A journey to a Wheat Market

How to Avert Wheat Crises Permanently?

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Wheat is the most important agricultural crop of Pakistan. It is grown by 80 percent of farmers and planted on about 22 million acres, which is approximately 40 percent of the country's total cultivated land. Punjab plays a major role in wheat production by allocating 16 million acres (71.5 percent), followed by Sindh, Khyber Pakhtunkhwa and Baluchistan with almost similar trends in production. Wheat also contributes 37 percent to both food energy and protein intake. Being staple food, it contributes 72 percent to the food basket of Pakistan, with the highest per capita consumption of 124 kg per person per annum in the world. A significant increase in wheat production has been observed in the past four decades, that is, from 11 million tons, in 1980 to 25 million tons in 2020, while, during this period, the area under wheat has increased from 17.2 million acres to 21.8 million acres. The yield of wheat has increased by over 75 pc during the last eleven years – at an average growth rate of about 2 percent per annum, while the area under cultivation has increased only at a rate of around 0.65 percent per annum. Thus technology has played a major role, albeit at a slow rate, in increasing the size of wheat crop.

The government of Pakistan fixes wheat production targets and the minimum support price, ahead of the Rabi season. After the 18th amendment, provincial governments are responsible to procure wheat from the farmers at the minimum support price and releasing it to the flour mills at a fixed price. Wheat prices and movements are managed at the provincial and district levels. The farming community of Pakistan annually retains 60 percent of the wheat crop for seeding purpose and domestic consumption. To meet food security goals, the government ensures procuring between 25–30 percent of the total wheat production, while the remaining 10-15 pc is left for purchase by the private sector. Provincial governments should procure wheat according to their demand, but this requires financial resources and the provinces governments, especially the smaller ones, are reluctant to spend their money on wheat procurement. Ultimately, the federal government has to procure additional wheat and stock it for the entire year.

PIDE's estimates suggest that procurement and distribution of just 30 pc of total wheat production costs the government Rs. 48 billion per annum – buying 7.3 million tons at Rs.35/kg costs Rs. 255 billion. Borrowing this amount from banks at an interest rate of 7.3 pc costs Rs. 11.8 billion, and then storage and transportation costs Rs. 36.2 billion to PASSCO. This makes a total of Rs. 48 billion. The government often fails to timely pay off the loan that it borrows from the banks for procurement of wheat. This has led to a circular debt of more than Rs. 700 billion on account of wheat only.

However, if Government stops intervening in the wheat market and allows the private sector to participate in wheat marketing, then the cost of procurement and storage will have to be borne by the private sector. The cost of the private sector will be ultimately transferred to consumers causing the wheat price to increase by around Rs. 5.0/kg (16 pc) against the Government wished price (Rs.35/kg) (Table 1). Since, the private sector was competing with the Government in procuring wheat from the farmers; they offered higher prices to farmers (Rs.40/kg). Therefore, from the perspective of private sector, the retail prices of Rs.46.6/kg would be justified. Even if we add a profit of Rs.2.0/kg of private sector then prices will remain close to Rs.49.0/kg which is still less than the current price of Rs. Rs.60-65/kg.

On the other hand, government's intervention in the market, including barriers on import and export, give wrong signals to the market, leading to volatility in wheat prices. If the government exits from the wheat market, the volatility in wheat prices will be avoided to the benefit of consumers. In the current year, the government strongly intervened in the wheat market by fixing the support price at Rs. 35/kg and releasing stock but still failed to stabilize the price of wheat flour close to target price. Moreover, the benefit of price increase is neither enjoyed by the farmers nor the government rather it goes to the traders.

If we let the market mechanism to prevail in wheat it is highly unlikely that this will lead to more than normal profits for the traders. Before any wheat shortage occurs the private sector will start

Prices paid by/to	Unit price (Rs./kg) at farm gate and fob prices	Cost of handling, transportation and storage (Rs./kg)	Cost of freight, storage and transportation within the country (Rs./kg)	Prices at retail level (Rs./kg)
Price of wheat purchased by the Government from farmers	35	6.6	-	41.6
Price of wheat purchased by private sector from farmers after adding profit of Rs.2.0/kg	40	6.6	-	48.6
Prices of wheat imported by the Government	44.9	-	4.5	49.4
Prices of wheat imported by the private sector	37.6	-	4.5	42.1
Existing international prices	33.8		4.5	38.3

importing wheat to earn a profit, which will pull down the price. Moreover, farmers can participate in wheat marketing and can stock their produce according to their future anticipations about wheat price. They can also directly supply wheat to the market at the prevailing market price. If at the harvesting stage, local price tends to increase beyond the international price, then the private sector will automatically be motivated to import given economic incentives. This would ultimately eliminate the wheat crisis and allow consumers to enjoy low prices. However, the government can reserve a certain amount of buffer stock to deal with any emergency but it should be used to distort the market in a normal situation.