Wheat Prices, Procurement and Stocks: Options for Reducing the Cost of Price Stabilization

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April 15, 2015
Government Wheat Market Interventions

- Domestic procurement at fixed “support price” in excess of open market prices
  - Large farmers who sell wheat to government benefit most
- Significant losses in government storage, and high costs of handling and transport
- Sales of wheat to flour mills at fixed “release price” below open market prices
- Subsidies on sales of imported wheat
  - In some years, subsidized sales of exports
Subsidy on wheat procured in 2012-13 and sold in same year: 4.18 Rs/kg

Quantity of procurement: 5.95 million tons (compared to peak of 9.23 mn tons in 2009-10)

Potential losses at 2012/13 release price: 5.95 million tons (total procurement) 4.18 Rs/kg subsidy = 24.8 bn Rupees

Total releases: 6.0 million tons times 4.18 Rs/kg subsidy = 25.1 bn Rupees
Possible Per Kg Financial Losses* on Domestic Wheat Procurement and Sales (Rs/kg)

* Possible financial loss (unit subsidy) for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price.

<table>
<thead>
<tr>
<th>Year</th>
<th>Support Price (Rs/kg)</th>
<th>Incidentals</th>
<th>Release Price (Rs/kg)</th>
<th>Unit Subsidy* (Rs/kg)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>PASSCO (Rs/kg)</td>
<td>Punjab (Rs/kg)</td>
<td>Sindh (Rs/kg)</td>
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<td>2005-06</td>
<td>10.38</td>
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<td>1.73</td>
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<td>2006-07</td>
<td>10.63</td>
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<td>2007-08</td>
<td>15.63</td>
<td>2.30</td>
<td>2.00</td>
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<td>2008-09</td>
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<td>2012-13</td>
<td>30.00</td>
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<td>7.43</td>
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</table>
Possible Financial Losses* on Domestic Wheat Procurement and Sales (bn 2009-10 Rs)

* Possible financial loss for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price, times the quantity of domestic procurement.
Possible Financial Losses* on Domestic Wheat Procurement and Sales

* Possible financial loss for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price, times the quantity of domestic procurement.
**Wheat Procurement, Unit Subsidy and Total Subsidy 2006-06 to 2012-13**

<table>
<thead>
<tr>
<th>Year</th>
<th>Procurement Quantity ('000 tons)</th>
<th>Support Price (Rs/kg)</th>
<th>Release Price (Rs/kg)</th>
<th>Unit Subsidy* (Rs/kg)</th>
<th>Financial Loss** (bn Rs)</th>
<th>Financial Loss** (bn 12/13 Rs)</th>
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<td>26.67</td>
<td>30.92</td>
<td>2.92</td>
<td>18.32</td>
<td>19.98</td>
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</table>

* Possible financial loss for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price, times the quantity of domestic procurement.
Wheat Procurement, Unit Subsidy and Total Subsidy 2006-06 to 2012-13
Pakistan: Initial and Estimated Peak Wheat Stocks* 1991-92 to 2013-14

* Peak wheat stocks are estimated as end-April stocks plus May-June domestic procurement.
Pakistan: Wheat Procurement and Production 1989-90 to 2011-12

Note: Procurement generally takes place in April and May. Season ends June 1.
Pakistan: Nominal Wholesale, Import Parity and Support Prices of Wheat
Real wheat prices rose in early 2014 to levels near 2009 highs, but have since declined. Nonetheless, they are still higher than average levels for 2002-07.
Domestic and International Wheat Prices

- Government interventions in domestic wheat markets generally make private international trade (wheat imports or exports) unprofitable.
  - In terms of price formation, wheat generally behaves as a non-traded good, with domestic prices not directly linked to international prices.

- In most years from 1990 to 2006, domestic sales of government imports of about 2 million tons/year kept domestic prices below international (import parity) prices, so private imports were not profitable.

- When international prices rose sharply in 2008, export restrictions prevented exports and kept domestic prices from rising to export parity levels.
Pakistan Wheat Prices (US$/ton)
2002-2014

Note: December 2014 US HRW#2 wheat price was $291/ton (fob Gulf); $325/ton c&f Karachi.
Current International Wheat Prices

- In mid-2010, international wheat prices increased sharply and have remained at a level of about $400/ton import parity (Lahore) through the end of 2014.

- Domestic wholesale prices have generally been far lower (about $350/ton)
  - There has been no incentive for private sector imports for most of this period.
Wheat Policy: Procurement and Release Prices

- Setting **domestic procurement prices too high** relative to domestic release prices results in massive fiscal costs with little or no benefit to consumers and to small farmers that do not sell wheat to government agencies.

- The unit subsidy could be reduced by **raising the release price** and thus reducing a subsidy to flour mills.
Wheat Policy: Quantity of Procurement

- Wheat subsidies have increased by 50 percent in real terms (average 2010/11-2012/13 compared with average 2005/06 – 2007/08).
  - This corresponds to a 46 percent increase in the quantity of procurement over this period (from 4.3 to 6.3 million tons per year).

- Reducing quantities of procurement to these earlier levels could save 6.7 bn rupees per year.
  - Further gradual reductions in quantity of procurement are also possible, allowing the private sector to play a larger role in marketing.
Sources:

Dorosh, Paul, Elena Briones Alonso, Shauib Malik and Abdul Salam. 2015. Agricultural Markets and Trade”, manuscript.