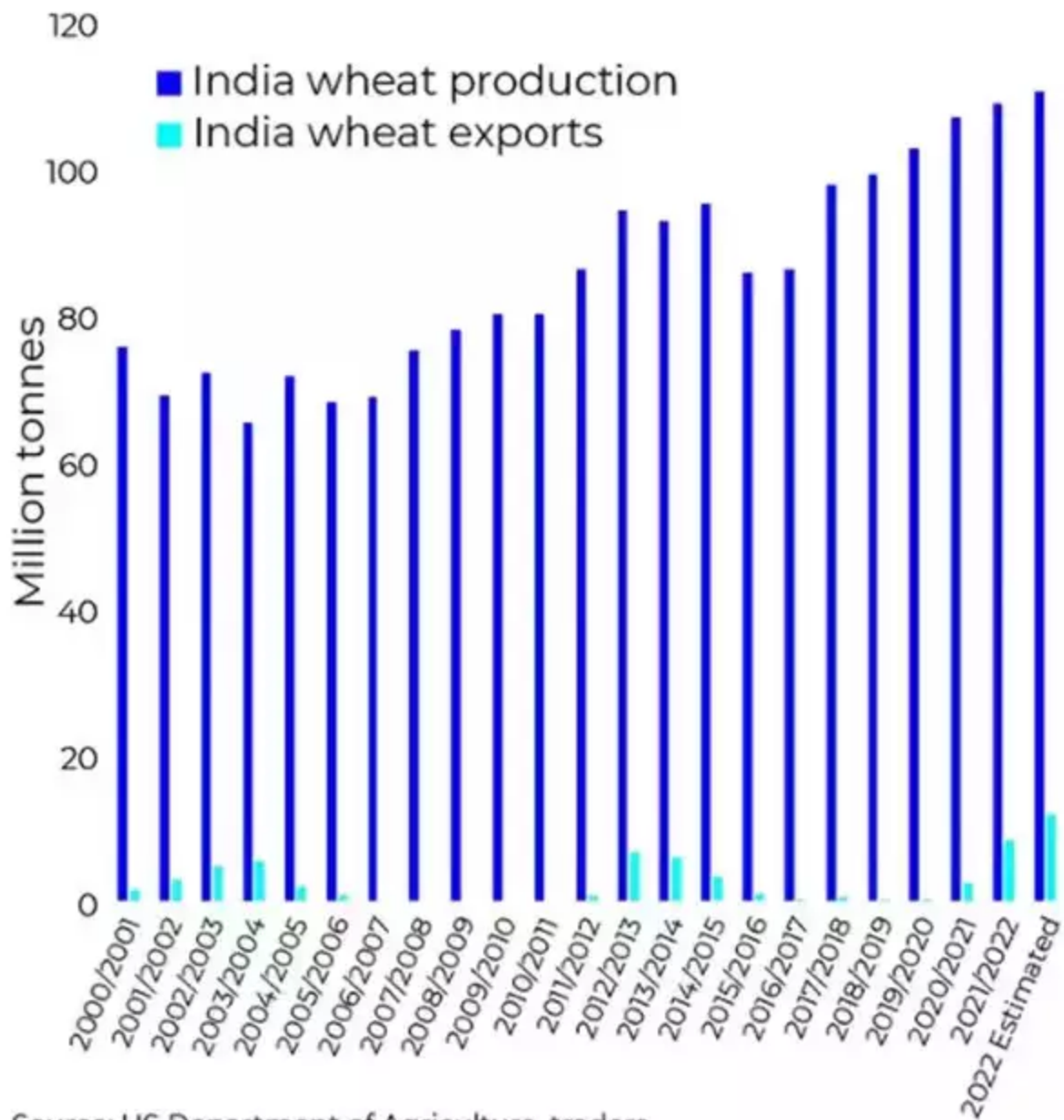
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INTRODUCTION

India is estimated to be the world's second-largest producer of wheat. Despite being one of the largest producers of wheat in the world market, our country has not been a major wheat exporter as most of it is sold in the domestic markets. However, due to improved seed selection, a marginal increase in productivity and expansion in the area, wheat exports have increased in India recently. This sudden boost in wheat production led to a new target set by New Delhi for 12 million tons of wheat exports over the year 2022-23.

India wheat production and exports since 2000



In the fiscal year 2021-22, India's wheat exports reached an all-time high of 7 million tonnes, valued at USD 2.05 billion. Almost half of all wheat exports in the previous fiscal year went to Bangladesh. So far this fiscal year, 4.3 million tonnes of wheat have been committed for export, according to estimates. 1.2 million tonnes have already been exported in April and May, with another 1.1 million tonnes projected to be shipped in the coming months¹. In April, wholesale wheat prices increased by 10.7%, maintaining

the double-digit growth trend seen since November last year. In 2022, global wheat production is expected to fall by 0.8% from its record high of 2021, reaching 771 million tonnes, the first drop in four years.

Ukraine and Russia exported a third of the world's wheat and barley before the war. Due to the Russian invasion, wheat exports from Ukraine plunged drastically. With droughts like damaging factors, coronavirus pandemic, rising energy prices and extreme weather conditions, traders expected supplies from India to compensate for the deficit. A promise was made by the Indian Prime Minister Narendra Modi to provide wheat supplies to the world, which was followed by a partial ban on exports in order to focus on domestic demand.



TIMELINE OF EVENTS

- The February 24th, 2022, invasion by Russia led to a sudden decline in exports by Ukraine due to blocked ports and destroyed grain silos and civilian infrastructure. This meant that millions

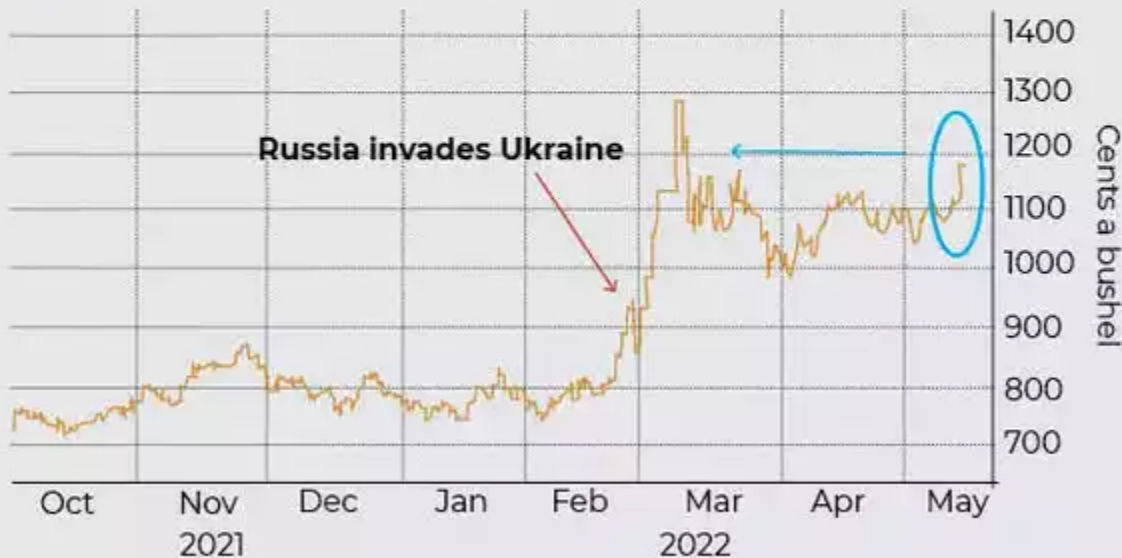
https://economictimes.indiatimes.com/news/economy/foreign-trade/dgft-directs-regional-authorities-to-issue-rcts-to-wheat-exporters/articleshow/91576279.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

of tonnes of wheat had been unable to leave Ukraine, known to be the largest exporter of wheat.

On Fire

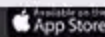
Wheat surges on impact of Ukraine war and erratic weather

■ Benchmark Chicago wheat futures



Source: CME, Bloomberg

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- Wheat prices rose drastically high throughout March and April, as had the prices of other food commodities.
- During the second week of April 2022, Indian Prime Minister Narendra Modi announced that wheat exports would be increased to 10 million tonnes as opposed to 7 million tonnes last year. Indian Commerce and Industry Minister Piyush Goyal, said that wheat would be exported from India to the rest of the world. The assurance helped keep global prices stable and allayed fears of significant shortages. India offered supplies to new markets in Asia and Africa.
- Egypt and Turkey approved wheat imports from India. Egypt's agriculture ministry declared in April 2022 that India had been recognised as a wheat supply source as the North African country looks to replace purchases disrupted by Russia's invasion of Ukraine.
- Sudhanshu Pandey, India's Food Secretary, said on May 4th that the government was not considering limiting wheat exports because the country had sufficient reserves. However, the food secretary stated that the Centre's wheat purchase would be reduced this year due to rising market prices and increased demand from private players for local and export purposes.

- According to official data, the average price of wheat flour in retail marketplaces on May 8th was about Rs33 per kg, up nearly 13% from the previous year².
- On May 12th 2022, the government declared that it would send trade delegations to nine countries, including Indonesia, Thailand, and Turkey, to look for ways to increase wheat exports from India.
- The restriction on wheat exports was announced on May 13th 2022, after exceptionally warm weather and a shattering heat wave stunted wheat crop production, driving up local prices.
- From 13th May, all wheat exports, including high-protein durum and standard soft bread kinds, were converted from "free" to "prohibited," according to a notification released late Friday by the commerce department.
- The government announced on 16th May 2022 that it will begin procedures under the Foreign Trade Act and may enlist the services of the CBI and the Economic Offence Wing to prosecute exporters who have provided post-dated Letters of Credit after 13th May.
- The Department of Commerce granted considerable flexibility in its statement made on the 13th of May, prohibiting exports from 17th May 2022 onwards. According to the statement, wheat consignments handed over to customs for inspection and registration into their systems before 13th May were allowed to be exported.
- Prices for several of the most common types of wheat increased for several days, peaking on the 17th and 18th of May 2022.
- On 18th May 2022, the government stated that sugar exports would be limited to 10 million tonnes, another measure to normalise domestic prices.
- On 24th May 2022, The International Monetary Fund urged India to reconsider its export ban, claiming that it may assist in alleviating the present wheat supply problem for those nations most affected by Ukraine's conflict.
- According to Kelly Goughary of the farm data analysis firm Gro Intelligence, India's prohibition resulted in a price increase because "global consumers were reliant on supplies from India after exports from the Black Sea region plummeted."

REASONS FOR THE WHEAT EXPORT BAN

The export ban on wheat was intended to keep domestic costs low as India, like other countries, experienced inflation, which reached 7.8% in April, the highest level in eight years. Runaway inflation

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https://economictimes.indiatimes.com/news/economy/foreign-trade/india-says-ban-on-wheat-exports-is-to-check-unregulated-trade/articleshow/91563039.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

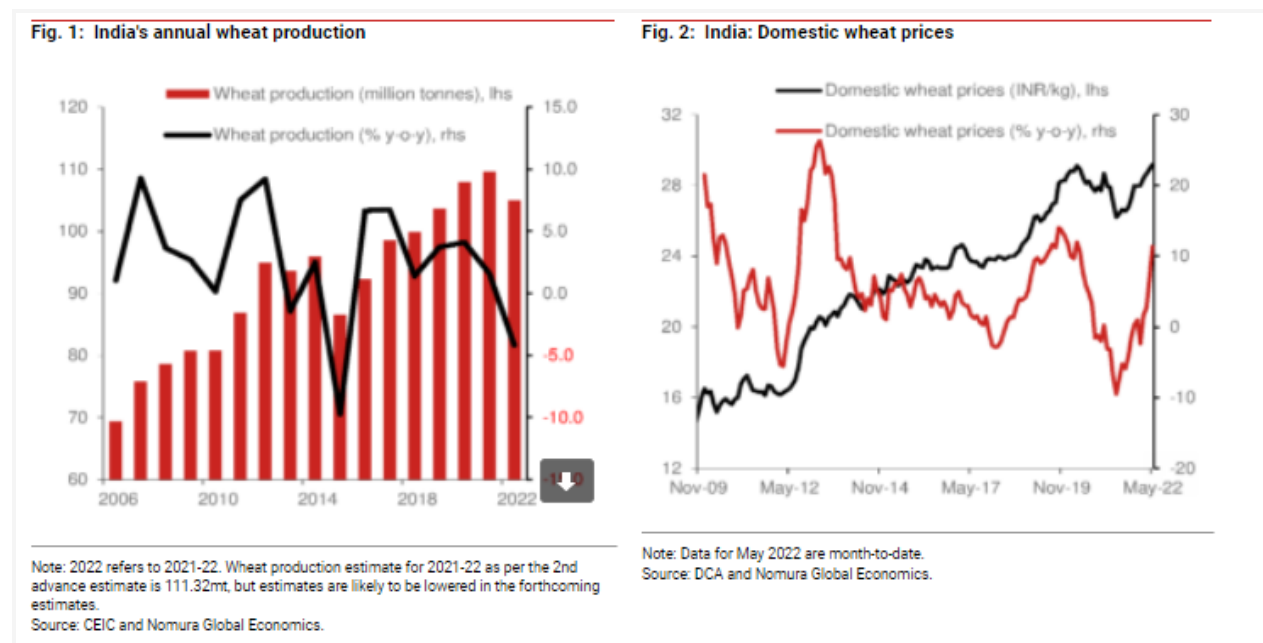
and food security in the underdeveloped nation of 1.4 billion people were cited as explanations for the export ban in the country. Heat waves and extreme weather conditions led to decreased crop production, leading to increased prices. Global fertiliser prices have also tripled over the past year, risking crop yield reductions this year.

India recorded its warmest days of the year, reaching temperatures above 45 degrees celsius. Heat waves devastated wheat crops, driving domestic prices to greater heights. The heat wave shrivelled the farmers' harvest by 15-20 per cent.

Due to the sharp rise in global prices, farmers started selling their produce to traders, not the government. As a result, the government found it difficult to retain its buffer stock of 20 million tons,

which were needed to avert any possible famine or provide food to millions of poor families in the country. The government announced a ban on wheat exports to ensure a sufficient supply of wheat within the domestic country.

In order to manage its food security and support the needs of neighbouring and vulnerable countries that were unable to sustain themselves, India introduced a partial ban on the exports of wheat on 13th May 2022, which was followed by a set of relaxations announced in the export ban announcement on 17th May 2022.



RELAXATIONS IN WHEAT EXPORT BAN

On 17th May 2022, the government announced certain changes to the restrictions on wheat exports imposed by the Directorate General of Foreign Trade (DGFT), Department of Commerce. A decision

was made which allowed wheat consignments turned over to Customs for inspection and registered into their systems on or before 13th May 2022 will be allowed to be exported.

According to the order, this restriction would not apply in cases where private trade has made prior commitments via Letters of Credit or where the Government of India has provided permission to other nations to meet their food security needs and on the request of their governments. The government would also let private enterprises meet earlier pledges to export about 4.3 million tonnes of wheat through July, according to Commerce Secretary B.V.R. Subrahmanyam. He also stated that if exporters have irrevocable letters of credit, the contract will be honoured. This would also help India maintain its credibility as a reliable supplier³.

After talking with the states, the Centre had reallocated some quantities by modifying the wheat and rice ratios. States that received wheat and rice in a 60:40 ratio, for example, would receive it in a 40:60 ratio. Similarly, the 75:25 ratio was converted to 60:40. Wheat would continue to be distributed when rice allotment was nil. The allotment for all small states, NE states, and special category states was not altered.

The administration also allowed a wheat shipment for Egypt to be loaded at the Kandla port. Following the Egyptian government's appeal, the wheat cargo was allowed to be loaded at the Kandla port. The administration decided to allow the entire 61,500-metric-tonne consignment to sail from Kandla to Egypt. These exceptions to wheat ban export helped India maintain its food security, check its inflation and help vulnerable countries facing food deficits.

IMPACT OF WHEAT EXPORTS BAN

The export ban has impacted not only the long-term credibility of the country's export policy but also the income of the farmers. Wheat prices have risen in international markets following India's restriction on exporting the primary commodity. In Chicago, the benchmark wheat index climbed 5.9%, the highest level in two months.

Announcing a policy and doing the opposite of it dents a country's credibility. India's ability to build crop markets might be hurt in the long run due to the instant decision taken concerning wheat exports. The decision has been questioned by agriculture ministers from the Group of Seven (G7) nations gathering in Germany. Ministers from the Group of Seven urged countries not to undertake restrictive policies that would exacerbate market stress. According to the German Food and Agriculture

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<https://economictimes.indiatimes.com/news/economy/foreign-trade/dgft-directs-regional-authorities-to-issue-rcts-to-wheat-exporters/articleshow/91576279.cms>

Minister, Cem Ozdemir, imposing export restrictions would worsen the situation. The agriculture ministers also recommended that the matter be discussed at the G7 summit in Germany in June, to which India's Prime Minister Narendra Modi has been invited.

The ban also hurt farmers who hoped to benefit from the high global prices. The farmers' harvest has been affected due to heat waves, and they can not benefit from international trade either. After purchasing wheat at a premium and shipping it to ports, small traders supplying giant exporters had to face massive losses.

Another major impact of the ban on wheat exports has been the increasing disputes between traders and multinational company trade houses. The MNCs have cited the force majeure clauses while the traders claim they sold wheat to MNCs rather than for exports. Addressing the abrupt cancellation of the wheat purchase order, Tridev Traders, an Uttar Pradesh-based grains trading firm, submitted a legal notice to KN Agro-Resources, a Mumbai-based listed company that deals with commodities as well as other interests⁴. Traders incurred huge losses due to the cost of loading and unloading. Later, they had to sell wheat at lower prices than they had contracted.

The export ban decision ruined relationships between traders and exporters, leading to a peculiar sense of hostility and enmity.

LESSONS TO BE LEARNT BY INDIA

The wheat exports ban is an instance of ad-hocism and muddled policy making. It has affected the farmers' income negatively and created a negative image of the Indian trade policy in the global market. Due to such reasons, India needs to learn lessons and prevent such instances in the future.

The government only depended on the production and public stock data to decide on the ban on wheat exports. The production of wheat was overestimated, and there was a supply shortage due to heat waves within the domestic economy, leading to high prices. The government lowered its forecast for wheat production by 5.7 per cent to 105 million tonnes in the 2021-22 crop year, ending in June, from a previous expectation of 111.32 million tonnes, citing lower crop productivity as a factor. Due to an early heat wave, the initial projection of wheat output of 1,113 lakh metric tonnes (LMT) for

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<https://economictimes.indiatimes.com/news/economy/agriculture/wheat-traders-go-to-court-as-mncs-cancel-contracts/articleshow/91774408.cms?from=mdr>

2022-23 was lowered to 1,050 LMT. Compared to the expected 195 LMT procurement, the actual procurement as of May 13 was 180 LMT, including roughly 75 LMT wheat with shrivelled grain⁵. Setting up systems to get reliable and timely crop estimates is one lesson the government of India must learn. With an emphasis on essential crops and significant growing locations, a strong infrastructure (drones, satellites, ground data) to monitor weather conditions such as temperature, moisture stress, and so on must be implemented quickly. Algorithms can be constructed to estimate the influence of weather and insect occurrences on crop size and quality using the expertise available in the country.

Another lesson the Indian government must learn from this is to avoid a complete ban on commodities as it has adverse effects on farmers and traders. Instead of banning exports entirely, the government must opt for quantitative restrictions on trade, such as minimum export prices. As a result, India can maintain a closing stock along with exports. Disincentives such as export controls and sanctions must be introduced rather than an outright export ban.

Export bans are ineffective in resolving food security concerns, as the benefits of decreased prices disproportionately benefit comparatively wealthy people. They skew incentives for farmers to invest in improving productive capacity, which is required to increase supply and lower food prices locally and globally in the long run. The government of India must learn to come up with a more cohesive, stable, predictable and consistent agricultural policy.

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https://www.business-standard.com/article/economy-policy/wheat-export-ban-to-reign-in-inflation-no-threat-to-food-security-govt-122051401073_1.html