

Wheat industry of pakistan



Successes and Failures of Wheat Market /Price Policy in Pakistan: What are the Alternatives? Abstract: This paper aims to describe the current wheat policy and evaluates the current policy in light of its original objectives of food security and price stability. The paper uses percentage of undernourished and average calorie deficit of the malnourished as indicators of food security and variation in the farm gate price of wheat relative to other South Asian countries as a measure of price stability.

The results based on FAO data show that policy has failed terribly in achieving the first objective of food security whereas it did a satisfactory job towards the objective of price stability. Finally, the paper recommends some alternatives for the existing strategy. Introduction: Since, wheat is a staple crop in the context of Pakistan and it is believed that wheat price has a direct impact on consumption decisions of millions of poor people and through these decisions on food security. For this imperative role of wheat in the life of urban and rural poor, food price policy in Pakistan has attracted and continues to attract huge attention.

Sadly, due to such strong tie-up between wheat prices and prosperity of the deprived, wheat pricing in Pakistan has been more influenced by political consideration rather than economic rationale. Pakistan has pursued interventionist policies in almost whole of the agriculture sector but the extent to which the outcome diverges from the open market equilibrium varies greatly across different agriculture commodities. The impetus behind these interventions in the wheat market was to achieve two objectives: a) Food security for a greater proportion of the population. b) Shield domestic producers from price variations in the world markets.

The purpose of this paper is to critically analyze the wheat price policy and the factors that shape and guide the formation of this policy as well as the impact of different pressure groups and stake holders. In addition, the paper evaluates the extent to which the government has been able to meet its original objectives of ensuring food security for the consumers and price stability for the producers. The accomplishment of the first objective is measured through the trends in the number of undernourished and average per capita calorie deficit of the undernourished over time, as they are widely accepted measure of food security.

The success of the second objective is estimated by computing the variation in the domestic price and comparing it to the volatility observed in the world price. Once, the degree of the accomplishment of this policy is established, we identify some of the shortcomings of following such a policy and how few groups such as flour mills, retailers and food departments have become unintended beneficiaries of this policy. After weighing the strengths and weaknesses of the current policy, some recommendations are proposed to improve and better enable the current policy to achieve its actual objectives.

Moreover, alternative approaches and policies are suggested that can fulfill the above objectives more effectively. The paper is organized into five sections. Section 1 provides a brief history of agriculture price policy with special focus on wheat. Section 2 outlines the current policy of wheat pricing, procurement and distribution. The successes and failures of wheat policy in light of its original objectives are highlighted in the third section. Fourth section recommends some improvements in the existing strategy and

delineates few alternatives. The conclusion is given in the fifth section.

Section 1: History of wheat Price policy

To understand the current policy for the procurement and marketing of wheat it is indispensable to know how this policy has evolved over the years. The history of wheat policy can be divided over three phases. The first phase is over the 10 year period from 61-71 mostly during Ayub's government. The Bhutto's government marks the second phase of this policy (71-77). The third phase is from 77-88 i. e. during Zia's regime (Hamid, Nabi, and Nasim). As we discuss later in this section the policies followed during each of these three phases were starkly different from those followed in the other periods.

The first phase is distinct because during it the government abstained from intervening directly in the wheat market (except for a brief period). The government focus was generally on indirect intervention through overvalued exchange rates that had a uniform affect on all crops. During the 60's Pakistan imported wheat under the PL 480 program. However, this aid was discontinued after the 1965 with India which resulted in nationwide shortage of wheat and other grains. Due to these shortages the government was forced to provide incentives to farmers in terms of higher procurement prices and input subsidies.

Prior to the war, on the marketing side government allowed private traders to distribute somewhat freely as long as the prices were within a certain bracket. But post war shortages, compelled the government to revert to the rationing system which was in place up till 1960. The second phase (1972-76), severely dented Pakistan's economy and hampered the economic

progress which was made in the previous decade. This period was characterized by interventionist policies and nationalization was placed at the heart of these policies.

As a part of nationwide nationalization, Bhutto's government nationalized all the flour mills and also developed monopoly over the procurement driving private traders out of the market. On the distribution side, the system of ration shops was expanded further and at one time the consumer subsidy on wheat amounted to 10 percent of the government budget. After assuming power Zia's government started taking corrective measure to rectify the blunders made by the previous government and these included the immediate denationalization of wheat mills.

Gradually, the government began withdrawing from the procurement and marketing of wheat and other agriculture commodities. Although the prices of wheat were still set by the government, private sector played a greater role in its marketing. In 77, the ration system had become imperative as more than 75 percent of the marketed wheat was sold through it. By 1985-86 this percentage had come down to 30 percent and in the subsequent year wheat rationing was completely abolished. More recently, the present government, to attain its objective of raising the income of poor farmers and hence rural standard of living, pushed the procurement price of wheat up from Rs 510 set for 2008 to Rs 950 for 2010. In 2009, the government of Punjab set itself an extravagant procurement targets of wheat that exerted huge burden on the provincial budget and for the first time in 10 years the provincial budget went into overdraft and Punjab government had to resort

to borrowing from the federal government and cut back on development expenditure.

Further discussion on most recent events in the wheat market and current wheat policy is presented in the following section. Section 2: Current Wheat Market Policy The government of Pakistan still plays a massive role in the procurement and distribution of wheat. Although other agriculture related sectors such as rice and cotton have experienced movement towards liberalization and free market, markets have been kept at bay from playing any significant role in wheat sector.

The immunity of wheat from this wave of liberalization is influenced by the strategic importance of wheat as a staple crop and pressures exerted by different interest groups who are the major beneficiaries of this policy. According to the economic survey of Pakistan 2010-11, the production of wheat in 2011 was around 25 million tons. It is widely accepted that two third of the wheat harvest is retained for domestic production while the remaining the one third is marketed. By these proportions, the estimated marketed surplus for the year 2011 would be approx 8. million tons, out of which the governments of Punjab and Sindh have announced to purchase 4 and 1. 3 million tons, respectively. Furthermore, PASSCO has been assigned the procurement target of 1. 3 million metric tons. The support price for wheat this year, announced by the federal government, was Rs 950 per 40 kg The procurement price of wheat is set by the federal government, in light of the recommendations given by the Agriculture Policy Institute (API), before the sowing season.

The API, formerly known as APCOM, examines various different factors such as projected production, estimated costs and world prices before recommending the prices to federal government. The cabinet after considering the recommendation of the API announces the procurement price of wheat. Although, the procurement price of wheat is set by the federal government, the Procurement of wheat is a provincial subject and the procurement targets are set by the Provincial governments independently.

After the harvest, the provincial governments buy the targeted quantity of wheat through the provincial food department and PASSCO (Pakistan Agricultural Storage and Supplies Corporation). The two above mentioned departments then set up wheat purchase stations throughout the provinces to purchase wheat from the farmers at the predetermined price. But before the actual procurement begins, the government distributes bardana (wheat bags) among the farmers. The farmers put their harvest in these bags and then carry it to the procurement stations.

The process of procurement generally begins in early may and continues for one and a half month. In Punjab, the production is generally greater the consumption requirement whereas the other three provinces are deficient in wheat production. The deficit provinces meet their consumption requirements by buying surplus wheat either from the provincial food department of Punjab or PASSCO according to the allocations of Ministry of Food and Agriculture and Livestock (MINFAL).

Private traders and wheat mills are allowed to buy wheat only after the provincial governments have completed their procurement targets. Wheat bought directly by the mills is less than one tenth of the total production or one fourth of the marketed surplus. The above statistics show that private sector plays a very limited role in the procurement of wheat whereas the provincial governments and PASSCO continue to be major players. The provincial governments and PASSCO keep the procured wheat in storage houses.

This procured wheat is released and distributed gradually among to the flour mills on a quota basis (The flour mills are also allowed, but for a limited time, to purchase meet from the open market). The price charged from the mills for this government supplied wheat is called issue price (Rs1000 and Rs 975 per 40 kg by the governments of Punjab and Sindh, respectively) which is equal to the procurement price plus costs of transportation and storage minus any subsidy. The flour mills then convert the purchased wheat in to atta (flour).

The ex mill price of wheat is 5 rupees per kg higher than the issue price - at the issue price of Rs 1000 per 40 kg or Rs 25 per kg the ex mill price must be approx Rs 30 per kg - which reflects the cost incurred by the flour mills in the processing of wheat. After processing flour mills supply atta to the market where retailers sell it to the final consumers at the retail price. Apart from selling directly to the market, flour mills also supply atta to the government which sells it to the poor consumers through utility stores at a subsidized rate.

In addition to the utility stores, the provincial governments have also started their own schemes to cater the needs of poor consumers. One such welfare plan is the Sasti Roti scheme initiated by the government of Punjab. As a part of this scheme the provincial government has set up mechanical tandoors throughout the province which provide cheap roti to the deprived people of the province. The extent to which the above mentioned wheat policy and welfare schemes have accomplished their objectives and lived up to the expectations of the policy makers is explored in the next section.

Section 3: Successes and failures of wheat policy While designing any policy the policy makers have a certain set of objectives in mind and way different alternatives. The alternative that is chosen is expected to best fulfill those objectives. Therefore, to determine the effectiveness of any given policy one must calculate whether the policy has been able to achieve its original objectives or not. The wheat market/price policy implemented by the government of Pakistan had two primary objectives: 1. Ensure greater accessibility to food for the poor people i. . food security 2. Raise farmers' income by reducing the volatility of price they receive. To evaluate the success of the contemporary wheat policy in achieving the first objective, we look at the overtime trends in the widely accepted measures of food security such as the percentage of undernourished and average food deficit of undernourished population. A significant improvement improve in these trends should indicate that the current policy has obtained its first objective of food security. Table: 1 Trends in the percentage of undernourished in South Asia|

Percentage of undernourished| Country name| 1990-1992| 1995-1997| 2000-2002| 2006-2008| Pakistan| 25| 20| 24| 25| India| 20| 17| 20| 19| Bangladesh| 38| 41| 30| 26| Southern Asia| 22| 20| 21| 20| Source: FAO 2011 Fig: 1

Source: FAO 2011 Table 1 and Fig 1 present undernourished as the percentage of the population from 1990-92 to 2006-2008 for the three big South Asian states along with the weighted average for the entire region. The trends clearly show that while other South Asian countries, especially Bangladesh, experienced a reduction in the percentage of undernourished.

In Pakistan, the proportion of people suffering from malnutrition, after a decline of 5 percent from 1990-92 to 1995-97, has actually increased from 20 percent in 1995-97 to 25 percent in 2006-2008. According to World Bank, the percentage of undernourished in Pakistan has increased by 2. 1 percent in just one year from 2008-2009 due to a 23. Percent rise in the wheat prices. The other indicator of food security is the average food deficit of the undernourished. This is calculated by subtracting the average per capita calorie intake of undernourished from the minimum calorie requirement.

Table 2 presents data from FAO on this measure, the average deficit of undernourished has remained static (280 kcal/person/day) from 1990-92 to 2006-08. This means that despite of aggressively following a more consumer oriented wheat policy Pakistan has not been able to better the food security position of its people. Table: 2 Average food deficit of undernourished population in Pakistan (kcal/person/day)| 1990-1992| 1995-1997| 2000-2002| 2006-2008| 280 | | 260 | 280| 280| Source: FAO 2011

The second goal behind the present policy was to shield farmers from the fluctuations in the market price of wheat and stabilize their incomes. The success of the second objective is gauged through two objectives. First, we look at the variation in the producer price of wheat over and compare it to the variation in the farm gate price in other South Asian countries. Table: 3 provides the variation in the producer price of wheat for three important South Asian countries; India, Pakistan and Bangladesh over the period of 10 years (from 2000-2009).

In Pakistan, the variance in the producer price of wheat is far less than the other two countries. These price statistics undoubtedly show that Pakistan's wheat strategy has at least achieved one of its dual objectives. Table: 3

Variation in Producer Price (US \$/ton) of Wheat from 2000-2009	Countries
2887. 072	Bangladesh
2096. 636	India
1161. 34	Pakistan

Source: FAO 2011 As it is evident from the above discussion, the current wheat policy has been successful in stabilizing the farmer price of wheat (at least relative to the neighboring country).

But, the policy falls short of its second objective, guaranteeing food security for a greater proportion of the population. The deteriorating or static trends in measures of food security unambiguously bespeak that all is not well with the current policy. Further, discussion on the short comings of current wheat policy and alternative policies follows in the next section. Section 4: Recommendations and Alternatives Firstly, the government should reduce its role in the procurement of wheat, because it is not only crowding out private traders but also resulting in corruption and smuggling.

The different provincial governments and PASSCO collectively procure 60 percent of the marketed surplus and since the margin between the procurement price of wheat and the issue price is minimal, it is not lucrative for the private traders to participate in the market especially, in face of rising transportation and storage costs due to a surge in the oil prices and electricity tariffs. Secondly, government should increase the price of wheat and bring it to international level.

Historically, the domestic price of wheat in Pakistan has been below the international price particularly the price in Afghanistan. There is a huge incentive for the officials in provincial food departments and PASSCO to smuggle wheat to Afghanistan. Raising the domestic price of wheat and bringing it on par with the border price would discourage any such practice. One might think that such a policy would leave farmers more prone to variations in the prices; Government could curb this problem by setting a minimum farm gate price to protect the farmers from a fall in prices.

Thirdly, as the statistics on food security suggest, the current policy of wheat and other schemes targeted towards the impoverished have been unsuccessful in raising their consumption levels and making headway towards food security; Government should abolish them (including the sasti roti scheme). A better strategy to serve above mentioned purpose would be to reintroduce the ration shop system or expand the current system of utility stores to the poor localities and rural areas.

Furthermore, government should give food stamps to the destitute allowing them to purchase food essentials at a subsidized price, these stamps must

be acceptable at any utility store. Section 5: Conclusion: This paper describes the current wheat market/price policy and evaluates the success of the policy in light of its original objectives of food security and price stability. Finally, it recommends some improvements to better enable the existing policy to achieve its dual objectives.

The data taken from the FAO sources makes it obvious that current wheat policy has failed dismally in attaining the objective of first objective. Despite of a strong bias towards consumer protection, the food security situation of Pakistan – measured through percentage of undernourished and average deficit in the per capita intake of the undernourished – has either slumped or remained standstill. The percentage of undernourished actually increased between 1990-92 and 2006-2008 whereas the average deficit of the undernourished remained unchanged at 280 kcal/person/day.

On the other front, the policy has performed considerably well. The FAO data suggests that from 2000-2009, variance in the producer price of wheat in Pakistan has been remarkably less than the variance observed in the neighboring countries of India and Bangladesh. To conclude, the paper put forwards some improvements in current policy to tackle the problems of crowd out of private traders, smuggling and corruption. The recommendations include reducing the procurement targets, liberalizing the wheat market and putting a price floor on the farm gate price.

To safeguard the interest of consumers, the paper recommends enlarging the utility store system and introducing food stamps. Abduhoo, Salman. “ Punjab Cuts Wheat Rate for Old Stock by Rs50. ” The Nation, Pakistan. .

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