

Wheat Rots In India As World Grain Prices Soar

MUMBAI, India (AP) — A wheat stockpile in India that could feed 210 million people for a year is starting to spoil because the government lacks enough warehouses to store it — a lightning rod for local discontent that could send ripples through the world market for the grain.

According to a government estimate obtained by The Associated Press, 17.8 million metric tons of wheat are exposed to the elements — stored outdoors, under tarps in India's pounding monsoon rains. The wheat could alleviate hunger in a nation where one in two children are malnourished. Instead it is going to the dogs. As it wastes, it promises to drive global wheat prices, up 78 percent since June, even higher.

The government, faced with options more unpalatable to it than rotting food, has been letting the mountain of wheat grow. Exporting the grain would be politically explosive because food inflation has been in the double digits for months. The government buying less wheat from farmers in a country where over half the population makes its living off the land is equally untenable. Selling more at subsidized prices to the poor is off the table because it would add to a swelling fiscal deficit.

"The government is acting like the biggest hoarder," said Biraj Patnaik, a principal adviser to the Supreme Court on right to food issues. "It's unconscionable and unacceptable," he said.

He says that wheat — about 30 percent of the country's total grain reserves — could feed some 210 million poor Indians for a year.

He calculates that the government has spent about \$5.5 billion on the wheat it now leaves out in the rain.

"You're going to end up losing as much money on food grains that go bad than the subsidies would incur if they distributed it to the poor," he said. "It's completely irrational and illogical not to distribute it right away."

Siraj Hussain, the chairman of the Food Corporation of India, which manages distribution, declined to comment Friday, saying he is prohibited from speaking to the media while Parliament is in session.

The impact doesn't stop at India's borders.

Global wheat supplies have been squeezed by drought and fires in Russia, heavy rains in Canada and locusts in Australia. Russia's decision this week to ban exports rocketed wheat prices to a two year high.

Wheat Rots In India As World Grain Prices Soar

Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

September contract wheat was trading at \$7.91 a bushel Friday, up 78 percent from a June 9 low of \$4.44 per bushel. "If it continues at this rate, we may have it doubling," said Jason Britt, president of Central States Commodities Inc., a brokerage in Kansas City, Missouri.

The 17.8 million metric tons of wheat, which is almost as much as France consumes in a year, and now beginning to spill from wet sacks in India is counted as part of global wheat stocks. If it rots it could drive prices up further because it would register as a decrease in global stocks, even though it is not intended for export, Britt said.

India is the world's second largest producer of rice and wheat, but it tightly controls exports. In 2007 it banned exports of wheat and non-basmati rice, except for humanitarian purposes.

If India decided to export its languishing stock — a politically unlikely scenario — it could help cool prices in a jittery global market.

"That would most definitely in my honest opinion put the brakes on a rally for the moment," Britt said. "When you're talking about supplies tightening as rapidly as they are, that could have a fairly sizable difference on the psychology of the market."

By next March, the government expects to be stocking more than twice the amount of food grains as prescribed by food security norms, according to the document obtained by The AP. The amount of grain stored outside has nearly doubled in the last two years.

The northern states of Haryana and Punjab, India's grain basket, have 173,668 metric tons of wheat that's been sitting under tarps for three or more years, and another 5.0 million metric tons is now being pummeled by its second monsoon, according to the document.

All that grain — by itself enough to feed about 60 million poor Indians for an entire year — is unlikely to be edible for long. Punjab state officials have admitted that 49,000 metric tons of wheat is already unfit for human consumption.

India's Hindustan Times newspaper first exposed the government's storage shortfall late last month.

Meanwhile, an estimated 80 million to 200 million Indians go to sleep hungry each night, and high food inflation is a messy political issue.

Opposition parties have staged debilitating strikes over prices, and shut down parliamentary debate all last week demanding an immediate discussion of spiraling inflation.

The Food Corporation of India maintains that it cannot distribute grains to the needy because states don't have enough local storage capacity. Already overstuffed state

Wheat Rots In India As World Grain Prices Soar

Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

warehouses haven't even been able to take adequate rat control measures.

In recent weeks, the government has decided to release more subsidized rice and wheat to the states, but it's unclear whether it will end up in people's stomachs.

Only about a quarter of subsidized rice and wheat allocated to the states from January to May was actually distributed, according to the document.

Government officials have said they plan more storage space, and India plans to boost humanitarian grain exports.

But critics say that's too little too late. A growing chorus is calling on India to throw its food chain open to greater foreign investment, a politically contentious step they believe would increase efficiency and lower prices.

P.M. Sinha, a former PepsiCo executive who chairs the agricultural committee of FICCI, a business lobby, is pushing for tax and bank lending incentives to encourage private-sector development.

The problem now, he said, is that the government doesn't pay warehouse owners enough rent — meaning there's no incentive to build new warehouses.

The Ministry of Commerce says it will cost 76.9 billion rupees (\$1.7 billion) to build the additional 35 million metric tons of food storage India needs.

In a July paper, it suggested that loosening restrictions on foreign investment in India's retail sector — where big corporations like Wal-Mart, Carrefour and Tesco are barred from selling directly to consumers — could be the best way to get more storage space built.

Yet others think that is a very bad idea, for India's millions of small shopkeepers as well as its poor.

"The government can absorb losses on food," said Patnaik, the Supreme Court adviser. "The private sector cannot. They have no intention to keep prices down."

Source URL (retrieved on 08/01/2014 - 7:09pm):

<http://www.impomag.com/news/2010/08/wheat-rots-india-world-grain-prices-soar>