**Unpacking the flour crisis**

Dr Abid Qaium suleri

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Do you remember the commodity price crisis of years 2006-08? Even though Pakistan had produced sufficient wheat to meet its domestic requirements and remained insulated from most of the factors (decline in Australian wheat production, production of maize as biofuel instead of wheat etc) that affected wheat supply in the rest of the world, domestic wheat prices nearly doubled in year 2007-08.

In April and May 2007, looking at the healthy wheat stocks, the Shaukat Aziz government decided to allow export of 1.5 million tons of wheat at $225-232 per ton. Very soon, however, Pakistan started facing shortages of wheat and the government had to import one million tons of wheat in December 2007 at $380-400 per ton, exclusive of transportation costs. The price difference between domestic and international wheat market proved to be a major factor for wheat smuggling to Afghanistan and the Central Asian States which resulted in shortage of domestic supplies.

Twelve years down the road, we are in a similar situation where despite ample wheat stocks lying with the Punjab food department, the soaring prices of wheat flour are a major cause of concern both for both the government and the consumers.

Let us examine the current wheat crisis. The government of Pakistan subsidizes wheat flour through procurement of wheat at a pre-announced (support) price and then supplies it to wheat flour mills at a subsidized price. Food departments of Punjab and Sindh procure and store wheat from their respective provinces. The Pakistan Agricultural Supplies and Storage Corporation (PASSCO) procures and stores wheat for Azad Jammu and Kashmir, Gilgit-Baltistan, Khyber Pakhtunkhwa and Balochistan, whereas there are also arrangements for the latter two provinces to procure directly from Punjab and Sindh.

In January 2019, the food department of Punjab had 4.26 million tons of wheat in its reservoirs. Storage of such a huge quantity of wheat is a costly business. The government of Pakistan decided to export half a million tons of grains to offload the stocks. To make the export commercially viable, a subsidy was awarded as the price in international market was lower than the domestic price.

After April 2019, with 1.5 million tons of carryforward stock (after the releases to flour mills), the food department of Punjab procured another 3.3 million tons wheat at the rate of Rs 1300 per 40 kg; 4.8 million tons of wheat is enough to meet domestic requirements.

Assuming abundance supply of wheat, the flour mills, feed millers (who were experiencing the shortage of maize), and private investors were also allowed to buy wheat from the farmers in Punjab. It is estimated that feed millers procured 0.6 to 0.8 million tons of wheat. Due to different reasons, the food departments of Sindh, KP and Balochistan did not procure any wheat. Thus there was bound to be a shortage of wheat in the autumn months.

In the run up to the IMF programme, the rupee got depreciated against the dollar and the prices of wheat in the international market became higher than the domestic prices, turning it lucrative for private investors to send their wheat (both formally and informally) to Afghanistan and central Asia. This created a demand of wheat in the open market, which in turn resulted in a price hike as well as hoarding.

In the autumn months, the issuance of stocks to flour mills started at Rs 1375 per 40 kg (34.37 per kg); in return the flour mills are bound to sell the 20 kg wheat flour bag for Rs810 (Rs40.5/kg). Flour mill owners are charging Rs5.50 per kg as the cost of overheads/electricity/gas/labour etc. Even with the energy price hike, flour mills earn a reasonable profit at these rates.

The Punjab government has issued 2.4 million tons of wheat so far and the rest (except 0.5 million-ton strategic reserves) will be issued at the same rate. If all that wheat is milled and supplied in the market, then there is no reason for a wheat flour price hike – at least in Punjab.

We already learnt the reasons of a wheat price hike in the open market. The issue price from the food department to flour mills and the selling price of wheat flour are much less than the open market. Current open market prices of wheat in Punjab and Karachi are Rs1800/40 kg and Rs2000/40 kg respectively. The prices are even higher in KP with only less than a week worth of wheat stock with the provincial government.

The flour mills in Punjab had an easy option. Most of them were buying their quota at Rs1375 per 40 kg from the food department. Instead of selling their flour at the control rate, they were selling the wheat in the open market or smuggling it to other provinces. This is evident from the last week’s operations of the Punjab food department in which it acted against 376 flour mills, imposed Rs90.6 million in fines and suspended the licences of 15 mills and wheat quota of 180 others.

The wheat prices situation is getting aggravated due to consumers’ behaviour, who start panic buying when there are signs of food shortage. Such panic buying in the period of short supplies leads to enhanced demand which turns hoarding very lucrative for profiteers.

To keep the prices in control, the government has decided to import 300,000 tons of wheat (the Shaukat Aziz government did the same). Both the PASSCO and the Punjab food department are also releasing the stocks for other provinces on a priority basis. In a few weeks’ time, this crisis should be over. However, like the 2007-08 food crisis, there are a few lessons for us in the current crisis too.

First thing first, we should remember what Amartya Sen once said, “There is no such thing as an apolitical food problem.” While external factors and events may trigger a food crisis, it is political action or inaction that determines its severity, and who would get affected from it for how long. One can see the ‘political (in)action’ at many levels in our case.

Sindh, KP and Balochistan clearly failed to assess their wheat requirements and timely management of wheat stocks. Sindh, for example should have procured wheat during harvesting season. Similarly, the KP government should have managed to curb wheat/flour smuggling to Afghanistan.

The Punjab Food Department failed to monitor whether its licensed flour mills were milling the wheat they were getting at a subsidized rate and supplying the wheat flour at the specified rate.

The Federal Ministry of National Food Security failed to coordinate the demand and supply of wheat among the federating units. Likewise, the federal government could not assess the implications of wheat export and now import, especially in the context of rupee deprecations.

Finally, we need political action to check the rat-race for profiteering. Small millers don’t get wheat at a subsidized rate and have a reason to sell flour at the prevailing market rate. However, it is criminal on the part of those flour mills that are receiving hundreds of thousands of kilograms of subsidized wheat and selling it to the open market for profit maximization.

Most of them have strong political backing. Their political patrons not only get persons of their choice appointed in food departments (A schoolteacher is serving on deputation as one of the divisional heads in the Punjab Food Department) but also provide those mills protection from any action taken by local administration.

It is important to note that higher food prices have powerful distributional effects; they hurt the poorest people the most. If the PTI and the PPP want to retain their respective electoral constituencies in the next elections, they will have to improve national food governance in the short run and sustain it in the medium and long term; and make long-term investment in the food supply chain at all levels.

Their political action or inaction will be a major determinant whether they manage to win hearts in future elections.

The writer heads the Sustainable Development Policy Institute.

Twitter: @abidsuleri­