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Indian Elections: A Food Perspective

On May 16th 2014, we saw another chapter in the Indian Democracy begin. India wakes up to new leadership, a new set of policies, and it looks forward to a new direction for development. In this article, I want to focus on some of the challenges and opportunities India faces in the food sector given the backdrop of the new government. I want to introduce the term food balance to distinguish the domestic vs. foreign issues that influence the Indian food industry.

To set the stage, let me begin by dividing Indian food balance into two categories: Internal Food Balance and External Food Balance. An example of Internal Food Balance is the supply and demand of vegetables where production and prices are not a function of the world markets. An example of External Food Balance is the supply and demand of Edible oil, where production and prices are a function of the world markets. In addition, food markets are dependent on exogenous variables such as exchange rates, logistics and energy prices.

India has faced challenges of increasing global prices of food and energy, and this has been amplified in the last few years by a depreciating exchange rate for INR. India is a net consumer of food in the global context, thus in a depreciating INR regime, India is bound to have a higher food price inflation. Subsidies can be given to prevent this food price inflation, but subsidies eventually depreciate the currency and the long-run equilibrium would likely be even higher food inflation. (Note that I have assumed here a specific case related to just food prices and exchange rates with all else unchanged).

A focused approach to Indian food balance can achieve some key objectives: controlling food inflation, achieving food security, and optimizing internal vs. external food balance. Optimality in food balance is paramount to achieving correct allocation of labour, capital and technology in the Indian food industry.

There are two broad tools to achieve the food balance.

1) Predictive Policies: Predictive policies can be implemented in order to achieve external food balance. The policy makers should have adequate knowledge of the supply and demand of food that India exports and imports. An example would be to install incentive structures in sync with the forward curve of commodities like soybean meal, palm oil, sugar, coffee etc. These incentive structures would help reduce unnecessary inventory or avoid a sudden spike in demand, smoothing the revenues and costs for these businesses. For example, it is expected that by the end of 2014, sugar prices will go up and soybean prices will go down. Policies should be set now in such a way that the sugar industry is incentivized to capture higher margins while consumers of soybean products enjoy expected lower prices in the later half of this year.
2) Agriculture Investments: Investments in the food sector will achieve an internal food balance. An example would be the creation of clean, deliverable storage units. Investments in warehousing would lead to storage of food that is domestically produced and sold more efficiently. In my opinion, incentives should be given to the producers and/or consumers to build storage capacity, but avoiding overcapacity. This action would reduce volatility of internal food balance and create greater predictability of food supply.

India has many challenges in the food sector but this is the right time to incorporate some of the latest policy tools the world has to offer. India should gear up to use predictive analysis in the food sector to achieve external food balance and allow greater investments to achieve internal food balance in order to achieve national food security at the lowest cost with the greatest speed.

PRUDENTIAL TOWER, 30 CECIL STREET, SINGAPORE 049712
www.opalcrest.com | INFO@OPALCREST.COM