

India's U-turn on wheat exports

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How India's u-turn on wheat exports will affect world markets

India's ban on wheat exports has delivered a fresh blow to world markets already reeling from tight supplies due to output issues in traditional export powerhouses Canada, Europe and Australia and snarled supply lines in the war-torn Black Sea area.

Below is a brief explainer on what's at stake for the world grain markets.

WHY DID INDIA BAN EXPORTS?

India was initially eyeing as much as 12 million tonnes of wheat exports in 2022/23, significantly higher than last year's record exports of 7.2 million tonnes.

After harvesting five consecutive record crops, New Delhi was hoping a sixth crop would be even higher at 111.32 million tonnes. But a heat-wave during a crucial crop development phase dented yields, forcing the government to cut its output estimate to 105 million tonnes.

HOW IMPORTANT IS INDIA TO WORLD MARKETS?

India is the world's second largest wheat producer behind China, but rarely exports much grain due to high government-subsidized domestic prices and massive domestic food needs. However, improved seed selection and farm management over the past decade had put the country on course for a new record crop this year, opening the door to an export boom just as global crop markets really needed extra supplies. Indian wheat exporters had eyed sales of up to 12 million tonnes in the 2022/23 season, which would have placed India as the eight largest exporter, not far behind Canada with a projected 15.5 million tonnes. Top destinations for Indian exports included Bangladesh, Indonesia, Nepal and Turkey, and top global buyer Egypt



recently agreed to make a first ever purchase of Indian wheat as Cairo tried to replace lost shipments from the Black Sea.

WHO ARE OTHER KEY WHEAT EXPORTERS?

Russia, Europe, the United States and Canada are traditionally the top global. Wheat exporters, and accounted for roughly 60% of world wheat exports from 2015 through 2020, according to the U.S. Department of Agriculture. However, each has faced significant wheat crop setbacks in recent sea. With their collective export share dropping to only 50.7% in the 2021-22 Season, mainly due to drought in North America and Europe. This year's export tonnage had been expected to recover until Russia's Invasion of Ukraine – a fellow major wheat producer and supplier – severed Shipments from that region and sparked a scramble by major buyers to find replacement supplies. Australia is slated to be the third largest wheat exporter this year, but suffered some quality deterioration in certain areas just before harvest and has already sealed deals on a majority of exportable volumes.

WHO ARE THE TOP IMPORTERS?

Over the last three seasons, Egypt, Indonesia, China, Turkey and Algeria have Been the top five wheat importers. Other major importers include Bangladesh, Morocco, Nigeria and Brazil. Since Russia's invasion of Ukraine threatened to block wheat supplies from The Black Sea, big buyers in Africa and the Middle East have struggled to find replacements, since most alternative exporters do not begin this year's harvest until June.

The exception this year had been India, which wrapped up its main wheat harvest this month and so had a rare abundance of fresh wheat inventories.

WHAT HAPPENS NOW TO INDIA'S WHEAT?

The sudden ban on exports means a majority of the new crop will now stay within India.

Trading firms that have already secured letters of credit to export grain will be allowed to proceed with those sales. Remaining segments of the crop that had been expected to be exported will now need to be sold or stored domestically.



Local wheat markets have already started to react to the ban, with prices falling up to 2% over the weekend in various spot markets.

The move to ban the export of wheat was prompted by rising inflation. Retail inflation hit an eight-year high of 7.79 per cent in April, driven by rising food and fuel prices. Prompted by a severe heat wave in most parts of the country that has cut harvest prospects, the announcement the ban is also being seen as a measure to control rising domestic prices. Retail inflation hit an eight-year high of 7.79 per cent in April, driven by rising Food and fuel prices. India's move has further threatened to squeeze global wheat Supply. However, existing export sales covered by letters of credit and government-to- Government deals to meet food security needs will be allowed. In other words, India's heat wave is having ripple effects for the world's food supply. Wheat prices have risen more than 60 per cent this year, driven up by Disruption from Russia's invasion of Ukraine. India's announcement drew Sharp criticism from the Group of Seven industrialised nations' agriculture Ministers meeting in Germany, who said that such measures "would worsen the crisis" of rising commodity prices.

"If everyone starts to impose export restrictions or to close markets, that would worsen the crisis," German agriculture minister CemOzdemir said at a Press conference in Stuttgart. Global buyers were banking on supplies from India, which is the world's Second-biggest wheat producer after exports from the Black Sea region plunged following Russia's invasion of Ukraine around mid-February. Before the ban, India had aimed to ship a record 10 million tonnes this year. However, at least 10 to 15 per cent of the wheat crop was destroyed in the North, the country's most productive region, due to extreme heat conditions which overtaxed the plant and prevented it from forming any grain.

Last month, Prime Minister Narendra Modi told US President Joe Biden that India could step in to ease the global shortfall created by Russia's invasion of Ukraine. The two countries account for nearly a third of all global wheat. The report by Deloitte predicted that unchecked climate change would turn India economic growth story into one of decline. It would put India's position as a modern, global manufacturer and services-based economy at risk. "Unchecked climate change threatens India's contemporary economic engine with 80 per cent of GDP at risk. Services, manufacturing, retail and tourism, construction, and transport will incur the greatest climate-related losses over next 50 years and by 2070, would experience an average



annual loss in the value added to GDP of more than \$1.5 trillion per year," the report said. If substantial actions are not taken, climate change, would, on average, reduce India's economic potential by 5.5 per cent a year over the next 50 years. The losses would increase rapidly as temperatures continue to rise, with net present losses to India's GDP growing by more than fivefold between 2050 and 2070," it said in a report titled 'India's turning point.' Another report by the medical journal The Lancet shows that India's vulnerability to extreme heat increased 15 per cent from 1990 to 2019, and that India is among the top five countries where vulnerable people, like the old and the poor, have the highest exposure to heat. It and Brazil have the highest heat-related mortality in the world, and farm workers are the most vulnerable. Weaker agriculture production also leads to a drop in farmers' income, squeezing margins just as costs of fertilizer and fuel have soared. One alternative is to sow wheat early as the intensity and frequency of hot weather will increase in the coming years. India recorded an average maximum temperature of 33.1 degrees Celsius (91.6degrees Fahrenheit) in March, an all-time high. In April, temperatures surged to 46 degrees Celsius in some places. No respite is likely in the coming days. Challenges for farmer. India is set to lose over 100 billion work hours every year if such heat waves persist, according to December 2021 study published in science journal Nature. Heat exposure of labourers is linked to multiple health impacts, including premature death; workplace injuries; morbidity from heat-related illness; and acute kidney damage. "The impact of the wheat export ban on India's domestic food inflation is Likely to be muted". This export ban is a pre-emptive step and may prevent local Wheat prices from rising substantially; however, with domestic wheat Production likely limited by the heatwave, local wheat prices may not moderate materially. Trade experts also believe the ban will cool the market prices of wheat that had soared past the minimum support price (MSP) in the recent months. Wheat was being purchased by private players at rates above the MSP that led to an increase in market prices of wheat as farmers preferred to sell their Wheat in the open market. Private traders will now be forced to free up stockpiles that were held in anticipation of a further rise in prices.