

POLICY RECOMMENDATIONS IN

WHEAT SECTOR

Recent Measures by the Government in Wheat Sector

In June 2020, the government allowed the private sector to import wheat, a function primarily performed by Trading Corporation of Pakistan.

The following duties and taxes were also abolished to facilitate wheat import.

60%
Regulatory duty

11%*
Custom duty

17%*
Sales tax

6%*
Withholding tax

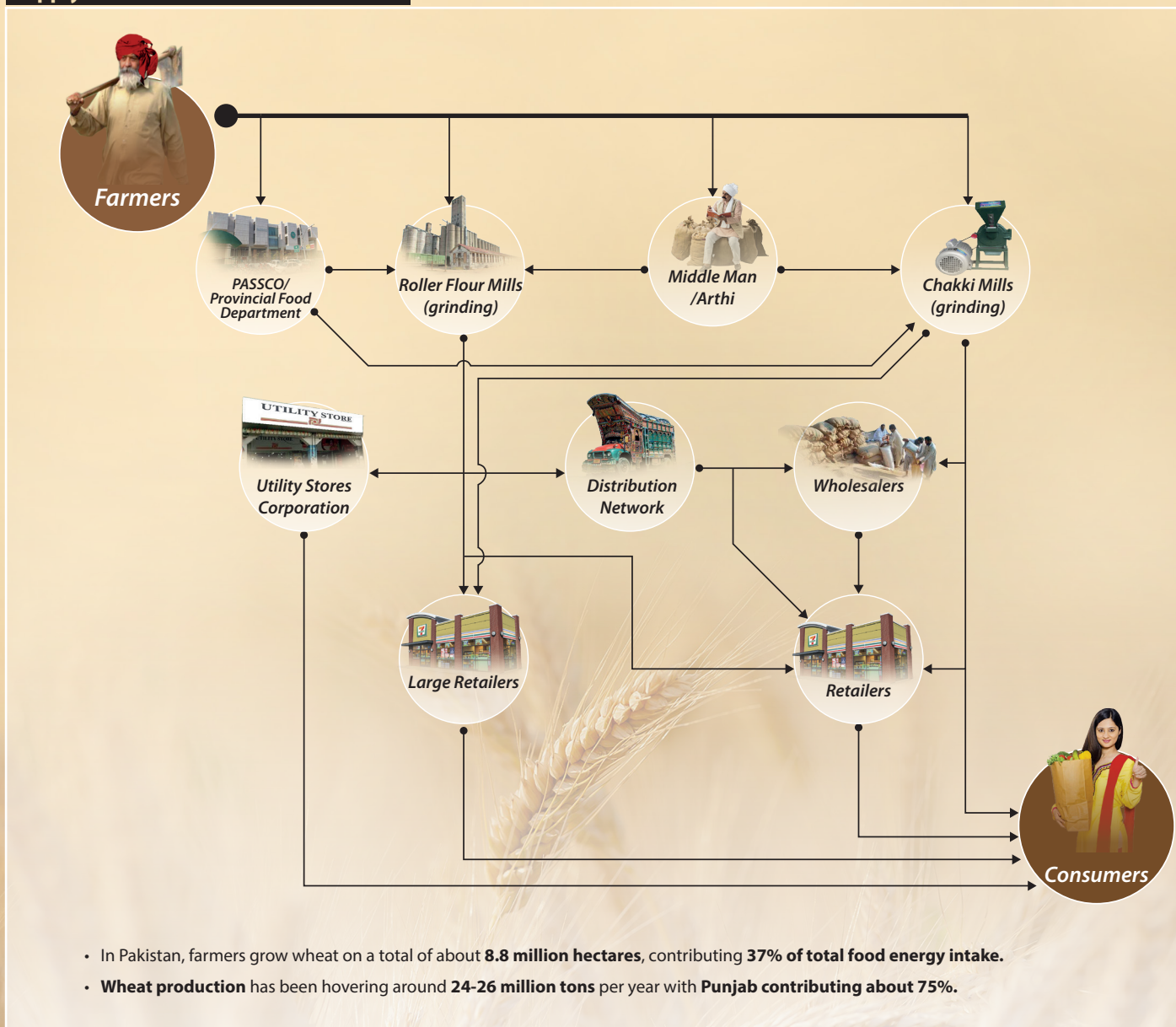
* One time for import of 1.5 mmt of wheat



The Commission is mandated under Section 29(b) of the Competition Act, 2010 to review policy frameworks for fostering competition and making suitable recommendations to the federal government and provincial governments to amend laws that effect competition in the country.

To build on the abovementioned positive policy shift, the Commission is recommending additional policy measures to enhance economic efficiency and eliminate distortions in the wheat sector.

Supply Chain of Wheat and Wheat Flour



- In Pakistan, farmers grow wheat on a total of about **8.8 million hectares**, contributing **37% of total food energy intake**.
- **Wheat production** has been hovering around **24-26 million tons** per year with **Punjab contributing about 75%**.



Primary Concerns/Issues

- The **prices of wheat grain** and flour in the country **increased sharply** between **November 2019** and **January 2020**, mainly due to tight market availabilities, below average outputs in 2018 and 2019, higher transportation cost, hike in domestic prices of petroleum products and transport disruptions related to the COVID-19 pandemic.
- The Federal Committee on Agriculture **set production target of 27.03 million metric tons** for year 2020, but the unseasonal heavy rains and delayed harvesting operations caused localized damage to standing crops and the **national production remained 26.1 million metric tons**.
- The Government **set a target of around 8.5 million metric tons** on support price but despite extensive efforts and using the regulatory arm of district administration, the **procurement concluded at around 6.5 million metric tons**.
- The procurement by Government was **39% of the marketable surplus** of wheat as compared to **25% during last year**.



Costly Support Policies and Subsidies

- Almost **75% of the total subsidy cost** – the differential between wheat procurement cost minus the release price to millers – is paid to banks for retiring outstanding wheat procurement loans.
- **More than 95% of the wheat subsidized quota** is issued to roller flour mills annually.
- Market dynamics show that the contribution of roller flour mills in wheat flour supply – **earlier considered almost 60%** - has been declining and that of Chakki mills increasing.
- The **share of Chakki mills** has grown to **around 2/3rd** of the total supply of wheat flour.



Lack of Adequate Testing Mechanism

- PSQCA has prescribed standards for wheat flour, whole wheat flour, maida and fortified wheat flour. As per prescribed standards the allowed ratio of the moisture in the **wheat flour is 13.5%**.
- The increased moisture level reduces wheat quality, decreases shelf life and also becomes breeding ground for fungus and decay. As per market sources, **the existing testing mechanism for the moisture content is rudimentary and inaccurate**.



Lack of Mechanism for Monitoring and Enforcing Extraction Rates

- As per Punjab Food Department, **flour mills are to produce 65% wheat flour, 13% bran, and 22% of maida** and fine flour. This ratio slightly differs in other provinces.
- Government is mainly **regulating the price of 65% wheat flour** only, which is used to make bread (rotis).
- **The mills take advantage of inadequate mechanism for monitoring**. This ultimately distorts the market and reduces supply of wheat flour against the wheat issued by the Government on subsidized rates as per allocated quota.



Gradual Exit of Government from Interventions including Minimum Support Price & Price Determinations

- Minimum support price for the wheat crop of **FY2019-20 was set to PKR 1,400 per 40 kg**.
- As per IFPRI policy research paper, **the top 40 percent of wheat farmers produce 79% of wheat** in the Punjab. They sell **84% of the total production** in the province to the Government.
- Bottom 40% of the farmers produce **11.0% of wheat in Punjab and sell only 6.4%** to the Government.
- Similar is the situation in Sindh where **top 40% farmers account for 88%** of the total wheat production in the province.
- As a result, it is the **large land owners** who are the main **beneficiaries of the current support price system**.

CONCLUSIONS AND RECOMMENDATIONS

1 Measures to Ensure a Level Playing Field

- **Chakki mills should be provided a fair share in the wheat quota.**
- **Provincial governments may simplify procedure of registration** and quota allocation to chakki.
- **To incentivize expansion of Chakki mills, provision of soft loans for installation** of equipment and arranging trainings for their capacity.



2 Removal of Regulatory Road Blocks to Synergize Quality Control Measures

- **The issue of overlap in regulatory regime should be addressed** by removing ambiguities in the role and responsibilities of regulators.
- **A comprehensive review and revision in the regulatory regime** is vital in this regard.
- **PSQCA must prescribe/update the standards for wheat** to provide parameters to provincial governments to monitor the quality of wheat.



3 Ensuring Adequate testing for moisture content

- In order **to ensure that the moisture content does not exceed the prescribed limit set by the Government**, it may set minimum standards for the testing procedure and provide for the same accordingly. Testing required for identifying the moisture content is not resource heavy in terms of cost and is therefore quite practical to implement if the Government so considers.



4 Enforcement of Adequate Labelling and Accuracy in Packaging

- **Adequate labelling, comprehensible to an 'ordinary consumer'**, must be given due importance and enforced stringently.
- Mills claiming to sell 'premium atta' in various package sizes other than that prescribed by the Government, they **must give proper disclosure** that it contains wheat flour produced by wheat procured from open market as against that purchased from Government at less than market value or subsidized rate



5 Withdrawal of Support Price Regulation

- A **gradual removal from price regulation** would encourage competition between traders, millers and stockiest.
- **Government should consider gradually removing** itself from price regulation, particularly at the farm level.
- **Price fixing at the farmer's level** not only leads to competition issues, but subjecting farmers to the pre-season support price, could deprive him of gains that could be made when the price is higher in the open market.
- The federal and provincial governments **may consider reducing their role to ensure food security** through strategic reserves, as well as maintaining fair and transparent competition, and helping to raise agricultural productivity through research based interventions.
- **Government must have room/flexibility in its pricing policy** so that at the time of its actual procurement, the price of wheat could be rationalized against factors such as prevailing market value, and export parity among others.



6 Subsidy to be targeted

- Government must consider exploring fool proof methods that can ensure that the **subsidy provided by Government could reach its intended target**, i.e. the end consumer.
- Provincial governments should **enhance transparency** in issuance of quota for production of wheat flour on subsidized price.
- Provincial governments must **ensure that the wheat sold to the mills at reduced rate**, as per their allotted quotas is solely grinded to be sold to the ordinary consumers, for whom it is intended, rather than the millers diverting it to open market and gaining undue profits.
- In order to ensure the above, a reconciliation process may be helpful. This **reconciliation may be achieved through audit**, or any other means that the Government may deem fit.
- The Government may consider **putting in place a deterrence mechanism for any violations** in this regard.
- Furthermore any **subsidy extended to mills for exporting wheat and wheat products may be done away** with and the same may be adjusted in the support price as suggested above.

Minimum standards for export quality wheat and wheat products may be put in place instead, to increase international competitiveness.



CONCLUSIONS AND RECOMMENDATIONS

7 Measures to Optimize Governments intervention and Reform the supply mechanism

- The federal and provincial **governments may only intervene by making judicious use of their strategic reserves**, when there is dire shortage of wheat in the market due to abnormal market conditions.
- The **Government's role may henceforth be restricted to oversight in terms of standard/quality, fostering R&D initiatives** to enhance domestic as well as international competitiveness and holding of strategic stocks to be used in emergencies or stabilizing the market in times of volatility.
- **The reform of the procurement system** may open the way for the transition to bulk handling rather than the current bag-based system. However, the move from bags to bulk will require investments in trucks, loading-unloading equipment, and modern silos.
- **A public-private partnership model for grain storage facilities** may be carefully and perhaps urgently considered by the Government. The Public-Private Partnership Act was amended recently, and the Public-Private Partnership Authority was constituted to implement the Act. The Government of Punjab also has a Public-Private Partnership Authority. These two authorities may be tasked to solicit proposals for the wheat storage silos.



8 Streamlining the Export Policy and Improving Export Potential

- **The Federal Government may notify a wheat export policy** to allow expeditious export of wheat in years of abundant domestic supplies.
- The **export policy** in this regard may also consider **export potential of wheat**, such that any export parity that may be required can be catered for.
- In addition, the Government may help private traders to **implement a wheat standard and branding** to compete in specific segments of the international wheat market.
- The PSQCA may also consider **working closely with regional countries** to harmonize the wheat standards.
- There has to be **strong communication** between the Ministry of National Food Security and Research and the Provincial Food Departments, Provincial Agriculture Departments and other key stakeholders in this regard, so as to allow the Government to take timely and optimum decisions in respect of wheat export.
- A strong crop **monitoring, forecast and reporting system** will help streamline the export policy and improve export potential.

