Voluntary _ Public

Date: 2/3/2015

GAIN Report Number: PK1504

Pakistan

Post: Islamabad

Pakistan Announces Subsidy for Wheat Exports

Report Categories:

Trade Policy Monitoring

Grain and Feed

Policy and Program Announcements

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Report Highlights:

The Government of Pakistan has approved an export subsidy to facilitate the export of 1.2 million tons of wheat from government-held stocks. The total subsidy budget is $60 million and covers a set subsidy of $55 per ton for wheat from Punjab and $45 per ton for wheat from Sindh. Given the high purchase price of wheat held in government stocks and the recent decline in global wheat prices, the prospects for additional exports appear dim at current subsidy levels.

Government of Pakistan Announces Subsidies for 1.2 million tons of Wheat Exports

The Government of Pakistan has approved the export of 1.2 million metric tons (mmt) of wheat from government stocks. The cabinet-level Economic Co-ordination Committee (ECC), the lead trade policy decision making body, also approved an export subsidy of Rs. 6 billion ($60 million) to lower the price of wheat destined for export. The ECC approved Punjab, the largest wheat producing province, to export 800,000 mt and Sindh, the second largest producing province, to export of 400,000 mt at subsidies of $55 per ton and $45 per ton respectively. The difference is a reflection of the longer transport distance from Punjab to the port of Karachi. At this stage, no government-run corporation has been designated to carry out the exports, leaving the task to the private sector.

Pakistan's wheat crop moves into the three separate marketing channels. An estimated 50 percent of Pakistan's +/- 25 mmt wheat crop is consumed on farm or within the village where it was produced. Of the 50 percent that is marketed outside of village-level communities, about half is procured by either federal or provincial procurement agencies at a set purchase price, while the balance is purchased by the private sector. Flour millers augment their open market purchases by purchasing wheat from government stocks at a fixed purchase price as do consumers who buy wheat directly to have it ground at local shops. The system is aimed at protecting farmers from price fluctuations and ensures a minimum return to farmers. The federal government determines the overall quantity to be procured and coordinates with provincial governments to set targets and determine funding levels. Pakistan's four provinces and the federal government all have wheat storage facilities. It is estimated that total procurement from the 2014 wheat harvest (April –May of 2014) was 6.0 mmt.

What's behind the decision?

While there is no public data source for stock levels held by the government, it appears that offtake from government stocks has been much slower than expected. Locally, much of the discussion centers on the import of approximately 700,000 mt of wheat that occurred prior to the imposition of a 20 percent import duty a few months ago. Another factor seems to be an increase in private sector wheat purchases following the 2014 harvest which has reduced the purchases of government wheat stocks by flour millers.

The Government of Pakistan is currently forecasting a 26 mmt wheat crop (the current USDA estimate is 25 mmt) which would be the largest crop on record. The government's procurement price for the upcoming crop was increased to $318 per mt and the government's decision appears to be aimed at reducing stock levels by as much as possible before the harvest gets into full swing in mid-April. If government-held stocks do not fall, the government could be forced to either curb wheat purchases or find new ways to store additional wheat stocks.

Are exports feasible?

Global wheat prices continue to fall and the futures market points to only a modest increase over the next few months. Pakistan's current established purchase price for wheat held in government stocks of $345 per ton places internal prices well above international prices. Even with the subsidies, the likely price for domestic wheat delivered to the Port of Karachi of $310 per ton (includes domestic transportation costs) is significantly higher than the estimated landed price of foreign soft wheat at the Port of Karachi of $250 to $270 per ton.

At this stage, Afghanistan seems to be an unlikely destination for larger wheat or flour exports from Pakistan. Winter rains there have reportedly been subpar and there are concerns about the upcoming wheat harvest that begins in May. Pakistan is a regular supplier of wheat flour to Afghanistan, but the trade relationships in the border region are well established and buyers in Afghanistan typically establish their purchase plans with considerable lead time. Much of the cross-border trade is informal and buyers and sellers may think twice before entering into a transaction that involves the additional paperwork that is needed to secure wheat from government stocks. Estimated wheat exports from Kazakhstan, a major supplier of wheat to Afghanistan, are only slightly lower than overall export levels in recent years, suggesting that export volumes from that origin are adequate. While exports to Afghanistan are possible over the next few months, at this stage exports do not appear to be probable beyond the current Pakistan export estimate of 600,000 mt.

In short, unless the government increases the subsidy level significantly or enters into some sort of government-to-government transaction, it is difficult to see how Pakistan's wheat can be competitive in the international market.

What about more imports?

While Pakistan imposed an import duty of 20 percent on wheat imports are few months ago, international prices are such that foreign suppliers could competitively land wheat in Pakistan with the tariff. Nevertheless, provisional trade data from the Pakistan Bureau of Statistics indicates that imports were near zero in December. While imports are commercially feasible, given the government's efforts to move wheat out of the country and the degree of attention this issue has garnered at the provincial level, it seems unlikely that an importer would attempt to import significant volumes of wheat over the next few months.