



# Wheat Prices, Procurement and Stocks:

## Options for Reducing the Cost of Price Stabilization

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# Government Wheat Market Interventions

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- **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
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# Financial Losses: 2012-13 Wheat Marketing Year

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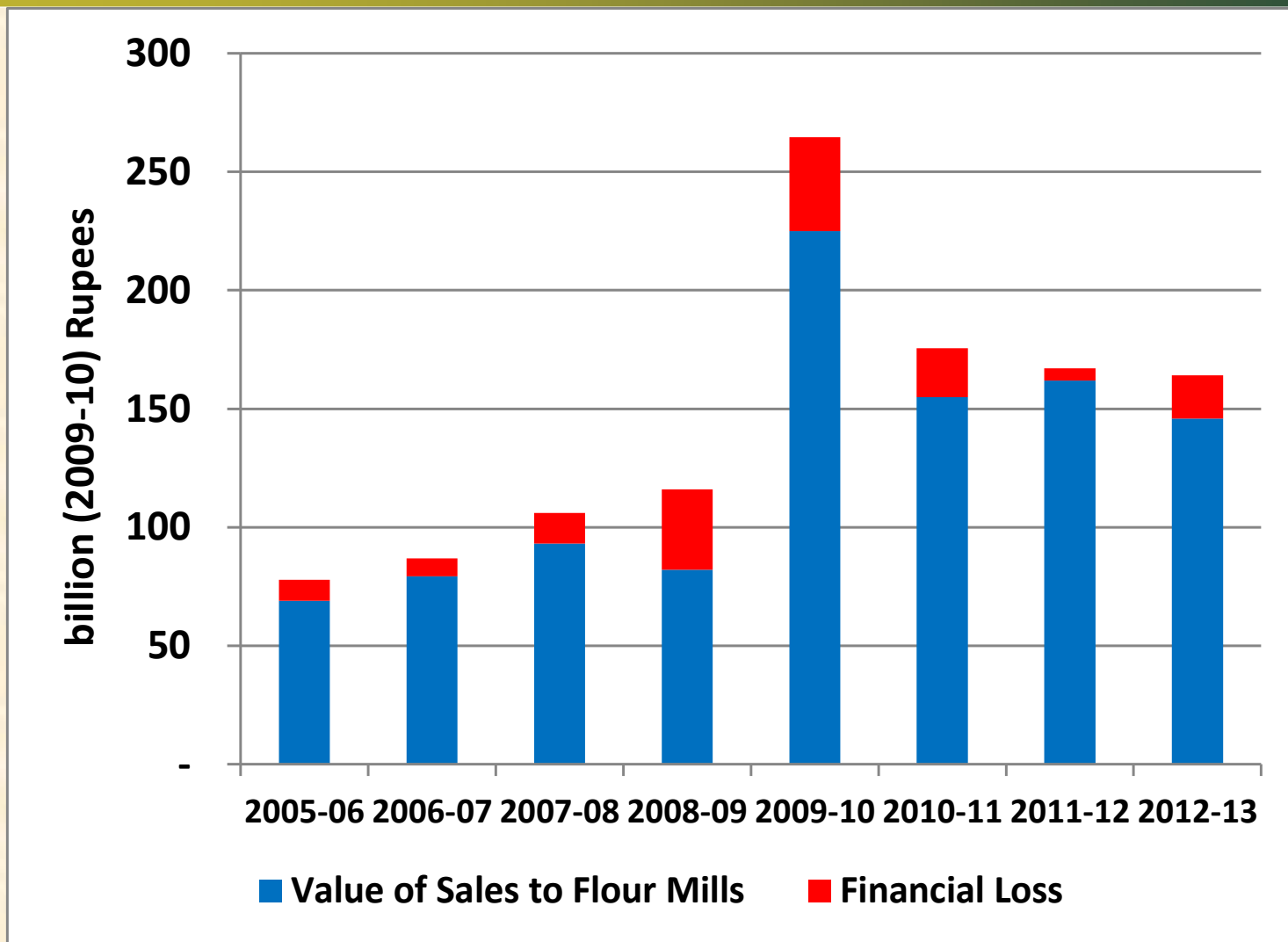
- Subsidy on wheat procured in 2012-13 and sold in same year: **4.18 Rs/kg**
  - Quantity of procurement: **5.95 million tons** (compared to peak of **9.23 mn tons** in 2009-10)
  - Potential losses at 2012/13 release price: **5.95 million tons** (total procurement) **4.18 Rs/kg** subsidy = **24.8 bn Rupees**
  - Total releases: **6.0 million tons** times **4.18 Rs/kg** subsidy = **25.1 bn Rupees**
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# Possible Per Kg Financial Losses\* on Domestic Wheat Procurement and Sales (Rs/kg)

	Support	Incidentals			Release	Unit
Year	Price	PASSCO	Punjab	Sindh	Price	Subsidy*
	(Rs/kg)	(Rs/kg)	(Rs/kg)	(Rs/kg)	(Rs/kg)	(Rs/kg)
2005-06	10.38	1.83	1.73	-	10.75	1.40
2006-07	10.63	2.30	1.95	2.25	11.63	1.13
2007-08	15.63	2.30	2.00	2.40	15.63	2.15
2008-09	23.75	3.03	2.50	2.73	18.75	7.76
2009-10	23.75	4.80	5.00	4.98	24.38	4.28
2010-11	23.75	---	6.00	4.90	26.25	3.50
2011-12	26.25	---	8.08	7.50	33.25	1.08
2012-13	30.00	---	7.43	6.17	33.25	4.18

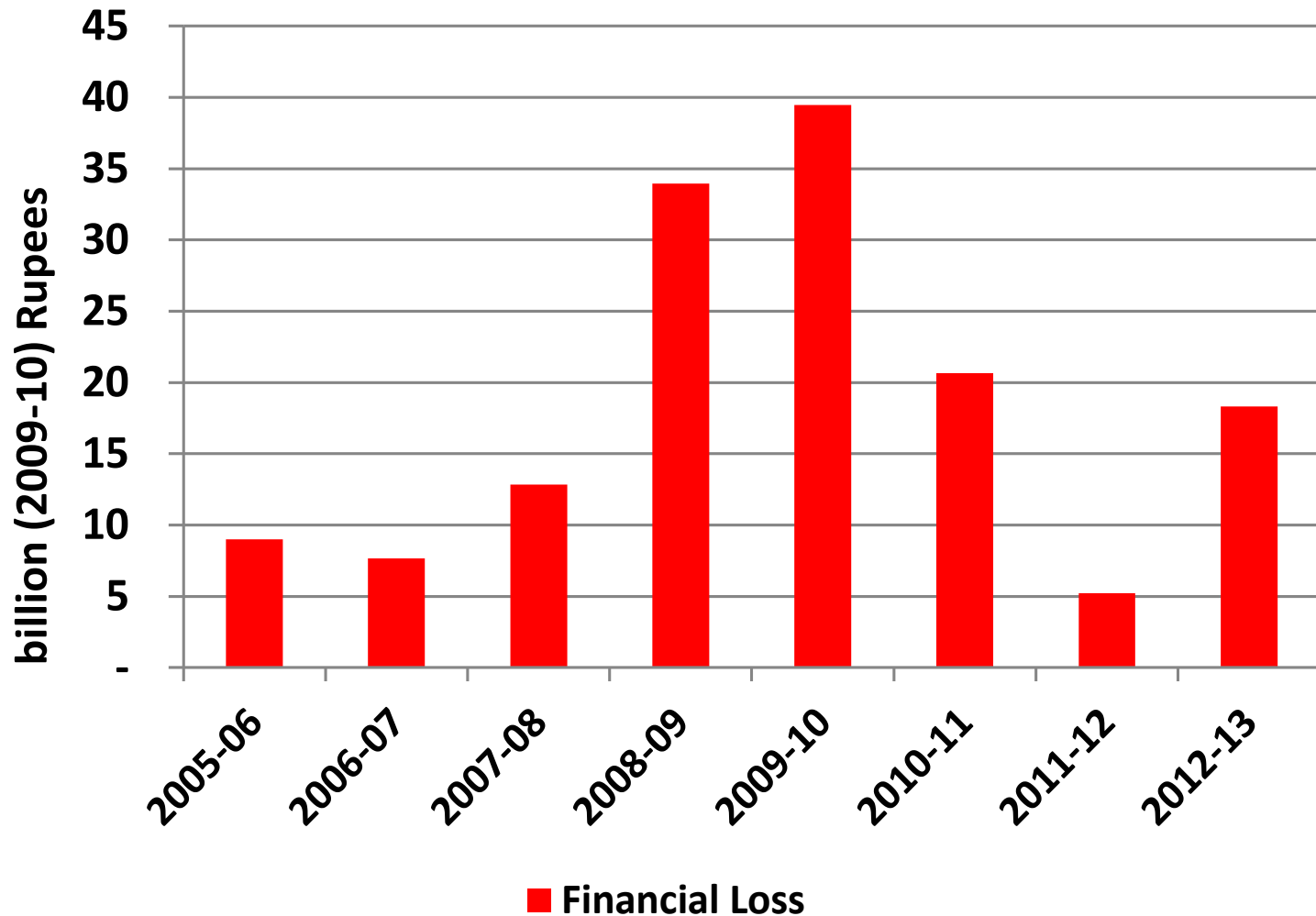
**\* Possible financial loss (unit subsidy) for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price.**

## 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



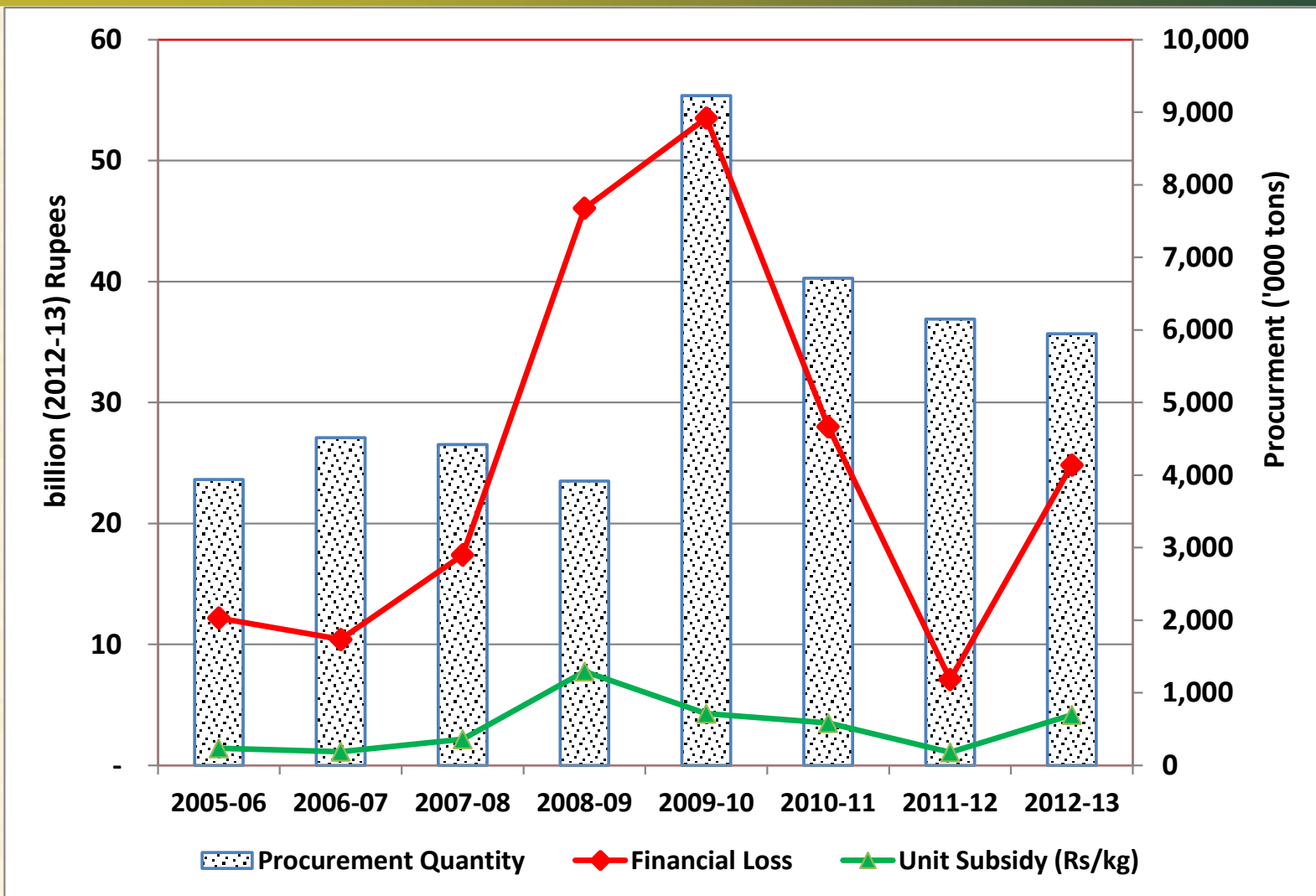
\* Possible financial loss for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price, times the quantity of domestic procurement.

# Wheat Procurement, Unit Subsidy and Total Subsidy 2006-06 to 2012-13

Year	Procurement Quantity ('000 tons)	Support Price (Rs/kg)	Release Price (Rs/kg)	Unit Subsidy* (Rs/kg)	Financial Loss** (bn Rs)	Financial Loss** (bn 12/13 Rs)
2005-06	3,939	10.38	10.75	1.40	5.51	12.18
2006-07	4,514	10.63	11.63	1.13	5.08	10.41
2007-08	4,422	15.63	15.63	2.15	9.51	17.40
2008-09	3,917	23.75	18.75	7.76	30.41	46.07
2009-10	9,231	23.75	24.38	4.28	39.46	53.53
2010-11	6,715	23.75	26.25	3.50	23.50	28.01
2011-12	6,150	26.25	33.25	1.08	6.61	7.10
2012-13	5,948	30.00	33.25	4.18	24.84	24.84
<b>Ave 06-08</b>	4,292	12.21	12.67	1.56	6.70	13.33
<b>Ave 11-13</b>	6,271	26.67	30.92	2.92	18.32	19.98

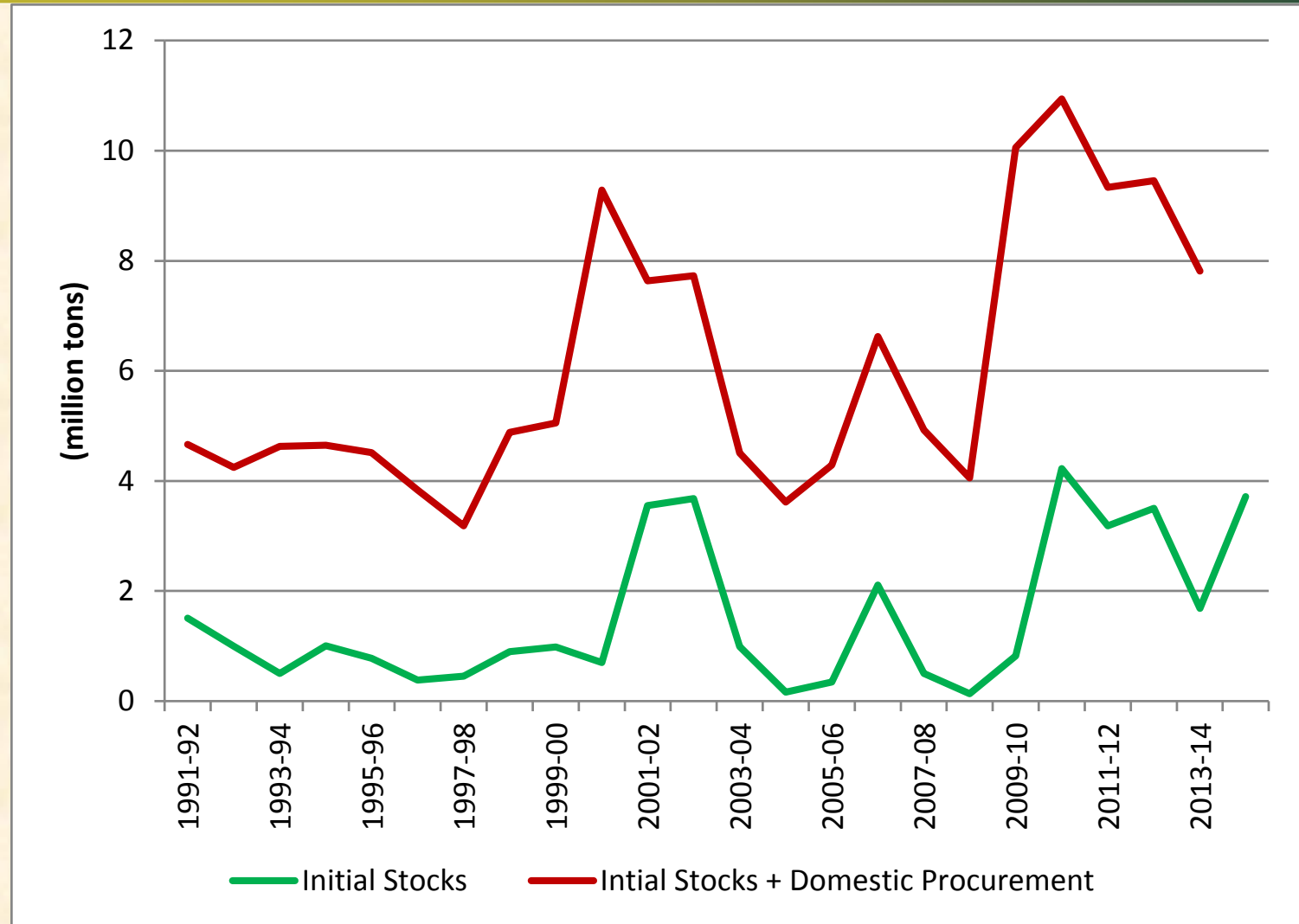
\* Possible financial loss for each year is calculated as the domestic procurement price plus the cost of incidentals minus the release price, times the quantity of domestic procurement.

# Wheat Procurement, Unit Subsidy and Total Subsidy 2006-06 to 2012-13



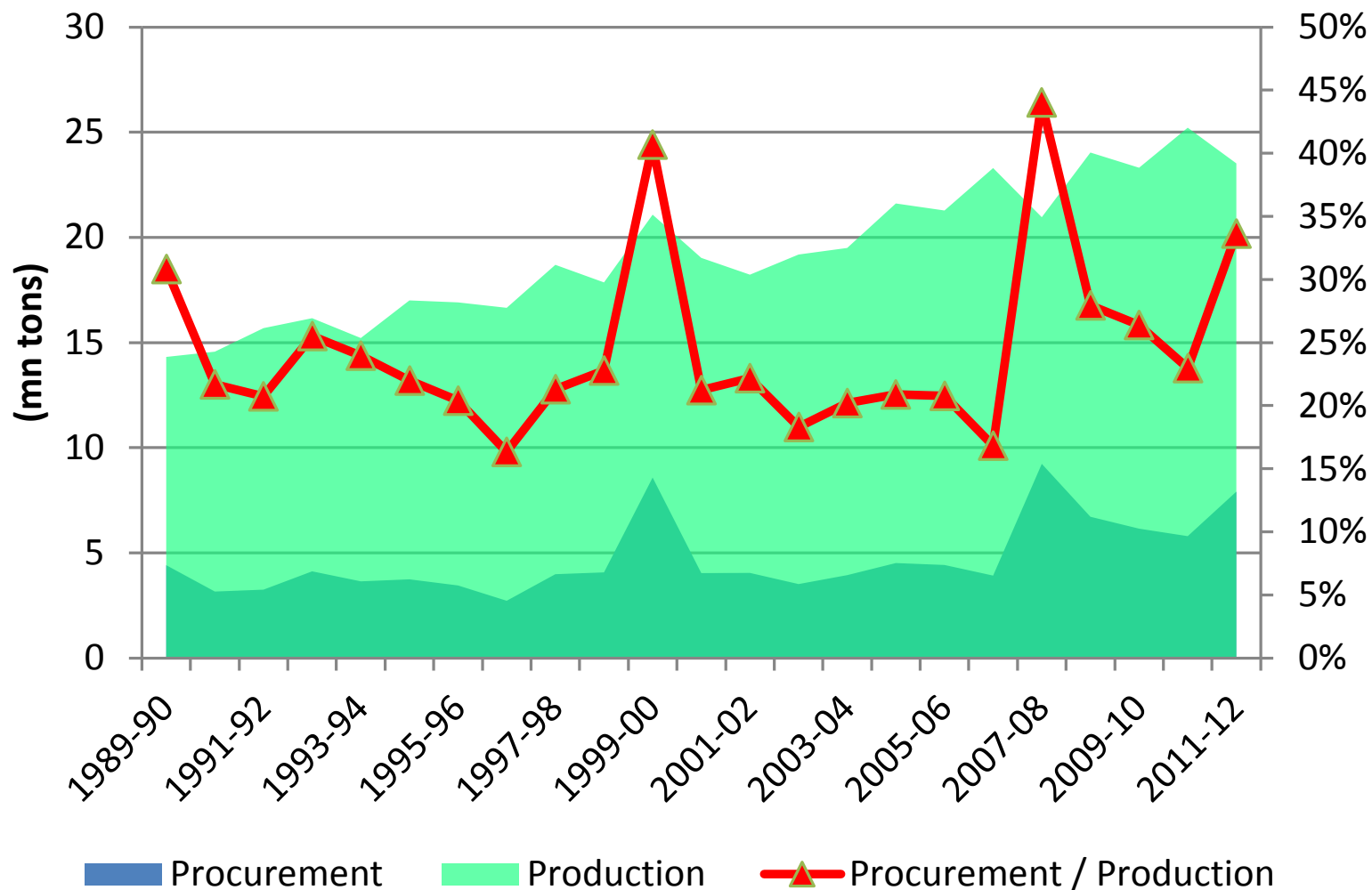


# Pakistan: Initial and Estimated Peak Wheat Stocks\* 1991-92 to 2013-14



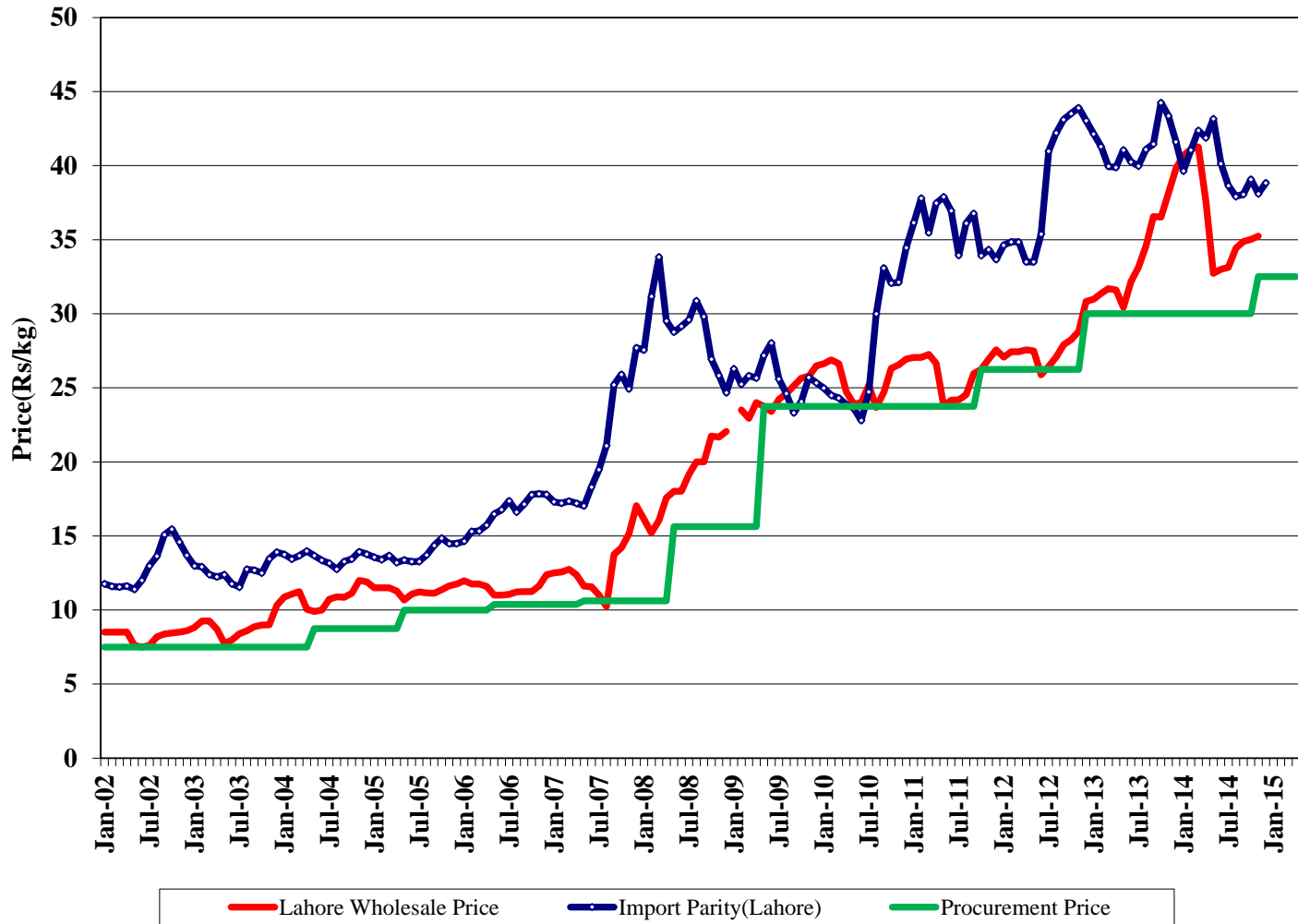
\* Peak wheat stocks are estimated as end-April stocks plus May-June domestic procurement.

# Pakistan: Wheat Procurement and Production 1989-90 to 2011-12

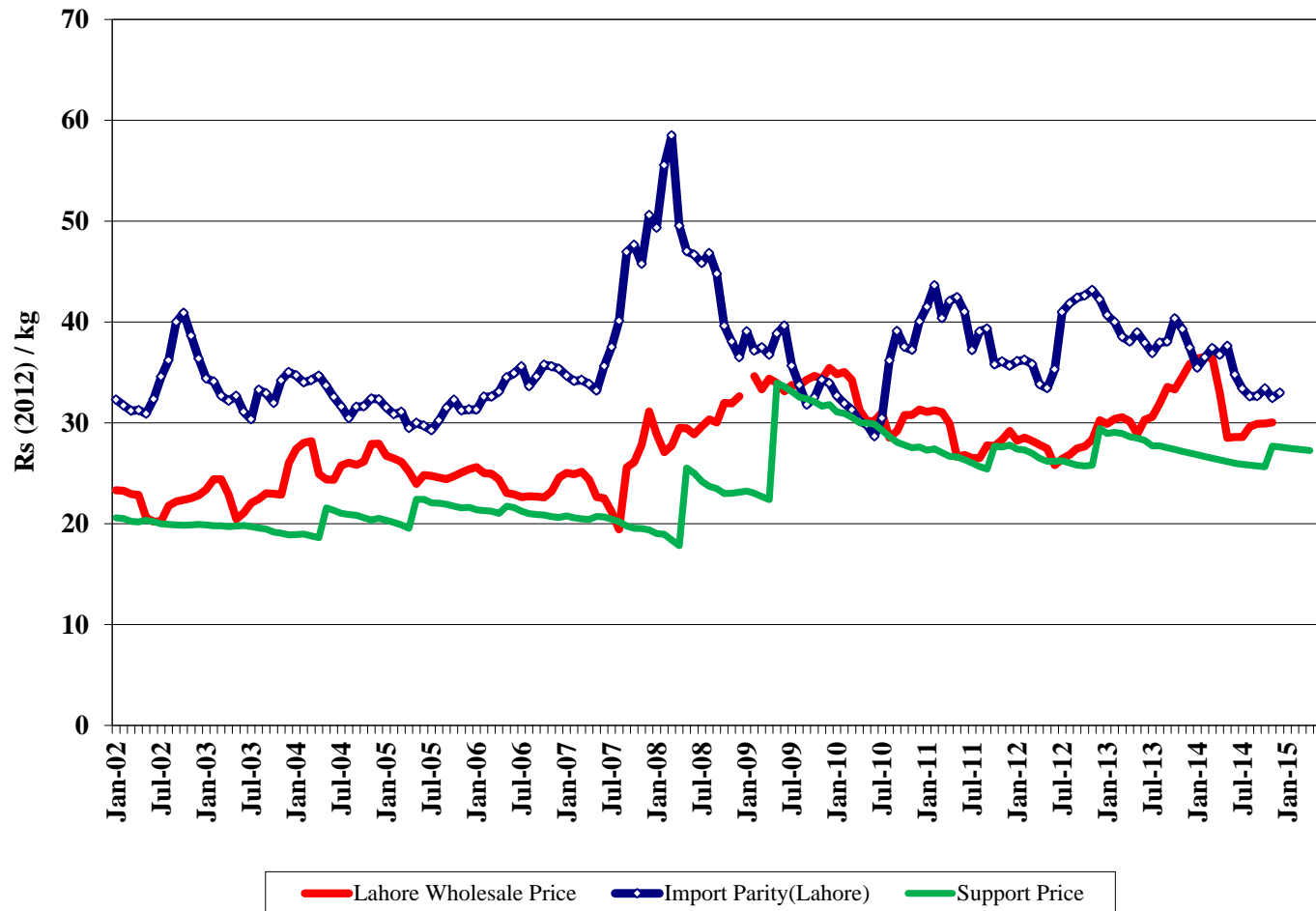


**Note: Procurement generally takes place in April and May. Season ends June 1.**

# Pakistan: Nominal Wholesale, Import Parity and Support Prices of Wheat



# Real Wholesale and Procurement Prices of Wheat 2002-2014



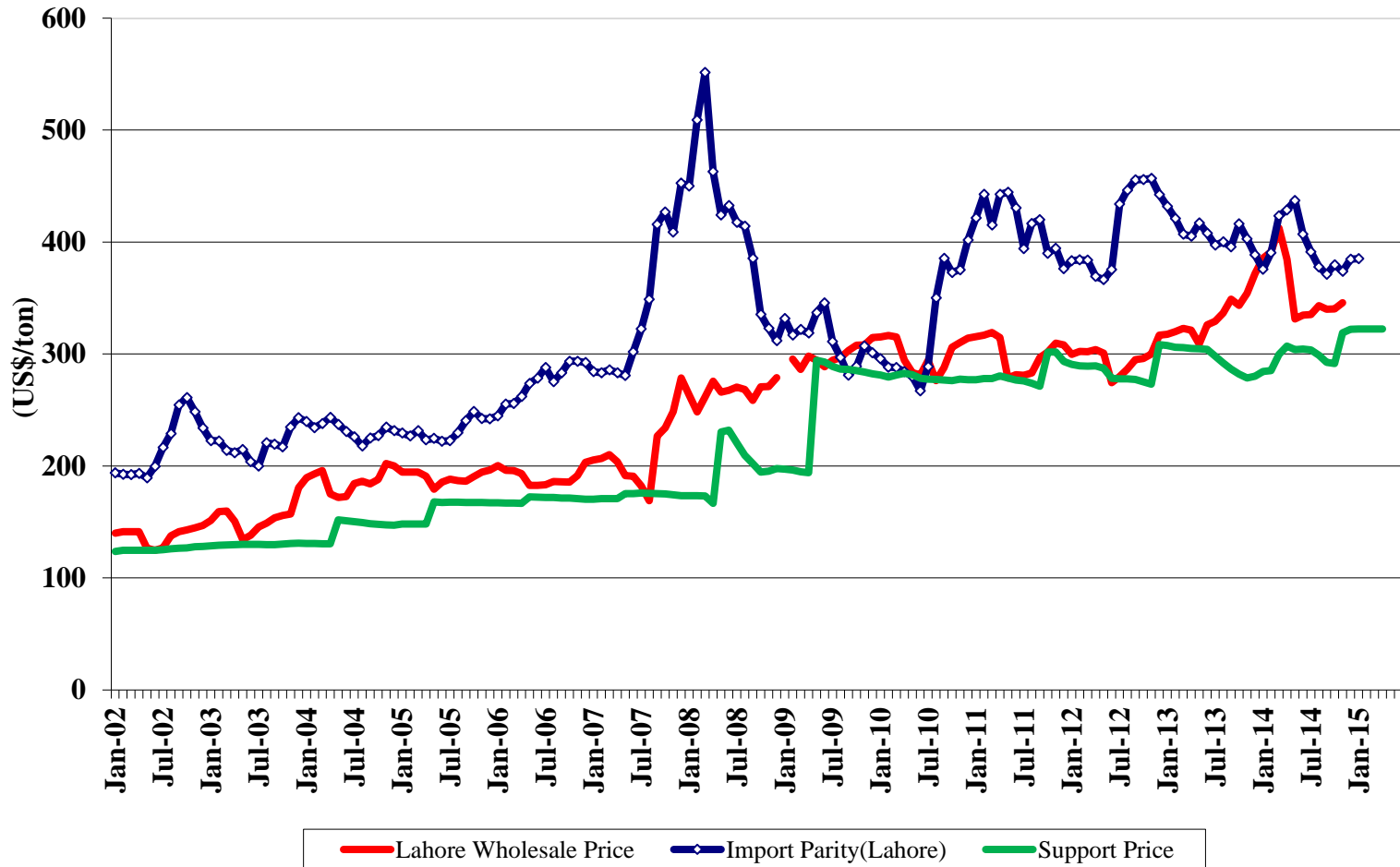
Real wheat prices rose in early 2014 to levels near 2009 highs, but have since declined. Nonetheless, they are still higher than average levels for 2002-07.

# Domestic and International Wheat Prices

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- **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**
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# 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

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- **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.**
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# Wheat Policy: Procurement and Release Prices

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- 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.
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# Wheat Policy: Quantity of Procurement

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- **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.
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# Sources:

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

Dorosh, P. A., and A. Salam. 2008. "Wheat Markets and Price Stabilization in Pakistan: An Analysis of Policy Options", *Pakistan Development Review* 44(1):71-88.

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