

POLICY VIEWPOINT

Towards a Free Market: A Blueprint for Wheat Sector Deregulation

Muhammad Faisal Ali & Sobia Rose¹



Why Deregulate the Wheat Market?

The wheat crisis in Pakistan accentuates the complexities and challenges of agricultural market management. That is the reason the wheat crop has always been a subject of serious debate. The Minimum Support Price (MSP) policy was one of the key factors, as substantial funds from taxpayers' money have been consumed to continue this policy. However, it has neither helped stabilize the market during crises nor protected the consumers and producers, who are assumed to be the primary beneficiaries. Conversely, flour mill owners, large landholders, or middlemen remained the primary recipients of the greatest gains. Consequently, fixing the MSP has led to unintended consequences, raising concerns about the policy's sustainability, market efficiency, and overall effectiveness.

Furthermore, following MSP as a policy has created an outsized circular debt on the Government (especially the Punjab Government, with 680 billion until 2023). Following MSP also leaves less area for oilseed crops. Every year, a big chunk of the budget for food departments was utilized in the procurement process and costs associated with the grain storage issues, which was apart from the circular debt. For these reasons, as a potential solution to stabilize the wheat market, a gradual or phased withdrawal of the government in 3 to 5 years has always been suggested.² But, this has never been considered as a policy option, and the government abruptly exit the wheat market.

Last year, the Punjab government's abrupt exit from the market led to significant disruptions. While the decision to exit the wheat market was sound, its execution was not well planned, especially considering the significant reserves held by the government, which discouraged middlemen from investing in wheat procurement from farmers. The large stockpiles held by the government discouraged middlemen from participating in wheat purchases, which suppressed farm-level wheat prices, and millers formed a cartel that severely exploited small farmers. In this scenario, the government's role must be to take measures that leave the cartels ineffective, but this was not done effectively³.

The government announced plans to deregulate the wheat market in the whole country, confining its role to just procuring strategic reserves and buffer stocks and has done this in the current Rabi season. While the immediate impact of this withdrawal is not positive, farmers received very low market prices barely covering the production costs. A very sensitive situation where a careful execution of policy becomes much desirable. Although, this policy shift holds a significantly long-term potential to enhance wheat productivity by aligning producers' incentives with market-driven profitability rather than relying on the government-set support prices. However, all the benefits of the free market can only be realized through consistent, long-term, and sustainable policy. At the same time, there remains a parallel risk that the government may reenter the market. This underscores the need for a comprehensive framework to support and sustain wheat market deregulation. But, for the deregulation of the wheat market, the regulatory framework or specific mechanism remains unclear. Contextually, a comprehensive framework is proposed here to ensure an effective and well-structured deregulation of the wheat sector.

¹Dr. Muhammad Faisal Ali & Dr. Sobia Rose are Research Fellow and RASTA Fellow at PIDE respectively

²<https://pide.org.pk/research/the-cost-of-government-interference-in-agricultural-markets/>

³<https://pide.org.pk/research/from-wheat-crisis-to-food-crisis-a-reality-check/>

Strategic Foundational Elements for Sustainable Wheat Deregulation:

The key elements for this proposed framework are as follows:

- ✓ **The most critical constituent of this policy lies in its consistency.** The government decision to withdraw from the wheat market, including the discontinuation of interventions such as MSP, will not yield positive outcomes until a clear and stable policy framework is established. The government needs to specify a definitive timeframe, for example, a commitment to keep this policy for the next 5 or 10 years, to ensure certainty to all relevant stakeholders.

Currently, the time duration of this policy is undefined, raising concerns, especially for the private sector. Private entities have to play a central role in wheat procurement in the absence of government interventions. For this, a substantial investment in storage infrastructure is required. However, without a clear and sustained policy direction, private sector engagement will remain uncertain, potentially hindering the effectiveness of wheat market deregulation.

- ✓ **It must be a complete deregulation, ensuring unrestricted movement of wheat both within and across provinces.** Historically, provincial governments have imposed bans on inter-district and inter-provincial movement of wheat, particularly during the harvest seasons, contrary to free market principles. This limits the producers' potential earnings. Farmers should have the full right to sell their produce wherever they receive the best price. For example, a producer in Sindh should be able to sell in KPK or AJK without restrictions. Although this year the Punjab government allowed their growers to sell their produce wherever they want, this should continue and this should be implemented country wide in all the provinces.

Furthermore, a truly deregulated market should also eliminate restrictions on wheat imports and exports. A free and open trade for wheat will enhance market efficiency, stabilize prices, create competitive incentives and stabilize supply-demand imbalances. However, this also exposes Pakistan to significant price volatility in global market. For example, in years when the wheat prices in the international market are lower than domestic, cheap imports can flood in the market, which will affect local farmers and production in the subsequent seasons, increasing the long-term reliance on imports which threaten the national food security consequently. In contrast, in years when global surge due to geopolitical tensions, climate change or due to sudden supply shock, Pakistan could face affordability issues. The dual risk accentuates the need for a well thought policy including well designed safety net as strategic reserves, and targeted subsidies to protect both consumers and producers from extreme price fluctuations.

While free trade gives exporters access to higher-value markets during years of surplus, it can also benefit consumers by lowering prices and increasing the variety of wheat products available. But in the absence of regulatory safeguards, this is exposed to fluctuations in global markets. Therefore, in order to make sure that market liberalization does not jeopardize food security or

farmer livelihoods, Pakistan must also engage in robust price monitoring systems, crop insurance programs, and contingency planning as it moves towards a deregulated, free-trading regime in wheat.

Additionally, the government should promote **farmer empowerment** by providing growers with access to real-time market information, including price trends, demand-supply dynamics, and buyer profiles, through a centralized data portal or mobile applications. This will enable farmers to make informed decisions about when, where, and to whom to sell their produce, reducing their dependence on intermediaries and minimizing the risk of exploitation.

✓ **The government's role should be restricted to maintaining strategic reserves only.** All provincial governments are required to hold 10 to 15 percent of the total demand or consumption as strategic reserves. While these reserves are primarily intended for emergencies, they should also be strategically utilized to prevent extreme market fluctuations and price distortions, ensuring stability in the wheat sector.

✓ **For strategic reserve, wheat should be purchased at the market rates exclusively from the small farmers** to ensure economic stability. Moreover, any support from the government should be strictly targeted at small farmers rather than broader, untargeted interventions. Small and medium farmers collectively represent 89 percent of the farming community. Small farmers retain a significant portion of their wheat for household consumption, share some within their communities, and reserve stocks for seed and animal feed, leaving only a small marketable surplus. Targeting small growers with landholdings of less than 5 acres, who constitute 64 percent of the farming community, can help mitigate financial strain and market vulnerabilities. These farmers are the most susceptible to price fluctuations and exploitation in a deregulated market. By ensuring that support mechanisms, such as procurement for strategic reserves, are directed specifically toward them, the government can enhance their resilience and protect their livelihoods while fostering a more equitable agricultural market.

Additionally, yield boosting subsidies can be introduced to incentivize productivity. For example, the government could commit to purchasing wheat from farmers who demonstrate an improvement in yield as compared to their previous production levels. These subsidies can be structured around verified farm-level data, where farmers submit yield records over consecutive seasons. Support could include input vouchers, bonus procurement prices, or access to subsidized credit for those showing consistent yield improvements.

✓ **When wheat prices are deregulated, then fixing the price of flour (atta) and bread (roti) becomes unnecessary.** A truly market-driven mechanism allows supply and demand dynamics to determine prices across the complete wheat value chain. Any price controls on flour or bread while wheat prices remain free could create distortions, discourage private-sector participation, and lead to inefficiencies in the market.

- ✓ **To ensure informed policymaking, a standardized and updated methodology for demand estimation is essential.** Effective strategic decision-making hinges on accurate demand estimation. Current demand assessments are unreliable, leading to significant disparities in projections. A precise understanding of national wheat demand and supply dynamics will enable better planning, market stability, and efficient resource allocation.

Currently, the contradictory estimates of wheat demand come from different reports such as CCP (124 kg per capita per annum)⁴, MoNFS&R and API (112.8-115 kg per capita per annum)⁵, and HIES-2019 (84 kg per capita per annum),⁶ indicating both deficit and surplus in the country simultaneously. For a population of around 250 million, using the first three parameters, including strategic reserves of 1 million tonne and 10 percent of wheat needs for the next season, the estimated national demand ranges from 31.8 to 32.5 million tonne. This specifies a wheat shortfall of 1.5 to 4.2 million tonnes, which often necessitates import decisions. In contrast, according to the HIES, the national wheat requirement is estimated at around 24.6 million tonnes. Based on HIES estimates, domestic wheat production appears sufficient, indicating a surplus (of 4.99 MT)⁷. This highlights the critical data discrepancies that undermine evidence-based policymaking. Recalibrating the wheat consumption per capita is direly needed for efficient resource allocation and to ensure food security. Accurate consumption metrics will clarify actual demand, enabling targeted procurement, storage, and distribution strategies. This revision should involve updated household surveys, regional consumption patterns, and waste assessments. A data-driven approach will resolve contradictions, optimize production planning, and prevent either shortages or surplus mismanagement. Policymakers must prioritize this reassessment to align supply with real needs, ensuring stability in Pakistan's wheat economy.

- ✓ **An efficient, fair, transparent, and competitive market ecosystem** for the wheat sector should be the top priority, ensuring that all the market operations are diligently monitored to avoid any exploitative practices such as price manipulations through cartelization, or any other anti-competitive behaviors. Therefore, the implementation of robust market surveillance mechanisms is a prerequisite to ensure farmers receive a fair price for their produce and their interests are safeguarded. The government can achieve this objective by
 - Establishing a dedicated market monitoring and regulatory body, which can be established using provincial food departments. This body should be equipped with tools to track all the market activities in real time. To detect irregularities, supervise price trends. To identify potential market distortions, advanced technologies such as blockchain, artificial intelligence, and advanced data analytics can be leveraged.

⁴<https://cc.gov.pk/home/viewpressreleases/57>

⁵<https://api.gov.pk/PolicyDetail/MTJINjE9MTETZmRIYy00YzNLTG2YTctNDhhMWYzZDM2OGFk>

⁶<https://www.pbs.gov.pk/publication/household-integrated-economic-survey-hies-2018-19>

⁷<https://api.gov.pk/PolicyDetail/MTJINjE9MTETZmRIYy00YzNLTG2YTctNDhhMWYzZDM2OGFk>

- To ensure compliance with fair trade practices, Regular audits and inspections of market intermediaries, such as traders, millers, and wholesalers, should be conducted by the government through third party.
- To further strengthen market efficiency, the government should encourage the development of competitive marketplaces, such as e-trading platforms and farmer-producer organizations (FPOs), which can connect growers directly with buyers. Policies should also be introduced to promote private sector participation in storage, logistics, and processing infrastructure, reducing post-harvest losses and ensuring smoother market operations.
- ✓ **To reduce the over-reliance on wheat, cultivation of cash crops and oilseed crops should be incentivized through a combination of policy measures, financial support, and market-driven initiatives.** This approach will not only increase the farmers' income but also contribute to crop diversification, nutritional security, and sustainable farming practices. PIDE estimated that oilseed crops are more profitable, almost Rs. 5000 per acre higher than wheat. However, when growers move to alternative crops, they often encounter issues of market accessibility and struggle to find suitable buyers for their produce. This is where government intervention becomes essential. Moreover, in cases of surplus production, illustrative guidelines and support for export avenues should be in place to make sure that growers and the economy as a whole can derive maximum benefit. To support local oilseed crop production, it is also needed to introduce higher tariffs on oil imports. This will promote local production, industry, and economy.
- ✓ **There is a dire need to establish a Centralized, Comprehensive Data Portal (CCDP) to effectively support the deregulation and modernization of the wheat sector.** CCPD should operate under the control of the Ministry of National Food Security & Research, in coordination with all the provincial governments. The scope and scale of CCPD can be extended to the whole agriculture sector.
- This portal should consolidate and disseminate accurate and real-time information on all the relevant and key metrics, for example, wheat production, stocks, procurement, distribution, and pricing. It should provide detailed insights into wheat production trends (e.g., acreage, yield, and regional variations), stock levels (e.g., government-held stocks, private inventories, and buffer reserves), and market dynamics (e.g., demand-supply gaps, price fluctuations, and trade data and data on export avenues available with high demand and price). Additionally, it should include data on flour millers, such as their processing capacity, utilization rates, and procurement patterns, to ensure transparency and efficiency in the supply chain.

- The portal should be designed to capture and integrate data from multiple sources, such as government agencies, agricultural cooperatives, market intermediaries, and private sector players.
- This portal should serve as a single source of truth for all the stakeholders involved in the wheat value chain, including growers, flour millers, traders, policymakers, consumers, and researchers.
- The provision of and access to real-time and reliable data to all the relevant stakeholders will enable better decision-making, foster trust among all the market participants, and reduce information asymmetry. Further, it aids the policymakers for evidence-based interventions i.e., export-import policies, price stabilization measures, and targeted subsidies.
- Predictive analytics and forecasting tools can also be incorporated into the portal to foresee market trends, mitigate risks, and enhance the overall resilience of the wheat sector.
- When developing CCDP, collaboration with all the stakeholders will ensure its success.
- For data accuracy, privacy, and security, a robust data governance framework should be established.
- For enhanced accessibility across all stakeholders, user-friendly interfaces and mobile applications can play an important role. Finally, CCDP will serve as a cornerstone for a transparent, efficient, and market-driven wheat sector.

Long-Term Gains from Deregulation:

Apart from saving on big budgets for food departments, and avoiding loans and circular debt to procure wheat, there are several other benefits:

- ✓ **Deregulating the wheat market is a transition from a support price-driven model to a profit-driven system.** This transition marks significant economic and productivity gains through crop diversification, which can reduce import dependence too.
- In the absence of MSP, wheat cultivation will become less attractive compared to more profitable alternatives
- Farmers will naturally shift to competing crops, for example, oilseeds, pulses, or other cash crops. This diversification will reduce the risks associated with over-reliance on a single crop of wheat.

✓ By incentivizing the cultivation of oilseeds (such as mustard, sunflower, and soybean) the country can reduce its reliance on imported edible oils. This will save significant foreign reserves (Palm oil and soybean imports were around \$US 2200 million in FY 2024)⁸, which are currently spent on meeting domestic demand for edible oils. Further, the foreign reserves saved from reduced edible oil imports can be redirected to address other critical needs, such as importing wheat during shortages or investing in agricultural infrastructure, research, and development. This creates a more flexible and resilient food security system.

- Rapeseed & mustard, and sunflower crops are approximately Rs. 5036 per acre more profitable than wheat. So diverting 10 percent (2.14 million acres) of wheat cultivation to these crops could gain Rs. 10.8 billion⁹.
- In the Absence of MSP, profitability becomes the driving force, rather than reliance on support prices, which naturally leads to improved efficiency, productivity, and innovation across the sector. By shifting focus to market-driven incentives, farmers are encouraged to adopt best practices, invest in technology, and cultivate crops that offer higher returns. This transition not only benefits individual farmers but also contributes to the broader economy. For example, **if the average wheat yield of all the farmers is raised to the level achieved by progressive growers, it could contribute an additional PKR 609 billion to the economy.**¹⁰
- When farmers are motivated by profitability, they are more likely to adopt modern farming techniques, high-yielding seed varieties, and efficient resource management practices. This leads to higher productivity and better utilization of land, water, and other inputs. Moreover, crop diversification and reduced monoculture practices can improve soil health, reduce pest outbreaks, and promote sustainable farming. This contributes to long-term environmental sustainability and climate resilience.

⁸https://finance.gov.pk/survey/chapter_24/8_trade%20and%20payments.pdf

⁹<https://pide.org.pk/research/the-cost-of-government-interference-in-agricultural-markets/>

¹⁰<https://pide.org.pk/research/evaluation-of-seed-industry-way-forward/>

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Manhal Zainab
Graphic Designer

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