



▶ **When flour price matters: making food affordable**

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Dulu Mia is a short, hard working rent-a-car driver in Rangpur town. I know him for about one and a half years. Whenever we go for any study or assessment work on behalf of development partners in Rangpur region, we hire him. He married on the very year that Ershad fell from power. He always rued this because he liked Ershad. He has two sons, one eight and other eleven years old. His old mother lives with them. If you ride with him, his passion for driving and care for the passenger as well as the car surely will draw your attention. He talks very little - mostly about the village of his childhood. He lost his home to the river but he never curses his fate. He fought a very hard battle in life to make a living and have a place in this world.

We went to Rangpur recently for an assessment job and, as we would do before, hired Dulu Mia. On the second day, we were on our way to Kurigram. Unexpectedly he questioned - 'Sir, can you tell why the price of flour has increased so much?' Just at that moment, it seemed to this scribe that he heard a wrong question - either he mistakenly said flour instead of rice or that heard something wrong. So, it was better to keep mum. After a pause, he continued, 'My sons very much liked parata. Even one month earlier, I used to buy one kg of flour every day. The price was then Taka 30-32 per kg. Now it has reached Taka 38-40 per kg. The price of soybean oil has also peaked. Things have gone out of my reach. For the last three weeks, we are eating rice at breakfast. At the start, my sons asked for parata but now they don't ask for it. The price of rice has also risen. It seems bad days are coming again.'

It was deeply striking to hear his words. It should be mentioned that the price of rice became a concern for this writer since the Cyclone Sidr hit the country. All the websites said that grain price has risen significantly in the world market because of tight supply and strong demand. The government's target for a bumper Boro crop was a point to be watched. The hope was a bumper Boro crop will lower the domestic price of rice to previous level again.

But that many people were shifting from flour to rice because of higher price of flour was a stunning piece of news. This scribe thought of a rather simple solution to the problem - 'bumper Boro crop' will do its job, but now it appears it will not. More people are now eating rice because of high price of flour. The demand for rice is increasing. The game remains no longer simple. So, the decision was to give a thorough view on the subject. Dulu Mia was promised an explanation by this writer at the end of February.

Why has the price of flour increased? Flour is made from wheat. So, the simple way to find why flour price is increasing is to look at the price of wheat. In 2006-07, we produced 0.7 million MT wheat (source: Bangladesh Bank statistics) and imported 1.8 million MT wheat from world markets (source: USDA). Since imported wheat contributes about 72 per cent of the total annual consumption,

the price of wheat in domestic market exclusively follows the international wheat price. That's why this writer looked at the international wheat price on Chicago Board of Trade (CBOT), the largest wholesaler market of wheat in the world. The findings are presented in the following table:

The table shows that the wheat price in the international market in the first four months (Jan-Apr) of 2006 was on average Taka 8.6 per kg. This increased to Taka 9.9 (+ Taka 1.3) in the next four months and Taka 12.4 (+ Taka 3.8) in the final four months of 2006. In the first four months of 2007, the price decreased marginally to Taka 12 per kg but jumped to Taka 19.6 (+ Taka 7.6) in the next four months and increased even higher to Taka 22.5 (+ Taka 10.5). The price of wheat has increased unimaginably fast - around 2.6 times in last two years. Even if one compares the year-end price of last two years, the price of 2007 is 80 per cent more than that of 2006. So, don't blame the government, it is not within its reach to tame the international market - you can only blame the international market.

The wheat price which is mentioned above is the export price in the US. You need to add shipping cost, bank cost, and importers' profit to calculate the wheat price in our domestic market. These costs add around Taka 1.5 to 2 per kg with the export price.

Why is the price of wheat rising fast in international market? Many readers would not be happy with this answer, they would certainly ask two questions - first, why is the wheat price increasing in the international market? Secondly, how long would this high price continue? The answers would again be given in simple terms.

We usually justify the price increase in two ways - either the production cost of the item has gone up or the supply of goods is shorter than demand. For the first logic - yes, the price of petroleum has risen too much in the last one and a half years. We need petroleum to run irrigation and other agro-machinery and we produce fertilizer from oil and gas. So it increased the fuel cost and fertilizer price which, in turn, amplified the production cost of wheat. How much - according to an USDA (United States Department of Agriculture) study, rising oil price added around 8.0 to 9.0 per cent in the production cost of per kg wheat. But we are searching answers for an 80 per cent increase in price. What is the explanation for the rest 70 per cent increase?

The second logic - the supply of wheat is lower than demand - may give us the answer. Supply can be short for two reasons - (i) the supply has decreased, i.e. exporting countries are selling less wheat, or/and (ii) the demand has rushed up, i.e. importing countries are willing to buy more wheat. Here 'or/and' has been used because in some cases they happen independently and in others simultaneously. Unfortunately, in the case of wheat, both of these two factors have occurred simultaneously.

The following table shows the wheat export statistics of top ten countries in 2006 and 2007. The final column represents the difference in export volume from 2007 to 2006. Look at the last row of the table - it mentions the total volume of wheat export in the world. It says that total volume of wheat export in 2007 was 7.4 million MTs less than the earlier year. This proves that there was a shortage in wheat supply in 2007.

The table shows that five out of top ten wheat exporting countries have exported less wheat in 2007. To find reasons for this shortage the website was searched. The reasons are different for these countries. (i) The European Union (EU) - The wheat production data shows no significant change, but they have channelled the rest amount of wheat for producing ethanol. They call it biofuel and use it to run

automobiles. The high price of oil has made this technology financially viable. (ii) Australia, Ukraine and Turkey - drought and sudden rise in temperature have affected the yield significantly and substantially dropped wheat production in these countries. The drought affected Australia most - in 2006 total wheat production in Australia was 25.2 million MT but in 2007 it dropped off to a meagre 9.9 million MT. (iii) Canada - two things happened: first, wheat production decreased by 5.2 million MT in 2007 because of sudden rise in temperature, and second, the country like the EU channelled a large amount of wheat for ethanol production.

It is time to look at the demand side of the importing countries. A glimpse on the statistics of importing countries identifies India as the only importing country who has tremendously increased wheat import last year. India imported only 8.0, 14 and 118 thousand MTs of wheat in 2003-04, 2004-05 and 2005-06 respectively. In 2006-07, the amount they imported was huge- 6.7 million MTs. Suddenly they have turned into the third largest wheat importer in the world. The sheer size of this import volume has pushed the wheat price far more in the international market.

Now, how long will this high price continue? On the demand side, recent agriculture news from India state that in total the farmers have increased wheat acreage by 12 to 15 per cent this year responding to the high price of wheat. The agriculture economists of India hope the Indian import of wheat will again go down to a negligible level. Certainly, this will force down the wheat price in the international market. However, the game in the supply side has turned into a complex one. On the positive side, (i) the EU decided to eliminate the policy of setting aside land on July 2007. As per this rule, since 1990s the EU set aside about 4.0 million hectares of arable land to ensure higher grain price in the world market. But the wheat price has risen above their highest estimate. The EU farmers want to cash in on this high price of wheat. Wheat is expected to be cultivated on about 70 per cent of this land thus set aside which is 2.8 million hectares. With yield of 2.0 MT/hectare, this is expected to add 5.6 million MT in total wheat production. (ii) The Australian wheat production is expected to revive but at less than previous level. Australian government is asking farmers to shift to oilseed and pulse cultivation to minimize loss in future droughts.

On the negative side, (i) The EU biofuel policy provides enough incentive to produce biofuel from wheat. Large number of wheat-based ethanol refineries opened at the last part of 2007 and some will start operation in the early 2008. These ethanol refineries will consume much higher quantity of wheat than in 2007. For example - in 2007, France consumed around 0.13 million MTs of wheat in ethanol refineries but in 2008, they estimate that around 0.6 million MTs would be consumed by the ethanol distillers. This is equal to about 25 per cent of the total consumption of our country. (ii) Canada is also expanding ethanol production from wheat which means less export. (iii) The US, the biggest wheat producer and largest wheat exporter in the world, has decided to produce ethanol from maize, not wheat. This has boosted the maize price about two-fold in 2007. This made maize cultivation far more profitable than wheat. The USDA statistics reveals that in 2007 around 1.3 million hectares of spring wheat acreage shifted to maize cultivation. On the other hand, the high price of maize forced many livestock farmers to substitute it with low quality wheat. So, the domestic demand for wheat also increased and this trend will continue in 2008. The USDA estimates that farmers need to increase wheat acreage by 1.4 million hectares in 2008 to ensure the domestic supply and maintain 2007 export level but they are not convinced of achieving this increased acreage as the demand of maize and thus price is expected to rise further in 2008.

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