From wheat crisis to food crisis: a reality check

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The wheat market in Pakistan has been a subject of intense debate and scrutiny, particularly due to the significant amount of taxpayer money spent on procuring wheat from farmers at the Minimum Support Price (MSP). This policy aimed to stabilize prices and protect both producers and consumers.

However, the wheat policy has largely failed to achieve its intended outcomes.

Instead of benefiting small farmers and consumers, the primary beneficiaries have often been flour mill owners and middlemen.

Apart from the circular debt, over Rs.300 billion of taxpayers' money is being consumed yearly directly or indirectly on wheat procurement and related functions, without substantial benefits trickling down to the actual producers and end consumers.

As a result, fixing the MSP has often led to unintended consequences, raising questions about its sustainability, market efficiency, and overall effectiveness.

The proposal for the government to exit the wheat market has been under consideration for a long time. However, the sudden withdrawal of the Punjab government from the wheat market has caused significant disruptions. This was an ill-timed decision, as the government had imported 3.5 million tons of wheat from September 2023 to March 2024, just before the new crop's harvest.

The large stock held by the government restrained the middlemen from participating extensively in the wheat purchase process, which suppressed the wheat prices at the farm level.

However, during the previous four consecutive years, the wheat market demonstrated that middlemen were offering higher prices to farmers than the MSP paid by the government. This indicated that the government was failing to protect farmers' interests. This year, in the absence of a large number of middlemen, millers formed a cartel that severely exploited small farmers.

Therefore, while the government's decision to exit the wheat market was correct, it was implemented in the wrong year due to the substantial reserves held by the government, which proposed a threat to middlemen's ability to recover their investment costs in procuring wheat from farmers.

Ideally, the government should gradually reduce procurement from small and medium farmers, who comprise around 89 percent of the farming community. However, the abrupt execution of the decision to exit the wheat market was poorly managed, leaving these farmers vulnerable to exploitation by the millers' cartel.

As a result, small and medium farmers have borne the brunt of this crisis. Despite media portrayals, the impact on small farmers is not as severe because their marketable surplus is relatively small due to the subsistence nature of their farming. They typically consume nearly half of their produce at home, share a portion with relatives, and keep some for seed and animal feed.

Therefore, medium farmers, who typically have a higher marketable surplus than small farmers, bear the burden of this crisis.

The price offered by millers barely covered the cost of production. Having purchased the larger share of marketable surplus at low prices, millers are now lobbying for government permission to export wheat. This would not only increase domestic prices but also boost their profit margins. Such a move would sharply drive up prices in the coming months, severely impacting low-income segments.

High prices just before the next crop's harvesting could enable millers to convince the government to resume its involvement in the wheat marketing process, by attributing the price hike to the government exit. Therefore, exporting wheat under these circumstances would be ill-advised.

The government's absence from the wheat market is being portrayed as a precursor to a broader food crisis due to the anticipated decline in wheat acreage in the coming planting season. Farmers typically use the previous year's prices as a signal to allocate acreage to the wheat crop.

This year's unfavourable prices are likely to result in a reduction in wheat cultivation next season, which is a predictable response from farmers. This decrease in cultivation area may necessitate wheat imports to bridge the gap between supply and demand.

However, this does not indicate that the country is heading towards a food crisis; rather, it is a cyclical process that needs to be understood. With less acreage devoted to wheat in the coming year, wheat prices are likely to rise in the subsequent years, attracting more acreage back to wheat cultivation due to the imbalance between supply and demand.

Additionally, farmers could redirect the reduced wheat acreage to other-value crops, such as sugarcane and edible oil crops.

Shifting towards edible oil crops can lessen the government's import burden, which currently stands at around USD 4.5 billion.

However, for this shift to be sustainable, the government must ensure that edible oil crop growers receive fair prices, which is often lacking. Since we import low-quality palm oil, our mustard and sunflower oil which is of significantly high-quality and can't compete with palm oil in terms of prices.

To make domestically produced high-quality edible oil more competitive, the government should consider increasing taxes on low-quality imported palm oil. This measure would protect local farmers and conserve foreign reserves, which could then be used to support wheat imports if necessary.

The wheat crisis in Pakistan highlights the complexities and challenges of agricultural policy and market management. Despite portrayals by various market players, the government's exit from the wheat market is not causing a food crisis in Pakistan. Therefore, there is no need for the government to re-engage in all operations of wheat marketing. If necessary, any involvement should be limited to small growers to maintain the required strategic reserves for emergencies.

Additionally, the government must act with greater sincerity and vigilance.

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