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POLICY BRIEFING PAPER
ON
WHEAT

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CONTENTS

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1. Objective of the Briefing Paper

To present a summarized view of all aspects of the wheat sector including trends in production, supply/demand balance, imports, subsidies and govt. policies regarding pricing, procurement, distribution, incentives and relevant issues for future policy interventions.

2. Wheat Production Trends and Imports.

2.1 According to the 1986-87 Economic Survey, area under wheat increased by 2.07 percent in 1986-87 over the previous year. Wheat output estimated at 14.251 million tonnes in 1986-87 would also be 2.35 percent higher than the previous year. However, the estimated production, which has already fallen short of the target, may be reduced further as a result of early summer rains (Table 1).

2.2 After reaching self-sufficiency in the late seventies and early eighties, poor harvests in 1983-84 forced the government to import wheat during 1984 and 1985. Good harvests during the past two years have once again made the country self-sufficient with enough reserves--a portion of which may also be considered for export.

Table 1. Wheat Production Trends and Imports.

Year	Area (000 h)	Production (000 mt)	Yield (Kg/h)	Imports (000 mt)	Proc Price (Rs/40 Kg)
1970-71	5977	6476	1083	285	18.22
1971-72	5797	6890	1188	690	18.22
1972-73	5971	7442	1246	1359	24.11
1973-74	6113	7629	1248	1229	27.33
1974-75	5812	7673	1320	1344	39.65
1975-76	6111	8691	1422	1186	39.65
1976-77	6390	9144	1431	499	39.65
1977-78	6360	8367	1316	1052	39.65
1978-79	6687	9950	1488	2236	48.23
1979-80	6924	10587	1529	602	50.00
1980-81	6984	11475	1643	305	58.00
1981-82	7223	11304	1565	360	58.00
1982-83	7398	12414	1678	396	64.00
1983-84	7343	10882	1482	291	64.00
1984-85	7259	11703	1612	980	70.00
1985-86	7403	13923	1881	1909	80.00
1986-87(E)	7556	14251	1886	NA	80.00

E=Estimated Source: Pakistan Economic Survey, 1986-87.

3. Wheat Procurement and Distribution Systems.

3.1 In order to meet its objectives of providing a guaranteed announced support price and also to stabilize open market prices, the government relies heavily on a network of procurement centres in the wheat producing areas. These centres are managed by the Provincial Food Departments (PFD's) and Punjab Agricultural Storage and Services Coorporation (PASSCO).

3.2 Farmers have the choice of selling their wheat surplus directly to the government through these procurement centres or to the traders and commission agents of the local marketing subsystem (Table 2).

Table 2. Wheat Production, Procurement, Releases and Stocks

(000 Tonnes).

Year	Production	Procurement Amount	Procurement Percent	Releases	Stocks on May 1st
1980-81	11,475	2,955	25.7	2,768	685
1981-82	11,304	3,989	35.3	3,214	830
1982-83	12,414	3,131	25.2	3,115	1,650
1983-84	10,882	3,821	35.1	3,251	1,620
1984-85	11,703	2,275	19.4	3,236	750
1985-86	13,923	2,533	18.2	3,338	1,245
1986-87(E)	14,251	5,035	35.3	3,674	2,200

Source: Economic Survey 1986-87

3.3 It is estimated that farmers sell on average about 45 percent of their marketable surplus directly to the government. The local market sub-system also sells a significant portion of its grain to the government, bringing the total share of procurement to about 70 percent of the marketed surplus. The remaining 30 percent is purchased by private mills and consumers in the ratio of 2 : 1.

3.4 Wheat procured by the government is mainly sold to the flour mills which fed the recently abandoned ration shops system. Results from the IFPRI's Ration Shop Study", funded under the Food Security Management Project, indicate that a major portion of wheat put into the rationing system was diverted to the open market. The study points to the large difference between the official draw down figures (2.9 million tons) and the estimates based on the household survey (0.5 million tons), thus concluding that about 80 percent of the wheat grain released to the mills was not drawn by consumers from the ration shops.

3.5 The continuing wheat procurement and distribution system not only reduces price fluctuations but also performs the important functions of storage and longhaul transportation of wheat and wheat flour to consumers. The system, however, is also laiden with malpractices at various levels.

4. <u>Derationing of Wheat/Flour and Its Impact on Prices.</u>

4.1 The abolition of the rationing system, in vogue since 1943, has been a major step towards decontrolling and deregulating the economy. Survey estimates by IFPRI indicate that the government would save the subsidy of Rs. 3,000 million which hardly ever reached its intended beneficiarios inspite of the existence of over forty thousand ration shops in the entire country. While on the one hand only 16 percent of the people used ration shop flour, records show 50 million users against an eligible population of only 30 million.

4.2 The derationing decision taken on the recommendation of the National Deregulation Commission also ensured the supply of wheat and flour at reasonable prices. Restrictions on interprovince movements of wheat have also been lifted and wheat is being released from government stocks in quantities large enough to check price hikes in the open market.

4.3 The existing ration shops have been allowed to function as fair price shops. They get whole wheat flour at a fixed price of Rs 2.15 per kg from the stocks of the provincial governments. The price of wheat flour, monitored at selected stations, has been declining after the effective date of derationing i.e. April 16, 1987.

4.4 The IFPRI study has estimated the cost of subsidies on wheat for 1987-88 as high as 2.27 billion rupees. Their estimate is based on the three assumptions: (a) that 0.5 million government employees would each receive an additional 20 rupees per month, (b) that the storage and handling subsidy would cost 520 rupees per ton, and (c) that a total of 4.13 million tons of wheat would be subsidized. Because the government determines both procurement and release prices, it is evident that any change in one of these administered prices would influence the subsidy level.

5. <u>Wheat Marketing Channels and Trading Activities.</u>

5.1 The four types of private traders in wheat include village shopkeepers, beoparis, commission agents and the wholesalers. Wheat trade in major producing areas is, however, dominated by government's procurement system which takes up about three quarters of the marketed wheat. The price-setting, transportation and storage functions are also largely performed by the government agencies. (Figure 1)

5.2 Since prices are lower for small lots farther away from the market, small farmers tend to receive lower prices for their marketable surplus than the large farmers. Private traders in Punjab and Sind achieve a high rate of turnover in their business and don't seem to provide much credit to the farmers.

5.3 There are three levels of wheat-milling technology i.e. chakkis, roller flour mills and the grinding plants. Of these, chakkis and roller flour mills are more prominent. In terms of operational costs, chakkis cannot compete with roller flour mills but their product is highly valued for its superior taste and greater nutritional content.

5.4 There are three main types of commercial milling operations: private subcontracting, milling on own account and milling for the government. IFPRI study indicates considerable unused installed capacity among medium (60-300 maunds/day) and large size (over 2700 m.p.d.) mills, especially in Punjab.

6. Patterns of Wheat Consumption and Supply/Demand Balance.

6.1 Wheat is the largest item in household budget and its consumption is higher in rural areas than in urban areas as shown in Table 3 extracted from IFPRI survey which used 1981-82 data.

Table 3. Wheat Consumption Per Head by Province and Area.

(in Kgs/annum)

Province	Urban	Rural	Average
Punjab	117 (126)*	153 (161)	144 (149)
Sind	71 (94)	161 (96)	127 (95)
NWFP	112 (116)	125 (152)	124 (140)
Pakistan	100 (115)	150 (147)	136 (134)

*Figures in brackets are from the Household Income and Expenditure survey, 1979.

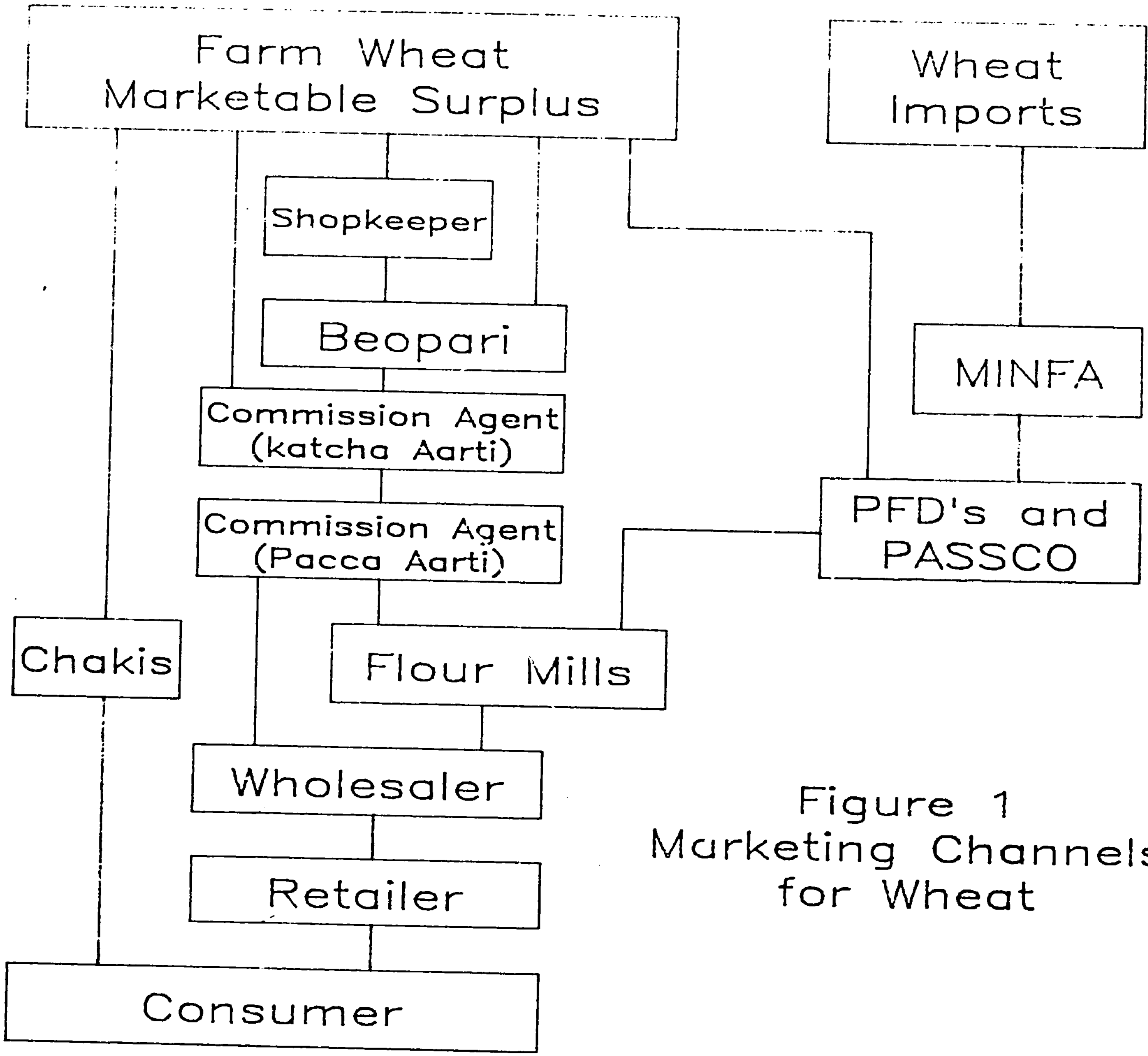

Figure 1
Marketing Channels for Wheat

6.2 Wheat consumption hardly increases with monthly incomes above Rs. 150 per head as reported in IFPRI's survey. That indicates inelastic demand for wheat for consumers with higher incomes.

6.3 The IFPRI study presents three different scenarios of both supply and demand i.e. low, medium and high. The supply/demand projections under these scenarios for the years 1992-93 and 1999-2000 are presented in Table 4 below. As indicated therein, even the comparison of low demand and high supply shows a net deficit of half a million tonnes of wheat in the year 1992-93.

Table 4. Constant Price Supply/Demand Projections for Wheat during 1992-93 and 1999-2000.

Projected Year		Area (000 h)	Yield (MT/H)	Production (mmt)	Supply* (mmt)	Demand (m tonnes) Low	Med	High
1992-93						14.6	15.2	16.1
Supply	Low	7,611	1.937	14.7	13.3	-1.4	-1.9	-2.9
	Med	7,742	1.961	15.2	13.7	-1.0	-1.5	-2.5
	High	7,877	1.985	15.6	14.1	-0.5	-1.1	-2.1
1999-2000						17.7	19.1	21.3
Supply	Low	7,799	2.168	16.9	15.2	-2.4	-3.9	-6.1
	Med	8,029	2.213	17.8	16.0	-1.7	-3.1	-5.3
	High	8,300	2.258	18.7	16.9	-0.8	-2.2	-4.4

* Supply is 10% less than production to account for seed, feed and waste.

7. Government Policy Objectives and Interventions.

7.1 Government's wheat policy objectives are: (a) to increase wheat production by providing price incentives to the producers; (b) to ensure equitable distribution by making wheat available at reasonable prices in food deficit and urban areas; (c) to stabilize consumer prices; and, (d) to promote foodgrain exports.

7.2 Compulsory procurement of wheat started back in 1952-53 which quickly shaped up into an elaborate rationing system in the country. Interdistrict ban on grain movement was imposed in 1959-60 alongwith an introduction of a price support program including voluntary procurement and input subsidies etc. Provision of credit to farmers and building of food grain storage capacity to regulate the activities of middlemen in the wheat trade also got underway in early sixties.

7.3 At present, most of the grain storage is publicly owned which is supportive of the government's large-scale procurement and distribution system. Current grain storage capacity of the public sector is over 5 million metric tonnes, of which, about 15 percent is through rented godowns from the private sector.

7.4 Government regulations strongly discourage the development of private storage capacity which is permitted only on the condition that stocks are regularly reported to the District Food Controller who has the authority to direct the sale of these stocks at a specified price to designated mills, agencies or persons.

7.5 Similarly, the maintenance of uniform procurement and distribution prices throughout the year does not provide any incentive for private on/off farm storage. Private sector wheat storage exists mainly at farm level for farm families own consumption and at the market level by private traders for intermediate periods. There is almost no private commercial grain storage on a large scale in the country.

7.6 The abolition of the historic ration shop system during early this year is expected to favourabily contribute towards the development of the private commercial storage sector in the country. The government is also moving towards providing the private sector with a larger role in grain storage and marketing by partial financing of storage construction to be rented out to the public sector. However, it is very unlikely that the business community will seriously take part in this until they see sufficient financial incentives and also the restrictive regulations are removed.

8. Current Issues in the Wheat Sector.

8.1 Constraints to Production Growth and Fluctuating Wheat Supplies.

Alternating good and bad crop harvests have become a major concern in recent years. Though area under wheat has increased significantly over the past two decades but its proportion of total area has remained more or less constant at about 36 percent. With mounting pressure and thus greater emphasis on oilseed crops, there may be a decline in this ratio in future. Water availability rather than land or labour is expected to constrain further expansion in cropped area.

The stream of wheat production increases is drying up quickly as most of the area sown is already under high yielding varieties. For further wheat yield increases, either new high yielding varieties would have to be evolved or the potential of existing ones increased. This makes the future role of research and extention obvious.

8.2 Consistent Growth in Wheat Consumption Requirements.

Fast population and moderate income growth during the past years is leading to a consistent growth in consumption requirements for wheat. This trend does not seem to change drastically until the end of the century. The recent supply/demand comparisons and future projections made by IFPRI reveal a bleak future for the wheat balance.

8.3 Maintaing Self-Sufficiency and/or Wheat Exports.

Should the government policy place emphasis on maintaining the fluctuating self-sufficiency level and/or strive to enter the wheat export market? Furthermore, how much wheat stock should the government maintain for price stabilization and other essential uses? By lowering of government's procurement targets, a considerable saving on the subsidy bill can be achieved or widening the procurement-release price spread.

8.4 Privatization of Wheat Storage and Marketing.

Restrictions on development of the private sector in handling wheat storage and marketing activities are numerous and probably costly. Efforts could also be made to reduce the constraints to market development by way of improving infrastructure and communication facilities.