UNPACKING PAKISTAN's WHEAT CRISIS: RISKS AND REALITIES FOR FUTURE FOOD SECURITY

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The wheat market in Pakistan has long been a topic of debate and scrutiny, especially when substantial taxpayer money is being spent on procuring wheat at the Minimum Support Price (MSP). This policy was designed to stabilize prices and protect producers and consumers, but it has largely failed to achieve its objectives. Instead of benefiting small farmers and consumers, the primary beneficiaries have often been flour mill owners and middlemen. Beyond the circular debt, more than Rs. 168 billion of taxpayer money is consumed each year on wheat procurement and related activities. Yet, these funds rarely provide significant benefits to actual producers and end consumers. Consequently, fixing the MSP has led to unintended consequences, raising concerns about the policy's sustainability, market efficiency, and overall effectiveness.

Although, for years, the government's withdrawal from the wheat market has been suggested as a potential solution, but the Punjab government's abrupt exit from the market has led to substantial disruptions. This decision was poorly timed, as the government had imported 3.5 million tons of wheat from September 2023 to March 2024, just before the new harvest season. The large stockpiles held by the government discouraged middlemen from participating in wheat purchases, which suppressed farm-level wheat prices, implying that the government made the right decision but at the wrong time.

Over the previous four consecutive years, middlemen offered farmers prices higher than the government MSP, underscoring the government's inability to protect farmers' interests. However, in the absence of middlemen this year, millers formed a cartel that severely exploited small farmers. While the decision to exit the wheat market was sound, its execution was poorly managed, especially considering the significant reserves held by the government, which discouraged middlemen from investing in wheat procurement from farmers.

Ideally, the government should have gradually scaled back procurement from small and medium farmers, who make up about 89% of the farming community. Unfortunately, the abrupt implementation of the decision left these farmers vulnerable to exploitation by the millers' cartel. Although small farmers have been affected but the impact is less severe than media portrayals suggest. This is because small farmers retain much of their produce for household use, share some with relatives, and reserve a portion for seed and animal feed, leaving a relatively small marketable surplus. Medium-sized farmers, who typically have a larger surplus to sell, have borne the greatest impact of the crisis.

The prices offered by millers barely covered the cost of production. Having secured the majority of the marketable surplus at low prices, millers are now lobbying to get government's permission to export wheat, which would drive up domestic prices and increase their profit margins. Wheat export at this stage may lead to a sharp price increase in the coming months, severely impacting low-income households. High prices shortly before the next harvest could prompt millers to urge the government to re-enter the wheat market, blaming price hikes on the government's exit. Thus, allowing wheat exports under current circumstances would be unwise.

The government's absence from the wheat market is being depicted as a precursor to a broader food crisis due to the expected decrease in wheat acreage in the upcoming planting season. Farmers often use the previous season's prices as a signal when deciding how much acreage to allocate to wheat. This year's unfavorable prices are likely to lead to reduced wheat cultivation next season, a predictable response from farmers. While this may necessitate wheat imports to balance supply and demand, it does not indicate an impending food crisis. Rather, it is part of a natural cycle: with less acreage devoted to wheat next year, prices are likely to increase in subsequent years, prompting farmers to return to wheat cultivation as supply-demand imbalances correct themselves.

Additionally, farmers may allocate less wheat acreage to higher-value crops such as sugarcane and edible oil crops. Shifting toward edible oil crops could reduce 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 fair pricing for edible oil crop growers by taxing the import of low-quality edible oil (such as palm oil), which is often not the case. Given that Pakistan imports low-quality palm oil, domestic high-quality mustard, and sunflower oils struggle to compete in terms of price. To make locally produced high-quality oils more competitive, the government could consider raising 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 needed.

The wheat crisis in Pakistan underscores the complexities and challenges of agricultural policy and market management. Despite portrayals by various market players, the government's withdrawal from the wheat market does not indicate an impending food crisis in Pakistan. Therefore, there is no need for the government to re-engage in comprehensive wheat marketing operations. If necessary, government involvement should be limited to supporting small growers to maintain strategic reserves for emergencies. Moreover, the government must act with greater responsibility and foresight in managing the wheat market.

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