



Breaking Wheat Market Shackles

Authored By
Muhammad Mubasal
Economic Analyst

Introduction

Pakistan's agricultural sector witnessed a dramatic transformation in 2024 when the Punjab provincial government abandoned its decades-long practice of wheat procurement, marking one of the most significant shifts in the country's agricultural policy. The significance of this shift is particularly notable given Punjab's dominant position in national wheat production. Punjab accounts for 76.4% of Pakistan's total wheat production at 24 MMT, while the remaining provinces collectively contribute 7.4 MMT. This provincial distribution underscores why Punjab's policy decisions have outsized effects on the national wheat market (Table 1).

Table 1 Wheat Production by province 2024-25

Province	Quantity (MMT)
Punjab	24.0
Sindh	4.4
KPK	1.4
Balochistan	1.6
Total	31.4

Source: USDA Foreign Agricultural Service's 2024 Grain and Feed Update for Pakistan

Historically, Pakistan's wheat market operated under extensive government intervention, with both federal and provincial authorities maintaining a system of guaranteed support prices and controlled distribution. This system was designed to ensure food security and price stability through government procurement at minimum guaranteed support prices, controlled release of wheat to flour millers, and oversight of quantity, price, and timing of market releases. While this approach provided certain stability to the market, it also created significant fiscal burdens and market distortions that ultimately contributed to the need for reform.

The policy shift in 2024 came at a notable time, coinciding with record wheat production of 31.4 million metric tons, representing an 11% increase from the previous year . The Punjab provincial government's decision to discontinue wheat procurement and effectively eliminate the support price mechanism was implemented without prior announcement or stakeholder consultation, creating immediate challenges in the market. The absence of transitional mechanisms and limited coordination between federal and provincial authorities further complicated the situation.

The immediate market impact of this policy change was substantial. Wheat prices dropped 30% below the announced support price of Rs. 3,900 per 40 kilograms by Punjab government while Sindh government had set the price at Rs. 4,000 per 40 kilograms , forcing farmers to sell in the open market at significantly lower prices. Retail flour prices experienced a steeper-than-usual seasonal decline, reflecting the sudden shift in market dynamics. The deregulation led to increased involvement of private traders in wheat procurement and reduced government involvement in price stabilization, resulting in greater market price volatility.

Several factors contributed to the timing and nature of this policy shift. The combination of record domestic production creating supply pressure and limited government storage capacity (approximately 5 million tons at harvest) made the existing system increasingly unsustainable. Additionally, a previous policy change allowing duty-free private sector imports had already begun to shift market dynamics, with private sector imports reaching 3.5 million tons at prices below domestic market levels.

The implications of this deregulation for Pakistan's agricultural sector are likely to be far-reaching. The immediate impact on farmer incomes and market stability raises questions about potential reductions in wheat cultivation area and changes in farmer planting decisions. The development of private storage and trading infrastructure will be crucial in determining the long-term success of this market-oriented approach. Furthermore, the policy change necessitates a reevaluation of Pakistan's food security strategy and the appropriate role of government in agricultural markets.

Way Forward

The recent experience of Pakistan's wheat sector deregulation, particularly Punjab's abrupt withdrawal from procurement, provides crucial lessons for future policy direction. A carefully planned and gradual approach to market reform is essential to avoid disruptions while achieving the ultimate goal of an efficient, market-oriented wheat sector. The way forward requires several key strategic interventions.

Firstly, the government must implement a phased withdrawal from the wheat market over a 3-5 year period rather than sudden policy changes. This transition should begin with setting indicative rather than support prices while gradually reducing government procurement. As the government reduces its role, it should simultaneously focus on developing private sector capacity through policy incentives for investment in storage facilities and market infrastructure. The creation of a commodity exchange for wheat trading, particularly strengthening the Karachi exchange, would provide essential price discovery mechanisms and risk management tools for market participants.

Secondly, Pakistan needs to address its fundamental productivity challenges in the wheat sector. The cost of wheat cultivation in Pakistan (PKR 43,312 per acre) is more than double that of India (PKR 16,117), while yields are 56% lower. This requires targeted investments in research and development for high-yielding, climate-resilient seed varieties, modern farming techniques, and efficient irrigation systems. The government should redirect resources from price support to productivity enhancement through better extension services and technology adoption.

Thirdly, the current system of support prices benefits only about 5% of farmers, primarily large landholders, while small farmers often sell at below-market prices due to limited market access and exploitation by middlemen. Rather than continuing with blanket price support, the government should develop targeted programs for small farmers. This could include direct input subsidies, credit support, and technical assistance to reduce production costs and improve market access. The development of farmer

aggregation models and digital platforms could help small farmers better participate in the market.

Fourthly, market reforms must be accompanied by institutional reforms. The current system of government-controlled markets through DC-led market committees should be replaced with a more competitive structure that allows private sector participation. This includes developing standardized quality grading systems, warehouse receipt financing, and modern storage infrastructure. Establishing an independent regulatory body to oversee market operations and ensure fair competition would be crucial.

Moreover, Pakistan should learn from but adapt international best practices to its context. While India's MSP system provides some useful lessons, Pakistan should avoid replicating its shortcomings where benefits are limited to a small percentage of farmers. Instead, Pakistan should focus on developing market-based solutions while maintaining strategic reserves for food security. body to oversee market operations and ensure fair competition would be crucial.

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Several countries have successfully transitioned to a deregulated wheat sector, providing valuable lessons for Pakistan. Australia, for instance, dismantled its single-desk system managed by the Australian Wheat Board (AWB) in 2008, allowing individual growers to market their produce independently. This shift enhanced industry efficiency, promoted private investment in storage and logistics, and positioned Australia as a competitive wheat exporter. However, the transition required strong institutional support, including the development of commodity exchanges for price discovery and risk management.

India also pursued deregulation efforts by amending the Essential Commodities Act, allowing farmers to sell wheat outside of traditional mandis (markets). This reform was intended to encourage private investment and improve market efficiency. However, due to opposition from farmers who feared exploitation by large corporations, the policy faced political challenges and was eventually repealed. The key takeaway for Pakistan is that successful deregulation must be gradual, accompanied by robust market infrastructure and farmer protections to ensure smooth implementation.

Russia's experience provides another compelling case. Following the collapse of the Soviet Union, the country transitioned from a state-controlled wheat sector to a market-driven system. By investing in modern farming techniques, storage facilities, and transportation networks, Russia transformed itself into one of the world's largest wheat exporters. The success of this model highlights the importance of simultaneous investment in productivity enhancements alongside deregulation.

Finally, any reform program must include robust social protection measures to shield

vulnerable populations from market volatility. This could include targeted food subsidy programs and maintaining strategic reserves for emergencies. However, these interventions should be clearly defined and limited to genuine emergencies rather than routine market management.

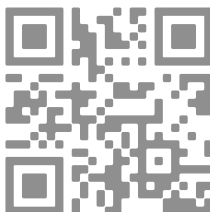
Recent experience has shown that unplanned deregulation can lead to market disruption and harm both producers and consumers. However, with proper planning and implementation, market reform can lead to a more efficient and equitable wheat sector that better serves both farmers and consumers while reducing fiscal burden on the government.

Contact

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& BUSINESS DEVELOPMENT

051 8840099 | 051 8840019

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