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Issues and Problems in Wheat Policy of Pakistan

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Abstract

Wheat is a crucial staple diet for Pakistan, constituting approximately 65% of food grain consumption, especially among the rural and urban poor. The strategic importance of wheat has led successive Pakistani governments to intervene extensively in the market, setting support prices and providing subsidies to stabilize both farmer incomes and consumer prices. However, these policies impose significant financial strain on the government, exacerbated by high procurement costs and inefficiencies in storage and distribution. The Punjab government, responsible for a substantial portion of wheat production and procurement, faces mounting financial burdens from subsidies and loans, resulting in large fiscal deficits. Domestic wheat prices exceed international levels, reducing global competitiveness. This study reviews existing literature and examines the financial implications of current wheat procurement policies. It highlights the need for policy adjustments, particularly recommending a shift from price subsidies to input subsidies for fertilizers and seeds.

Keywords: Wheat support price, subsidies, market intervention, policy, Pakistan.

Introduction

Wheat is the staple diet of Pakistanis, especially of the rural and urban poor: the share of wheat in the consumption of food grains in Pakistan is about 65 percent. The production of wheat has grown by approximately 5 percent per year since 1965 till 1985(Naqvi & Cornelisse, 1986). But the production possibilities are severely limited because the average yield per acre is still quite low, with large variations from the average. The variations are mainly explained by the condition of soils and the availability and use of key inputs, particularly irrigation water. Of the total wheat produced nearly 55 percent is retained for own consumption or paid as payments to workers, leaving only 45 percent of the wheat harvest available for distribution among non-producing consumers(Chaudhry, 1980).Wheat plays a central role in Pakistan's food economy, both in terms of production and consumption. Because of the importance of wheat, successive governments since Independence have intervened heavily in wheat markets, procuring at administratively set prices to support farmer incomes and subsidizing wheat flour mills or directly to consumers with the objective of stabilizing prices affordable to consumers (Dorosh & Salam, 2008).

Issues and Problems in Wheat Policy of Pakistan

The strategic commodity leadership position in Pakistan belongs to wheat. Punjab province dominates wheat production because the crop covers 17.25 million acres across 76% of the total farmland (FBS, 2019). Wheat supports the earnings of 45% of Pakistan's population through the farming of around 80% of producers. The country relies on wheat as a vital source of food security (Khan, 2014). The wheat price support policy which received continuous revisions through Cabinet's Economic Coordination Committee facilitates enhanced wheat productivity by implementing various price control measures that support farmer income while assuring food security. The Pakistani government implements multiple subsidy measures and tax plans through input-output price regulations to stimulate both wheat consumers and producers. Wheat support pricing and procurement operations between Punjab and the federal government have taken place for several decades to protect farmers from price instability and maintain stable wheat supplies at regulated prices. Through this regulatory policy the intervention protects both wheat producers and consumers against monopoly control by market intermediaries and pricing entities. The government constantly focuses on sustaining national reserves while ensuring food security through subsidized prices (N. Z. Khan, 2003). The Punjab government faces financial strain due to policies regulating wheat procurement and support prices. The buying of wheat at inflated international prices combined with restricted market timing for product sales leads to substantial economic burden on the nation.

Wheat is procured through the Pakistan Agricultural Storage and Services Corporation (PASSCO) at Federal level, and through Punjab Food Department at provincial level. For the year 2018-19, the Economic Coordination Committee (ECC) has decided to maintain the support price for wheat at the previous year’s level of Rs.1300/40kg.

Methodology

The present study aims to conduct a secondary literature review on the problem.

Literature Review& Discussion

The research analyzes existing policy weaknesses by developing new operational strategies. Studies about the analysis of wheat support price policy in Pakistan remain scarce throughout literature. Research about the relationship between support prices and significant crop production levels in Pakistan remains scarce. A careful analysis that accounts for the interdependent crop changes must be done because the support pricing of one crop affects the composition of other crops according to (Ali, 1990). Irrigated farmers choose whether to plant barley or wheat based on crop prices instead of yield levels according to the research conducted by (Krishna, 1963). Farmers place greater importance on output prices when compared to all other factors. Research indicates that higher support prices defend farmers and market operators while boosting particular crop yields but simultaneously modifies the total land and nutritional uptake of other crops. There is no recommendation in existing research that identifies the optimal selection because it lacks analysis of wheat pricing policy intervention's economic and financial effects.

The existing procurement framework drains Punjab government finances because it requires extensive costs for wheat acquisition along with processing expenses and distribution expenses and stock management costs. Previous warehouse occupancy reduces current storage space so it cannot accommodate new incoming wheat supplies. Domestic wheat prices exceed those of the international market thus restricting Punjab participation in the global trade sector.

The paper examines these matters thoroughly while introducing alternative policies for attaining international market competitiveness alongside farmer and consumer protection.

Storage facilities present problems within the wheat system of Punjab according to FAO (D. Prikhodko, 2013). A severe lack of storage facilities exists for wheat supplies throughout the country. The godowns maintain 70% of the wheat stock while mini-shells and hexagonal bins and bunkers and concrete silos each contain 13% and 7% and 6% and 4% respectively with remaining stock under polyethylene cover. Government control in wheat trading has hindered the capacity of private companies to develop the market (FAO, 2013). The present government works to motivate private enterprises to participate in wheat trading activities. Under support from the Asian Development Bank the government aims to reduce its control over the wheat market. The organization provides financial support to government agencies which work on reconstructing food sector management and operations. ADB analyzes that food insecurity reduction in Pakistan can be achieved effectively through wheat subsidies directed to specific groups and public strategic wheat reserve policies.

Financial Repercussions of Wheat Procurement

Large-scale wheat procurement amounts to severe financial burdens which caused the government to experience financial strain during the recent years. In the wheat procurement of 2016-2017 the central government acquired 3.92 million tons of wheat through minimum support price (MSP) worth rupee. 1300 per forty kilograms (32.50 rupees per kilogram). The wheat procurement incurred a total loss of rupee 37.36 billion through the 9.51 rupee per kilogram subsidy provided for each purchased kilogram. The loss incurred by the government depends on both wheat quantity purchased and the price differential between purchase expenses and prices of release. The procurement expenditure equals the product between the bought amount and the acquisition value. The entire procurement budget for 2016-17 reached 164.68 billion rupees yet the expected profit from stock sales amounted to Rs. 127.4 billion through the release price applied to purchase quantities. Since 2011-12 the government experienced financial losses which Table 1 displays in annual amounts. The table reveals how the losses have grown through this period.

Table 1: Financial Loss Due to Strategic Reserves in Punjab (Pakistani Rupees)

Year	Procurement Punjab (million tons)	MSP (Rs/40Kg)	MSP/Kg	Incidentals Cost	Cost Price /kg	Release Price/kg	Subsidy[2]/kg	Total procurement cost (Billion)	Expected return from sale of stocks (Billion)	Financial Loss[3] (Billion)
2011-12	3.19	1050	26.25	8.06	34.3	25	9.31	109.45	79.75	29.70
2012-13	2.78	1200	30.00	7.98	37.9	28.1	9.86	105.58	78.17	27.42
2013-14	3.68	1200	30.00	5.72	35.7	31.2	4.47	131.45	115.00	16.44
2014-15	3.74	1250	31.25	6.85	38.1	32.5	5.6	142.49	121.55	20.96
2015-16	3.23	1300	32.50	9.48	41.9	32.5	9.48	135.60	104.97	30.65
2016-17	3.92	1300	32.50	9.51	42.0	32.5	9.51	164.68	127.40	37.36

Source: Government of Punjab (2015-16)

Financial Repercussions of Bank Borrowings

The financial operation of wheat stock procurement together with processing and storage and distribution and maintenance utilizes bank loans as funding source. The Punjab Food Department relies on annual financial support from commercial banks which require interest payments between 9 and 12% (Bank, 2017). The government currently spends more than Rs 5500 per ton on wheat subsidy. During the previous fiscal year the government incurred a loss of rupee 37.36 billion from wheat subsidy payments. Heavy loan debt payments represent a significant part of the financial obligations.

Table 2: Bank Borrowings for Wheat Procurement (Billion Rupees)

Year	Old Borrowing	New Borrowing	Total Borrowing	Repayments made	Balance payable
2011-12	90.00	76.02	166.02	56.12	109.89
2012-13	109.89	73.30	183.20	104.258	78.94
2013-14	78.94	110.53	189.48	97.26	92.21
2014-15	92.21	112.58	204.79	39.09	165.70
2015-16	165.70	105.34	271.04	75.23	159.81
2016-17	159.81	128.06	323.878	78.87	245.00

Source: Government of Punjab (2015-16)

The Punjab government's wheat purchase arrangements through borrowings reached 128.06 billion rupees in 2016-17 but the previous borrowings stood at 159.81 billion rupees. The government borrowed Rs 323.87 billion during 2016-17 then returned only Rs 78.87 billion. The government of Punjab must pay Rs. 245 billion in 2016-17. Table 2 demonstrates how the total amount to be paid as a loan has grown steadily from 2013-14 through 2016-17. The amount of loan payables rose significantly by 62% between the years 2013 and 2017. The Rs.1300/40kg higher minimum support price (MSP) creates additional incentives for farmers to expand their crops yet leads to the government needing to buy larger quantities and obtain more loans.

Cost of Wheat Production

Wheat production expenditures in India stand significantly lower than those in Pakistan when both countries are compared. The Government of India reports (India, 2015) that wheat production at 40 kg cost INR 476 in 2015-16 which represents PKR 790 / 40 kg. The production cost to create 40 kilograms of wheat in Pakistan reaches PKR 994 / 40 kg which stands as a higher amount than competing nations. Indian wheat MSP constitutes a lower value than Pakistani wheat MSP because wheat production costs are cheaper in India.

Wheat production expenditure in India remains lower because the government provides subsidies for both certified wheat seeds and various fertilizer kinds. Indian farmers among the small landholders who possessed five acres or less were granted a 50% subsidy on their wheat seeds from certification programs. The amount dedicated to total fertilizer subsidies experienced a 2.8% boost from 2014-15 to 2015-16 when it reached INR 729.68 billion. Through government subsidies the Indian authorities offered fertilizers at INR 12,350/ton (PKR 19487 /ton or PKR

9743/50 kg bags). These payments are directed straight to the commercial companies. The Indian government has established a 50 rupee per 50 kilogram urea price level at INR 268/50 kg bag (PKR 422 / 50kg bag). In exchange for receiving a predetermined subsidy amount Indian fertilizer companies are responsible for establishing the maximum retail price (MRP). DAP fertilizer under the MRP range sells for INR 2300-2500 per ton or its equivalent value of PKR 3611-3925 per ton or PKR 1805-1962 for each 50 kg bag. India pays potash (MoP) supplier companies subsidy payments ranging from 9300-12350 Indian Rupees per ton (equal to 1460119390 Pakistani Rupees per ton and 7300-9695 Rupees per 50 kg bag) according to Express (2016). The Indian wheat growers who own land up to 5 acres are eligible for 50% certified seed subsidy program.

The input subsidy levels in Pakistan remain lower than those of India. The FY 2016-17 fertilizers subsidy reached 27.96 billion PKR with urea payments amounting to 17.16 billion PKR and DAP paying 10.8 billion PKR in subsidies. The supply subsidies provided each 50 kg bag of DAP and urea fertilizer at PKR 300 and PKR 150 reductions.

Policy Recommendations

According to the minimum support price policy farmers can boost wheat production levels. The Pakistan government bears a substantial financial cost because of implementing this policy. The increased wheat minimum support price has driven Pakistan out of its competitive position within the global market. The production expenses for wheat crops in Pakistan exceed those in India by a substantial margin. Government entities increase the MSP to keep farmers profitable since their costs exceed the set threshold. Government finances bear significant expense from subsidized wheat procurement and release because of the high MSP. During recent years the increase in wheat prices negatively affected those who purchase wheat. Government officials should consider using wheat input subsidies especially for fertilizers and seeds to spread existing resources across the industry thus decreasing production costs. A better policy approach for such circumstances should include providing agricultural input subsidies instead of rewarding farmers for wheat purchases. The decrease in production expenses will lead to lower market rates for agricultural outputs as well as higher farmer revenue and consumer benefits while strengthening Pakistan's wheat market position abroad.

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