

Causes of wheat

11.12.03 Agriculture Season Crisis

By Dr Akhtar Hassan Khan

WHEAT is the staple food of almost all Pakistanis. The poor Pakistanis take 'roti' in all their three meals whereas the rich Pakistanis take bread instead of roti in their breakfast. Hence there is no Pakistani meal without a wheat content.

The weight of wheat in the Sensitive Price Index (SPI) is 16 per cent. In the Consumer Price Index (CPI) for middle-income groups it is 10 per cent. The weight of wheat in agricultural output is 16 per cent. As agriculture contributes 25 per cent to the GDP, the weight of wheat in Pakistan's GDP is about 4 per cent. Hence both from consumption and production viewpoints, wheat is the most important commodity in Pakistan.

However, from FY 1949 to FY 1999, a period of half a century, Pakistan has been a net wheat importer. The situation changed dramatically when wheat output in FY 2000 jumped to over 21 million tons resulting in a surplus of four million tons. We could not handle the situation of plenty as we lacked the storage capacity and the modalities for exporting it even to our neighbours in the Middle East which are all importers of wheat. But now it seems that an output of 21 million tons was a one-year shot. In FY 2001 the output declined to 19 million tons and in FY 2002 it fell further to 18.2 million tons.

The output figure for FY 2003 is still being debated, as the very powerful price signal indicates an output level no higher than in FY 2002. The wholesale price of wheat has increased between December 2002 and December 2003 by 23 per cent and price of atta has risen by 19 per cent during the same period.

The wheat commissioner of government of Pakistan announced on December 5, 2003, that the federal government had decided to import half a million tons of wheat to stabilize the price of atta. Hence there has

been a dramatic shift from the position of a surplus stock of four million tonnes in FY 2000 to the position of dependence on net import in FY 2004 in a period of four years.

Aggricultural output in any country is subject to weather and unexpected pest attacks but the slew of wrong policies has also contributed to this sharp deterioration in the wheat situation.

The output ballooned in FY 2000 because the government increased the support price of wheat from Rs 260 to Rs 300. After a gap of four years the government has announced a substantial increase in the support price of wheat to Rs 350 per 40 kg for Rabi 2004. There was no increase in the support price for wheat in the intervening three years and the government policy on support price became ambivalent on the advice of the IMF.

The IMF ideologues are of the opinion that the price support mechanism is useless and the market should determine prices without governmental intervention. It fails to appreciate that support prices are not strictly implemented by the government as it never buys all the stocks that are offered at the support price but the support price gives an indication to the farmer as to the price which is likely to prevail at the time of harvest. Hence, it eases calculation and induces him to produce more if the ratio between input and output prices is favourable. By weakening the support price mechanism the government has put the wheat market in disarray.

Moreover, the support prices, instead of leaping after four years, should increase gradually from year to year. India increases its support price by two to three per cent every year, whereas Pakistan likes to give a jump of more than 16 per cent after four years. A gradual increase is better than a sharp jump. Nobel Laureate Tinbergen in his famous book "Theory of Economic Policy" has strongly advocated gradual changes in economic policies pertaining to all spheres.

Traditional agriculture has been transformed into modern agricultural by use of hybrid seeds, fertilizers, pesticides and mechanization. In the case of Pakistan, big storage dams — Mangla and Tarbela — and greater use of tube-wells has also contributed to raising agricultural output.

The government has mismanaged its policies on seeds, fertil-

izers, and pesticides. At a recent seminar arranged by the Farmers Association of Pakistan (FAP) it was pointed out that certified seed is provided by the Punjab Seed Corporation, as per its charter to the extent of 10 per cent only for the new variety every year. The private sector is expected to provide the remaining 90 per cent, which it has failed to do for decades. The public sector seed corporations should expand their activities to fill the vacuum created by the private sector.

The rising cost of urea and DAP was also highlighted by the farmers. A GST of 15 per cent has been imposed on urea from March 2001 and DAP from September 2001. At a recent seminar at Islamabad attended by international agricultural economists, it was highlighted and confirmed that Pakistan is the only country in the world which charges GST at 15 per cent on fertilizers and pesticides. No other country charges GST on these agricultural inputs even at 5 per cent.

The retail price of urea for a 50 kg bag has increased from Rs 324 in FY 2000 to Rs 411 in FY 2003 — an increase of 27 per cent. Similarly, DAP price has increased from Rs 632 to Rs 765 during the same period — an increase of 21 per cent. Price of urea in India in FY 2003 was Rs 242 per 50 kg. Even if we convert Indian rupees into Pakistani rupees at the current parity of Pak Rs 1.3 equal to Indian Re 1, the fertilizer is cheaper in India by 29 per cent at international exchange parity.

Similarly, DAP is cheaper in India by 24 per cent at international exchange parity. No wonder, the Indian wheat yield per hectare is more than 20 per cent higher than Pakistan's. The cotton crop in Kharif and the Rabi 2003 crop were both adversely affected by unexpected and sudden attack of pests and adequate and timely pesticides were not available in the market. The

The output figure

for 2003 appears to be not higher than in 2002. The wholesale price of wheat has increased between December 2002 and December 2003 by 23 per cent and the price of atta has risen by 19 per cent during the same period.

GST on pesticides is not only discouraging farmers from using it but also preventing traders from maintaining an adequate stock because of higher financial costs.

The irony of the whole situation is that we will be importing half million tons of wheat from India which is the cheapest source for import because it is pursuing better agricultural policies than Pakistan. It gives a fertilizer subsidy of Rs 90 billion or two billion dollars whereas Pakistan has imposed a GST of 15 per cent on fertilizers and pesticides. Subsidies are bad in theory and practice but GST on agricultural inputs is unique in the world and beyond reason.

Not only does it discourage use of fertilizers and pesticides by raising their price, it also aggravates rural poverty, estimated at 40 per cent as poor farmers on the margin are driven out from the market by higher price. Wrong policies stunt domestic output, exacerbate poverty and encourage farmers of the country from where imports are taking place.

The government has done well to increase the support price to Rs 350 but it must also immediately withdraw the GST on fertilizers and pesticides. It only collects on billion rupees from GST on fertilizers and pesticides but the economy loses an output worth more than five billion rupees. Secondly, the seed corporations of provincial governments should supply as much seed as possible. Thirdly, the price support mechanism, instead of being abandoned, should be strengthened. Wheat is far too important a commodity for Pakistan to be mismanaged.

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