



POLICY NOTE

SUBJECT: POLICY RECOMMENDATIONS IN THE WHEAT SECTOR

Introduction:

Recent events in the world commodity markets, coupled with high levels of food inflation across many countries, have raised concerns about the economic efficiency of such markets through each stage of their respective supply chains. Specifically in Pakistan's context, wheat is one such sector.

2. The Federal Government in June 2020 decided to liberalize the internal and external trade of wheat, allowing the private sector to import wheat, a function primarily performed by the Trading Corporation of Pakistan. To encourage imports, and thwart the created crisis being faced currently, the Government vide S.R.O 633(I)/2020 dated July 21, 2020 has abolished the 60% import duty on the same. In addition the Government has very recently also abolished 11% custom duty, 17% sales tax and withholding tax of 6% on one time import of 1.5 million metric tons of wheat.¹

3. Furthermore, Growers, millers and traders can now buy, sell and transport wheat to any part of the country depending on market conditions, as is typical of a free market. The above mentioned policy shift will help address the current wheat crisis.

4. To build on the positive policy shift referred to above, the Competition Commission of Pakistan (hereinafter the 'Commission') is of the considered view that some additional policy measures at this juncture may contribute in enhancing economic efficiency and eliminating distortions in the wheat sector. It is with this objective, and the statutory mandate of the Commission provided for under clause (b) of Section 29 of the Competition Act, 2010 (hereinafter the 'Act') to review laws and policy frameworks, and to make suitable recommendations to the Federal or Provincial Governments to make new or amend the existing

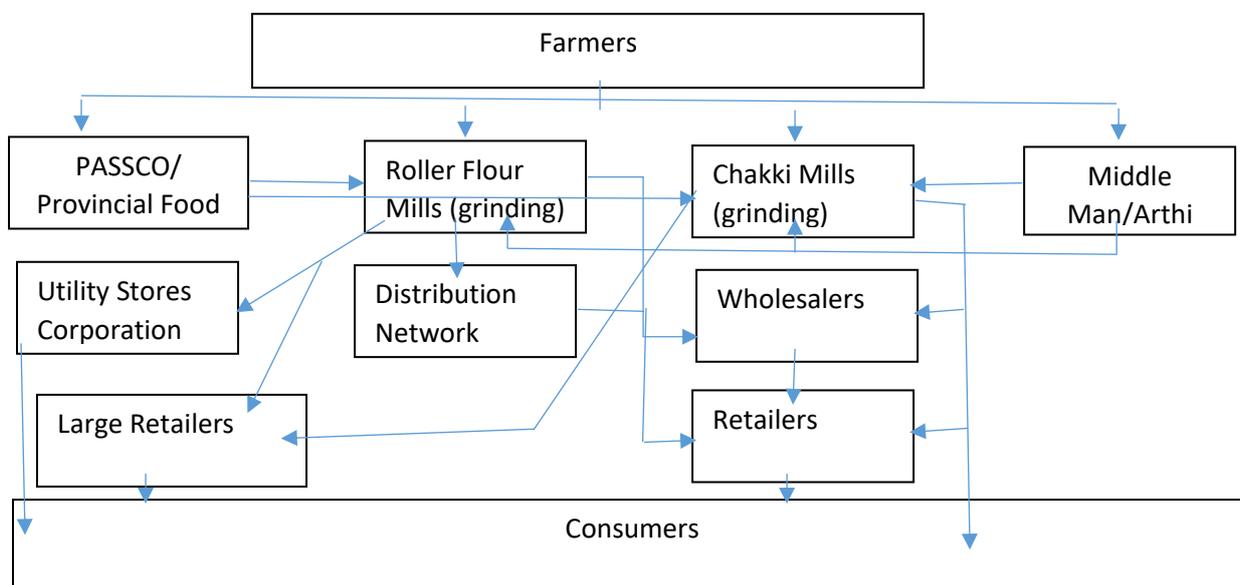
¹As reported in The News¹ on August, 20, 2020. Withholding tax is to the extent of recent import of wheat vide S.R.O No. 633(i)/2020 dated July 21, 2020

laws for the purpose of fostering competition, that the Commission hereby issues this policy note.

5. Before dissecting the main concerns/issues in this regard, it may be pertinent to identify the supply chain in wheat sector as discussed herein below:

Local Supply Chain of Wheat and Wheat Flour:

6. Wheat is an important crop in Pakistan with farmers growing it on a total of about 8.8 million hectares, contributing 37% of total food energy intake². Wheat production has been hovering around 24-26 million metric tons per year (during last ten years) with Punjab contributing about 75%. Wheat yield has increased over time but still around 30% lower than in other countries with comparable conditions. The Federal and Provincial governments intervene to ensure Pakistan is self-sufficient in wheat to stave off threats to food security by giving subsidy on farm inputs and setting minimum support price at the start and subsequently, in the wheat procurement policy. The following flow sheet will reflect on the supply chain system of wheat and wheat flour.



Primary Concerns/Issues:

A. Nexus of Wheat Crisis and Market Supply-Demand situation:

7. The Prices of wheat grain and flour, the country's main staples, increased sharply between November 2019 and January 2020, near record high in most markets. The significant price increases resulted from tight market availabilities, following the below average outputs

²Economic Survey of Pakistan, Ministry of Finance 2019-20

in 2018 and 2019 as well as higher transportation cost, due to significant increase in domestic prices of petroleum products. While prices decreased in February and March 2020 after the government took measures, prices resumed their increasing trend from the second part of March, mostly due to a demand upsurge and transport disruptions related to the COVID 19 pandemic.

8. The Federal Committee on Agriculture set production target of 27.03 million metric tons for year 2020, as it was estimated at the start of the year that a bumper crop of wheat is expected. In March/April, unseasonal heavy rains and localized hail over areas of the main wheat-producing province of Punjab, delayed harvesting operations and caused localized damage to standing crops. Overall, 2020 wheat production remained close to the five-year average, but below previous expectations of a bumper output. The national production remained 26.1 million metric tons³. Apparently, this quantity is adequate to meet the domestic requirement of Pakistan for full year. Factors such as export of wheat in FY 2019, late harvesting, less than estimated wheat production led to the increased procurement by the Government and may have contributed to signaling a shortage of wheat in the market. The Government set a target of around 8.5 million metric tons on support price but in spite of 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 in 2020 as compared to 25% in the previous year. Market surplus refers to all that wheat that is not retained by the farmer for subsistence or sowing (for the next season) and hence is available to be sold to the Government or open market. This major jump in the procurement created unrest for private sector and perpetuated the current crisis of wheat.

9. In order to resolve the issue, Punjab Food Departments started releasing the wheat quota earlier than the planned schedule, to stabilize the market prices. Since, balancing the competing interest of farmers, millers and consumer and ensuring food security through the supply chain is the primarily responsibility of provincial governments in co-ordination with Ministry of National Food Security and Research, the federal ministry may advise the provincial governments on policy issues like support price of wheat and release to mills. However, the final decisions of wheat procurement at provincial level and its release to flour mills on subsidized rates and quota is the responsibility of the provincial governments.

B. Costly support policies and subsidies:

³<https://www.indexmundi.com/agriculture/?country=pk&commodity=wheat&graph=production> . MNFS&R
25.46 MMT

10. Almost 1/3rd of the total wheat is kept by the farmers for their domestic consumption. The provincial and federal governments purchase wheat every year through the Provincial Food Departments and the PASSCO to keep buffer stocks and avoid shortages. The Government uses commercial loans to finance the purchase, storage, and sale of wheat. Government procurement agencies and Provincial Food Departments use government guarantees to obtain these loans from private banks, which they must repay themselves. Wheat is a significant component of all the outstanding bank credit guaranteed by the government. Almost 75% of the total subsidy cost – the differential between wheat procurement costs minus the release price to millers – is paid to banks for retiring outstanding wheat procurement loans. As there is a time lag when provincial governments borrow money and repay, this has led to a circular debt issue in the wheat sector as outstanding obligations are rolled over from one financial year to the next. Continuing the current costly support policies aimed at supporting farmers, stabilizing consumer prices, and subsidizing all consumer groups (regardless of income) poses a significant burden on public exchequer, which is not sustainable in the long term.

11. The analysis of last 10 years shows that Government is procuring on an average of 35% of the market surplus⁴, ranging from 25% in 2018-19 to 43% in 2009-10. The government procurement in 2019-20 jumped to 39% of the marketable surplus as compared to 25% in 2018-19. This sharp increase in procurement in 2019-20 at support price is likely to have crowded out the private sector and created unrest for them.

12. Furthermore any subsidy extended to mills with regard to export of surplus wheat is misused in the form of fake documentation and transactions. Since roller mills make profits through the said manipulation, they have no attraction left to spend on fine packaging and branding of export quality products.

C. A lack of level playing field for players in the value chain:

13. There are two major players in the value chain who convert wheat into wheat flour. The wheat milling is done either at roller mills or small scale Chakki mills to produce wheat flour. It is interesting to note that efforts of federal and provincial governments mainly revolve around roller flour mills in the country to ensure availability of Atta at affordable price in the market. More than 95% of the wheat subsidized quota is issued to roller flour mills annually. The flour mills distribute wheat flour to retail and wholesale shops, clay ovens and occasionally directly to consumers. The flour mills have also appointed dealers/distributors for onward distribution of wheat flour to retail shops where consumer could buy. The Chakki mills are either offering

⁴ Author's calculations

grinding services to those consumers who are bringing their own wheat for grinding or selling wheat flour directly to consumers. The large Chakki mills have also appointed their dealers/distributors or are directly supplying to retail and whole sale shops.

14. 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. As per recently conducted studies⁵ the share of Chakki mills has been estimated at around 2/3rd of the total supply of wheat flour. However, the limited quota allocation to Chakki mills by the provincial governments and unfriendly mechanism of issuance is a bottleneck to expanding the role of these small-scale Chakki mills. For example, in Punjab, the Chakki mills are provided 3 bags per stone per day only as quota, which most of the Chakki owners don't consider worth investing time in.

15. The heavily-controlled wheat sector by government is less advantageous for small scale Chakki mills. Although the Chakki mills are the major supply chain players, they are deprived of a level playing field. Low investment, lack of capacity and inadequate opportunities in the market have closed competition for this important supply chain player.

D. Lack of Mechanism for Monitoring and Enforcing Extraction Rates:

16. The roller flour millers produce multiple products but generally four major products from wheat issued by provincial food departments as per agreed extraction ratios with provincial Governments. As per Punjab Food Department's Wheat Release Policy, dated July 7, 2020 issued vide notification no. SO(F-1)3-46/2020(W.E.) flour mills are required 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 rotis. Maida is used for making bakery bread, biscuits, noodles and pastas etc, and fine flour for Naans in clay ovens (tandoors). The 13% bran (choker) is sold on reduced price for animal consumption or for some other wheat products like high fiber biscuits. The bran, however, is most nutritious part of the wheat with more vitamins and minerals. The larger roller flour mills prefer to focus on producing more maida and fine Atta, given its higher market value and usage in more refined products.

⁵ The 2018 Rolling District Study (<https://www.ffp-pakistan.org/wp-content/uploads/2019/01/Rolling-district-study-round-1.pdf>) conducted with the support of DFID in four districts of Punjab found that 73% population is consuming wheat flour from small-scale *Chakki* mills. The 2017 FACT Survey (<https://www.gainhealth.org/sites/default/files/datasets/documents/fortification-assesment-coverage-toolkit-pakistan-2017.pdf>), conducted by MINISTRY OF PLANNING, DEVELOPMENT, AND SPECIAL INITIATIVES in 2017 with the support of USAID, found that a large proportion of population is consuming wheat flour produced by the *Chakki* mills.

17. There is no adequate mechanism for monitoring of these extraction ratios so the mills take advantage of it. 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.

18. Whereas, the Chakki mills produce whole wheat flour without any extraction and convert all the wheat into wheat flour. The nutritious bran is part of the wheat flour hence more wheat flour is available to consumers against the wheat issued to Chakki mills on subsidized rates as per allocated quota.

19. The provincial governments need to link the standards of flour with Pakistan Standards and Quality Control Authority's (PSQCA) standards for whole wheat flour, against the wheat supplied to flour mills to the extent of subsidized quota and Chakki mills. Furthermore, if to this extent no extraction is allowed to flour mills and all the wheat issued by provincial government on subsidized price is converted to whole wheat flour, it may not only enhance the supply and nutrition of flour but may also help in providing a level playing field to Chakki mills with roller flour mills.

E. A Lack of adequate testing Mechanism

20. PSQCA has prescribed standards for wheat flour, whole wheat flour, maida and fortified wheat flour. As per prescribed standards the maximum allowed ratio of the moisture in the wheat flour is 13.5%.

21. The regulatory monitoring is not much effective and mills take advantage of it. According to market sources, the flour mills at large intend to increase the moisture levels of wheat flour, therefore compromising its quality. This is done to make unfair profits, as increasing moisture content adds to the weight of wheat flour.

22. The implication of this behavior is not only on price, and the quality of wheat sold to the end consumers, but it also decreases shelf life of such *Atta* as wheat flour with moisture content above a certain level becomes a breeding ground for fungus and decay.

F. Absence of Labelling and variation in Packaging Size

23. Adequate labelling of wheat flour bags in terms of nutrients and moisture level is missing whether it's supplied by the flour mills or Chakki mills. It may be noteworthy, that Section 10 of Competition Act, 2010 envisages regulating deceptive marketing and has in sync with developed jurisdictions included and treated concealment or misrepresentation of facts in relation to a product or service in any shape or form, as a deceptive marketing practice,

particularly if it is proved that the same is done to exploit the information asymmetry existing in favor of the supplier against consumers of a product. The provision of the Competition Act, 2010, referred to above, therefore aims at paving the way to create consumer awareness with the objective of making markets function better for consumers and to ensure fair dealing in businesses. The focus is on protection of consumers from deceptive marketing practices by ensuring provision of adequate information to them for making informed choices.

24. There are multiple overlaps in the regulatory regime between provincial and federal legislations. To illustrate, the product quality standards are prescribed under the PSQCA Act. At the same time PSQCA also has the authority for implementation of prescribed standards. Similar powers are also exercised by the Provincial Food Authorities, The Food Stuff Control Act also provide powers to Provincial Food Department to monitor quality of wheat flour. This overlap in the regulatory regime is leading to weak enforcement, resulting in challenges in protecting consumers.

25. Apart from Government prescribed packaging of 20 Kg bags sold at a regulated price, the roller flour mills and Chakki mills also produce “Special Atta” that comes in 25/15 Kg bags and 5/10 kg bags respectively, and sold at significantly higher prices as compared with the former. According to flour millers, “Special Atta” is their premium product and is produced from the wheat procured from open market on a higher price. However, the market sources unveiled that due to weak or no monitoring by provincial governments, the mills also produce “Special Atta” from the wheat supplied by provincial governments on subsidized rates. This results in the unintended consequence of a higher price for the wheat flour that was subsidized in the interest of the end consumer.

G. Gradual Exit of Government from interventions including minimum support price & price determinations:

26. Agricultural Policy Institute is an attached department of Ministry of National Food Security and Research (MNFSR) that gives non-binding recommendations for wheat support price. A meeting of the wheat review committee in March 2020 agreed to recommend to the Economic Coordination Committee (ECC) an increase in the minimum support price for the wheat crop of FY2019-20 from PKR 1,365 to PKR 1,400 per 40 kg⁶.

27. As per a policy research paper⁷, 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

⁶ Express Tribune, *PTI govt recommended to increase wheat support price*, 10 March 2020, online at <https://tribune.com.pk/story/2172758/2-pti-govt-recommended-increase-wheat-support-price/>. Also, Express Tribune, *PTI govt increases wheat support price to Rs1,400*, 13 March 2020, online at <https://tribune.com.pk/story/2174968/pti-govt-increases-wheat-support-price-rs1400>

⁷ <http://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/133728/filename/133939.pdf> (page 17)

or the market. Bottom 40% of the farmers produce 11.0% of wheat in Punjab and sell only 6.4% to the Government or the middlemen. 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 system⁸. The middle men (*Arhtis*) also bargain with the farmers based on the support price. Needless to say, support price fixation is contrary to the principle of free market or *laissez-faire*.

28. The level of minimum support price for wheat also affects the quantum of subsidy the Federal and Provincial governments need to give to export any surplus stock. Domestic prices are not competitive with international prices of the commodity. As a result of that, any wheat that cannot be sold in the international market (exceeds local demand) has to be preserved and thus becomes prone to wastage/spoilage as a common occurrence.

29. The government's role should essentially be reduced to ensuring food security through strategic reserves, as well as maintaining fair and transparent competition, and helping to raise agricultural productivity through research based interventions. Greater integration with world markets would reinforce the resilience component of food security as well as create opportunities for export development.

30. The concept of support prices should be used only when necessary and only for those commodities where production shortfalls are forecasted. The budget allocations for support prices would be better spent in agricultural R&D not only to increase the yield and productivity but also variety. On the occasion that the support price mechanism must be used, there should be room for flexibility in the minimum support price (fixed prior to the season) such that at the procurement stage, the price may reflect the market conditions, particularly when market conditions dictate a higher price in the open market, versus the minimum support price. If farmer is forced to sell at latter, not only will it be detrimental to his interest, but also in contrast to the very security inherent in the support price mechanism.

H. Missing Incentive for public private partnership in Wheat Procurement and storage

31. The provincial and federal governments purchase wheat every year through the provincial food departments and the PASSCO to keep buffer stocks and avoid shortages. Determination of demand & supply, procurement targets and finance allocation are carried out

'Rationalization of Wheat Markets in Pakistan', prepared by International Food Policy Research institute to provide technical assistance to the Ministry of National Food Security and Research

⁸ <http://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/133728/filename/133939.pdf> (Page 17)

by the Provincial Governments which at times they struggle to achieve. This eventually affects the price & availability of wheat and wheat flour and create distortions in the market.

32. The Government uses commercial loans to finance the purchase, storage, and sale of wheat. Government procurement agencies and provincial food departments use government guarantees to obtain these loans from private banks, which they must repay themselves. Wheat is a significant component of all the outstanding bank credit guaranteed by the government.

33. Continuing the current costly support policies aimed at supporting farmers, stabilizing consumer prices, and subsidizing all consumer groups (regardless of income) poses a significant burden on public exchequer, which is not sustainable in the long term. Keeping in view that almost 75% of the total subsidy cost is paid to banks for retiring outstanding wheat procurement loans.⁹ This has also crowded out the private sector from access to financing for wheat purchases.¹⁰

34. There are considerable indirect costs also. These include losses stemming from poor storage, pilferage, and high spoilage; an over-production of wheat, a lack of focus on other high(er) value commodities and lack of access to finance for the private sector to build storage facilities, not only for wheat but other grains such as corn, which have high potential in Pakistan.

35. The system is problematic at almost every point. Existing government intervention programs have posed significant constraints to private sector-driven development, including much-needed investment in grain storage infrastructure.

36. The economic impact of deterioration of wheat quantity and quality is significant, considering physical losses and expenses associated with the bag system.¹¹

⁹ The financial burden on the Government of Punjab went from PKR 3.5 bn in FY2005-06 to PKR 52 bn in FY2008-09 and reduced to PKR 23.8 bn in FY 2018-19 simply because of lower quantity of wheat procured. The financial burden on Government of Sindh rose from PKR 0.7 bn in FY 2005-06 to PKR 10.7 bn in FY2017-18. In FY2018-19, the Sindh Government decided not to procure wheat. Source: **Rationalization of Wheat Markets in Pakistan: Policy Options** by the INTERNATIONAL FOOD POLICY RESEARCH INSTITUTION, March 2020 (pp 21-22)

¹⁰ In December 2019, the Finance Division proposed that at-source deduction from provincial financial shares under the National Finance Commission (NFC) Award be made to pay the outstanding loans acquired by provincial food departments from commercial banks. These loans are backed by secondary guarantees issued by the Finance Division. Different foods departments – PAKISTAN AGRICULTURAL STORAGE AND SERVICES CORPORATION (PASSCO), TRADING CORPORATION OF PAKISTAN (TCP), PUNJAB FOOD DEPARTMENT, SINDH FOOD DEPARTMENT, and BALOCHISTAN FOOD DEPARTMENT – owed PKR 757 billion outstanding loan but against stocks of PKR 320 billion. Source: The Express Tribune, *Centre seeks deduction from NFC to pay off loans: Finance Division tells ECC a loan worth Rs437 billion outstanding against food departments is at risk*, 14 December 2019, online at <https://tribune.com.pk/story/2117477/1-centre-seeks-deduction-nfc-pay-off-loans>

¹¹ In a 2013 assessment, the FAO and World Bank estimated that a 30% loss rate of government's annual wheat purchases would cost Pakistan's economy a loss of PKR 6 bn to 7 bn. Source: FAO and WB, *Pakistan – Review of the Wheat Sector and Grain Storage Issues*, online at <http://www.fao.org/3/i3251e/i3251e.pdf>

37. For example, the Government requires that all wheat sold to public sector centers has to be in jute bags, the control of which is in government hands and is manipulated to exclude small-scale farmers from selling their surplus wheat to the Government. The logistics of wheat trade may transition from the current system of transporting and storing wheat in bags to the more efficient one of bulk handling and storage in grain silos and elevators.

38. The use of modern storage facilities and technologies, however, is limited and inadequate in Pakistan. Wheat stored in current grain storage facilities is prone to losses due to threat from rodents, birds, and insects.

39. As wheat purchase, transportation and storage are financially supported by the government, there are no incentives for wheat sector participants (wheat traders, flour millers and others) to invest in improved infrastructure. They can simply maintain minimum wheat stocks while the government pays for wheat storage and bears the associated losses.

40. The existing system of procuring and selling wheat clearly creates significant market and investment distortions and results in significant losses to the economy. The Government carries the significant burden of “double-pricing” when wheat sale prices do not reflect procurement, financing, and storage costs.

41. Recently, as stated earlier, there has been one major change in the government’s wheat policy. The Federal Government in June 2020 decided to liberalize the internal and external trade of wheat, allowing the private sector to import wheat, abolishing the current 60% import duty.¹² However, for export to take place, it is important that wheat quality standards issued by PSQCA should not only be updated but also harmonized with the regional countries. It may be noteworthy that standard specifications for wheat were last updated by PSQCA as far back as 1996 under Standards No. PS 3747-1996.

SUMMATIONS/CONCLUSIONS AND RECOMMENDATIONS

a). Measures to ensure a level playing field

- For the purpose of creating a level playing field, and given that various studies have suggested that the Chakki mills cater for 2/3rd of the total supply of wheat flour to consumers, they should be provided a fair share in the wheat quota (until the Govt. exits

¹² Dawn, *Government allows limitless wheat import by private sector*, 8 June 2020, online at <https://www.dawn.com/news/1561991>. See also World Grain, *Pakistan approves private sector wheat imports*, 23 June 2020, online at <https://www.world-grain.com/articles/13861-pakistan-approves-private-sector-wheat-imports>

the current system). This may be done gradually based on the grinding capacity of registered Chakki mills.

- The Chakki mills are small enterprises and provincial governments need to consider putting in place an effective and simple procedure of registration and quota allocation. Furthermore, provision of soft loans for installation of equipment and arranging trainings for their technical capacity may also be considered. The increased technical capacity of this small enterprise will help in increasing the economic activity and market competition.
- The provincial governments may consider enhancing the supply of wheat flour by limiting production of flour to whole wheat only, against the Government issued wheat at subsidized rates. This may help achieve the following objectives: a) Relieve the Government of the exhausting exercise of monitoring and enforcing extraction ratios with its limited resources, b) Ensure that the subsidized wheat released to flour mills is converted into nutritious wheat flour for obvious health benefits. C) Increase supply of wheat flour by preventing wastage of nutritious bran and last but not the least d) promote competition between the flour mills and Chakki mills as the latter primarily produces the whole wheat variety.

b). Removal of Regulatory road blocks to Synergize Quality Control Measures

- Subject to constitutional limitations, the issue of overlap in regulatory regime should be addressed mutually by federal and provincial governments by removing ambiguities in the role and responsibilities of regulators. A comprehensive review and revision in the regulatory regime is vital in this regard. In each of the provinces, only one Government entity should be given the clear mandate of enforcing quality parameters and ensuring adequate labelling and packaging, as explained above.
- To ensure quality, the role of PSQCA takes on increasing importance. While the PSQCA has prescribed standards for wheat flour, whole wheat flour, fortified wheat flour, and maida, standards for wheat itself have not been updated since 1996, the PSQCA must update the standards for wheat to provide parameters to provincial governments to monitor the quality of wheat.

c). Ensuring adequate testing for moisture content

Even though the testing mechanism currently exists, it has not been duly implemented to date. In order to ensure that the moisture content does not exceed that prescribed by

the Government, it may strictly enforce the formal procedure for testing of moisture content in wheat flour.

d). Enforcement of adequate Labelling and proper disclosure in Packaging

- Given that inadequate labelling could mislead a consumer by not providing product representation in a form that makes due disclosures to an ordinary consumer, requirement for unambiguous labeling needs to be strictly enforced by the provincial governments. However, the mills may be provided quality adjustment time in this regard. Also with regard to wheat flour produced from Govt. supplied wheat, the packaging may clearly display the same.
- Moisture, nutrient and other labeling requirements and the process used for grinding (dry or wet) of wheat needs to be clearly displayed on all sizes of wheat bags sold in the market.

e). Withdrawal of Support Price Regulation:

- Typically a support price mechanism is applied at the farm level to avoid production shortfall in commodities that are considered essential or for import substitution. However, countries that are self-sufficient with respect to essential commodities, may find themselves at a disadvantage when a support price mechanism remains in place in the long run.
- Any price fixing at the farmer's level could potentially lead to competition issues at local as well as international level. At the farmer's end, subjecting him to the pre-season support price, could, at the time of actual procurement deprive him of gains that could be made when the price is higher in the open market. This may go against one of the main objectives of setting the support price in the first place i.e. to protect the farmer's interest.
- From the perspective of international competition, in the event that wheat supply surpasses its demand, any support price that is set higher than the prevailing market conditions, could add to the cost of producing wheat flour such that it may not remain competitive in the international market. This results in excess stocks that are prone to wastage and spoilage, thus bearing a burden on national exchequer.

- In terms of domestic market a gradual exit from support price regime would be a sustainable approach and encourage competition between traders, millers and stockists.
- 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.
- In the event that the Government deems it necessary to settle upon a support price, it needs to have room/flexibility in its pricing policy so that at the time of its actual procurement, the price of wheat could be rationalized for upward adjustments where market conditions so justify to protect the interest of farmers.
- Furthermore, for as long as the support price mechanism exists, it may ideally be set prior to the sowing season and primarily for meeting production targets. For instance, if ever there is a production shortage of wheat in the market, the Government may consider setting a support price that could serve as an incentive for the farmer to increase or adjust its wheat growing area or production vis a vis other crops.

f). Subsidy to be targeted

- Wheat issued to flour mills by Government at subsidized rates, is done with the intention of ensuring supply of wheat flour to end consumers at affordable rates. However, due to lack of proper monitoring and enforcement deficiencies in ensuring extraction ratios, and no identification of subsidized wheat flour on its packaging, this objective does not reach its maximum potential. Also some of the subsidized wheat is sold to chakki mills by some roller mills at market price such that its benefit does not pass on to the end consumer for whom it is intended. Government must consider exploring fool proof methods that can ensure that the subsidy provided by Government could reach its intended target i.e. the ordinary end consumer.
- One of the measures that provincial governments could take is to enhance transparency in issuance of quota for production of wheat flour on subsidized price. Till such time that the government's current wheat procurement and release policy is in place, it may be useful to engage a third party for validation of actually functional mills, Chakkis selection for issuance of wheat quota, and a random monitoring of the same through an electronic system.

- The reconciliation process between the quantity of wheat released to mills on subsidized rates and the wheat flour supplied from the same, may be made more transparent and effective. This reconciliation may be achieved through special audits, or any other means that the Government may deem fit. However, any benefits resulting from the above measures may need to be balanced with the costs associated with monitoring and enforcement of the same.
- Furthermore any subsidy extended to mills for exporting wheat and wheat products may be done away with as it leads to distortions in the domestic market. Minimum standards for export quality wheat and wheat products may be put in place instead, to increase international competitiveness.

g). Measures to optimize Gov't 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. It may define and experiment with the idea of expanding the role of the private sector, millers, and stockists in the procurement, trade, and bulk storage of wheat.
- 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 in emergencies or stabilizing the market in times of volatility. One of the focus of R&D should be on producing quality wheat with least amount of impurities, and the farmer must be compensated accordingly as an incentive. This would bring quality of the locally produced wheat in parity with wheat sold in the regional and international markets.
- 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. Such investments may preferably come from the private sector i.e., traders, transporters, and importers, but the Government may need to ensure that relevant policies are made and adhered to and that they communicate unequivocally that these reforms are permanent.
- 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.¹³ These two authorities may be tasked to solicit proposals for the wheat storage silos.

h). Streamlining the export policy and improving export potential

- A strong crop monitoring, forecast and reporting system will be helpful to this end. 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.
- The Federal Government may notify a consistent wheat export policy to allow expeditious export of wheat in years of abundant domestic supplies.
- 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.

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ISLAMABAD, the 26th of August, 2020

¹³ The Federal Public-Private Partnership Authority Online at <https://ppp.punjab.gov.pk/>