Asia: After China, India is the number two rice-producing and consuming nation. Record crops the last two years means total annual supply of 108 million rice equivalent is much in excess of domestic demand. Government planners are less concerned now with how to maintain an adequate emergency reserve in case of consecutive failures of the annual monsoon rains than with how to store and dispose of the burgeoning surplus.

One belated response has been the removal in September 2011 of the export ban on non-basmati rice. According to an IGC report, currently India is on track to increase overall exports 6.1 million tonnes this marketing year, up 50% from 4.1 tonnes last year.

If the trend continues, which seems likely given the high level of stocks and continued production increases, India could soon become the world’s leading supplier of rice to world markets, overtaking second-ranked Vietnam and usurping Thailand from the number one position that it has held for decades. Rice millers and exporters in all corners of India have been gearing up production to take advantage of the new external market openings. Vijay Setia, president of the All-India Rice Exporters Association, estimates that there are 1,000 rice millers producing for export. The majority of mills may sell through traders and brokers. But the largest exporters are the biggest rice millers. Those that receive major foreign orders often subcontract production to numerous small neighboring mills.

Suresh Sundaresan, executive director of the same association, estimates that as much as 16% of the current crop could be available for export even while ensuring buffer stock norms of 33% of annual use. But the government must be flexible in reducing its minimum export price to speed the outward flow, he says.

India’s rice exports cover the entire spectrum of varieties, processing and quality grades, from high-priced, store-branded basmati varieties, both parboiled and raw, for wealthy markets like the Gulf countries of the Middle East, North America and Europe, to certain grades of broken rice for West African countries, to common varieties of raw rice.

Country will likely become world’s top rice exporter as production treks upward

by David McKeen

(Above) Dunar foods large mill near Karnal, Haryana state, India — one of three in different states — sits among wheat fields that will be replanted with rice during the summer monsoon season. Photos courtesy of David McKeen.
for government food organizations like Bulog in Indonesia.

RICE MOSAIC
This diversity is a reflection of the variegated picture of rice production and milling in India. The major differences are between north and south. The biggest surpluses are produced in Punjab and Haryana in the shadow of the Himalayas, where the superb irrigation infrastructure, sophisticated commercial farmers, and high government prices combine to make rice a monoculture during the Kharif season from April to autumn when it alternates with the other monoculture, wheat, in the dry Rabi season.

Haryana and Punjab produce an annual crop of around 15 million tonnes. Nearly all of it is marketable surplus as the people of the region traditionally consume just a few meals of rice per week. The Food Corporation (FCI), a federal agency that operates the central grain pool, takes the bulk of the surplus.

FCI pays the Minimum Support Price to farmers for common varieties purchased by a number of state level organizations from the mandi system of agricultural markets. The paddy is delivered to rice mills, about 700 in Haryana and 3,300 in Punjab, on a quota system during the harvest in September.

The mills are expected to complete milling of the rice by March 31 for delivery to government warehouses and...
eventual shipment to rice deficit states, mainly in the south.

Nine out of 10 rice mills in both states are doing only custom milling for the government and have an average capacity of less than 2 tonnes per hour. Only 300 of Punjab’s rice millers buy their own paddy to produce for the open market in addition to government business. Just a handful of the largest millers completely forego custom milling for the government.

One state where rice milling has become relatively consolidated is Andhra Pradesh in the south, where just 600 mills produce over 14 million tonnes, the second most of any Indian state after 15 million tonnes in West Bengal. The government’s share of the market is less important there, so fewer small mills are surviving only through custom milling for the state. To suit local tastes almost all rice is parboiled, a more capital intensive process. Both of these factors may help to explain why clusters of bigger milling enterprises have developed in major production zones.

BASMATI RICE

A new sector of large modern automated rice mills has emerged in the north that have based their growth on the surging demand for higher-value, attractively packaged, specialty varieties both in export markets and domestically.

Dinesh Chhatra, general manager who heads up Adani Wilmar’s recent entry into branded rice sales, estimates that half the rice milling in the two northern states occurs in relatively large-scale enterprises processing 24 tonnes of paddy (rough) rice per hour and more. In the southern states, where rice is the most important staple, he says just 10% of all rice is milled in larger mills.

Some rice milling plants in Haryana and Punjab now count among the largest in the world with hourly processing capacity of 100 to 200 tonnes. They have sophisticated milling technology and other processes to extract maximum value by producing an array of high-value byproducts such as rice germ and rice bran oil.

LT Foods, KRBL, REI Agri, Kohinoor Foods and Lakshmi Food and Energy all rank among the largest rice processors and exporters. The key to growth of most of these is exportation of several varieties of fine long-grained, aromatic basmati rice to dozens of countries in all regions of the world.

Sundaresen said that in a rare show of cooperation, last year India and Pakistan settled their long-standing dispute over the use of the name “basmati,” agreeing to a common geographical index for certain varieties grown in a contiguous region of the Indian subcontinent.

India has traditionally exported nearly all of the basmati it produces, simply because it commands such high prices on international markets. Few Indian consumers were willing pay for basmati multiple times the cost of the common varieties they were accustomed to since childhood. But now basmati rice and branded rice in general have seen a tremendous surge in domestic consumption thanks to higher incomes accompanying economic growth.

KRBL Ltd. is one major rice miller that has exploited this trend. Anil Mittal, chairman and managing director of the company, reports that 85% to 90% of production at his 130-tonne-per-hour plant is basmati rice, but that his sales are split evenly between the international and domestic markets where KRBL has built one of the country’s leading rice brands, India Gate, which Mittal says may be extended to rice bran oil and even whole wheat flour for chapattis.

“In 1998, only 10 percent of rice sales in India were branded, and 90 percent were unbranded,” Mittal stated in a recent interview. “Now 65 to 70 percent are branded, and in five years rice will be 90 percent branded.”

GOVERNMENT RICE

This branding trend applies mainly to the 4 million tonnes of basmati rice and additional 10 million tonnes of specialty varieties that were produced last year, according to Mittal, and excludes the 30 to 32 million tonnes of rice that is purchased annually by FCI for the central pool as well as rice self-consumed by farmers.

Without government procurement, it is clear that many of India’s rice milling enterprises, whose number Mittal puts at 45,000, would go out of business. The Government of India announces an MSP every year to be paid to farmers. The price is sufficient to bolster farmers’ incomes guaranteeing that enough rice
is grown to ensure food security. The central pool also furnishes the bulk of the heavily subsidized common varieties that are provided as either raw rice or parboiled rice to the 25% of families in most Indian states that hold ration cards under the Public Distribution System.

The FCI procures rice at 18 rupees ($0.38) per kg but sells it to the state governments for just six rupees per kg. The states, at their own discretion, may increase the subsidy from their own budgets. Often this happens prior to elections. In the southern state of Tamil Nadu, every ration card-holding family is now entitled monthly to 35 kg of rice for free versus a previous price of one rupee per kg.

Government subsidized rice is invariably poor quality and so a high percentage of beneficiaries, many of whom are no longer truly poor, do not bother to go to Fair Price Shops to get their rice. This opens the door to leakages from the official channels. One academic study published last year by Reetika Khera of the Indian Institute of Technology in Delhi concluded that over 40% of food grains, including rice, is illegally diverted from state run public distribution systems to open market sales. But the study also determined this figure is actually down about 10% from several years before.

Given the low cost and the increasing quantities being pushed through the system to reduce stockpiles, it is not surprising that there is much anecdotal evidence about old, poor quality government rice being fed to chickens by rural ration card holders or by commercial poultry farms that have purchased it on the black market.

FOOD SECURITY

There is little doubt that India has abundant non-basmati rice for itself and others. The challenge is for the soon-to-be top rice exporting nation to live up to its responsibility for global food security by not repeatedly closing the door on exports each time international prices suddenly spike.

At the same time, the government could do more to increase world rice stocks simply by building more and better storage, a process that is well under way.

Finally, a reduction of the state’s role in the sector would allow extra room for well-run rice milling companies to create greater value in Indian agribusiness.