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Agri inflation – what cannot be cured (easily) must be endured

Vijay L Bhambwani

Tel –

91 - 22 - 23438482

E-mail –

vijay@Bsplindia.com

Url –

www.Bsplindia.com

Snail mail –

**Bhambwani
Securities (P) Ltd**

5 Kala Niketan
47-C Warden Road
Mumbai 400 026
India

The recent developments on the agri price inflation front has seen a positive development (atleast from my point of view) – our honourable Prime Minister has admitted that India's food security is nothing but wishful thinking. What is so positive about this candor is that New Delhi has finally admitted that this problem is a long term headache and fire fighting measures are akin to administering first aid to a terminally ill patient.

Unfortunately, the high decibel noise and heat that is being generated in the recent past seems to point towards a conspiracy theory and blames vested interests for the recent price rise. While not completely off the mark, subscribing in toto to this dangerous school of thought will only exacerbate matters further! Long term measures will probably be pushed into the background and agri reforms will remain just good intentions. A few eye openers –

- The global population is roughly 7.30 Bn and rising. India's population is 1.1 Bn and rising. We therefore boast of almost 20 % of the global population but less than 5 % of water and agri resources to feed our teeming millions. By 2050, the global population is expect to touch 13 Bn at current rates of growth. Arable land and water resources are unlikely to keep pace with the consuming humanity. Food price challenges are here to stay.
- Most of the population is concentrated around Asia, unfortunately, agri yields are one of the lowest in this area too. Poverty, mal nourishment and under development are a direct result. As and when per capita income goes up, the first flurry of demand expansion will be seen in essential commodities – food, shelter and clothing. Top soil erosion due to over exploitation and excessive farming is also rampant in Asia. This results in rapid desertification – India has reached a precarious stage where 25% of potential arable land is now desert grade. Rapid industrialization, road building, housing and climate change are other factors that impact food production adversely.
- Food production and water availability are inter-linked issues. About 1 % of surface water available world wide is potable, whereas a major portion of the global surface area is covered with water. India has less than 5 % of global fresh water resources. With a 20% global population to feed, prices can only go up in the long term. You do the maths.
- The 1972 planning commission document includes a report by the National Irrigation Commission that clearly states that our irrigation system is in shambles. Upto 1995 – 6, there was a Rs 70 Bn loss in recovery of irrigation water supply costs. The Committee of Pricing of Irrigation Water, under the planning commission of 1992 sharply criticizes the lack of political will to even recover the operational and maintenance costs of irrigation canals from the farmers. As a result of continued losses, water supply is erratic, poor quality water is supplied and farmers actually buy water at a premium from alternate sources. A rational cost structure in electricity and water supply to agriculture is the need of the hour if agri efficiency is to improve.
- Financial compulsions will ensure that subsidy burdens will not be feasible

on a perpetual basis. Gradual phase outs will be the only way out and input costs of farmers are bound to go up. That in turn will mean higher food prices at the retail level. Fertilisers, electricity and fossil fuel costs are likely to escalate and long term impact on food prices can only be inflationary in nature. Once we face the reality, we can take **long term** remedial measures. Short sighted fire fighting moves will mean brushing the longer term problem under the political carpet. There is no substitute for a bumper harvest and we need a green revolution and nothing less will do.

- The myth of buying food at competitive prices from overseas markets in case of shortfalls caused by rapid industrialization and desertification is likely to hit us hard. As I have written earlier, this model adopted by China is cost it dearly and is not a way out. Thailand and Vietnam (global leaders in Rice exports) have refused to step up exports as local buffer stocks get depleted by higher consumption. Barriers to food exports are going up and long term food security based on imports will only mean letting the Country be held on ransom by overseas markets. Commodity markets being radar sensitive, have already smelt a depletion of Indian buffer stocks as the Govt tries to cool prices by releasing subsidized food grains. Buffer depletion has led to wheat futures indicating more upsides in prices over the long term.
- Even if the authorities clamp down on hoarders and speculators, what will be achieved is a partial decline in food prices as the main culprit remains demand supply mismatches. Rising consumption (increasing population & purchasing power per capita) will mean that no more than 25 – 35 % of the entire price rise maybe reversed. You can forget about buying sugar at Rs 20 / Kg anymore. Commodities have various premia built into the prices and speculative premium is a small component. Curbing hoarding and speculation will mean compressing that small premium – not rolling back the prices totally, as the larger supply side problem will remain in place.
- For a Country whose agricultural productivity is poor per hectare of arable land, we also have the dubious distinction of having poor buffer management capabilities. Our granaries stock food in-inefficiently and wastage rates are excessively high. Green veggies are lost to the extent of 50% before they reach the consumer! Our surface transport systems are poor as roads are badly maintained, leading to delays in transportation and wastage of perishables. Transportation is a long term bottle neck and as long as this remains, costs will be high. Cold storage and refrigerated trucks are suggestions that need pondering but are expensive solutions. Food costs will go up if cold storage is employed but maybe made up by reduced wastage. Implementation is unlikely to be swift however.

Unless the core of the problem is attacked, we are unlikely to get much relief from the menace of agri price inflation. A rising population with increasing purchasing power will cause a long term supply crunch, the equation is clear. With the PM admitting that the problem is more severe than hitherto anticipated, one hopes that water and food management will get the much deserved budgetary attention on Feb 26, 2010. The remedies suggested so far – imports, curbing speculation and fiscal tweaks are doomed to fail as they are grossly inadequate.

Vijay L Bhambwani
(Ceo - BSPLindia.com)

The analyst is the author of the book "A Traders Guide to Indian Commodity Markets" and invites feedback at vijay@BSPLindia.com.