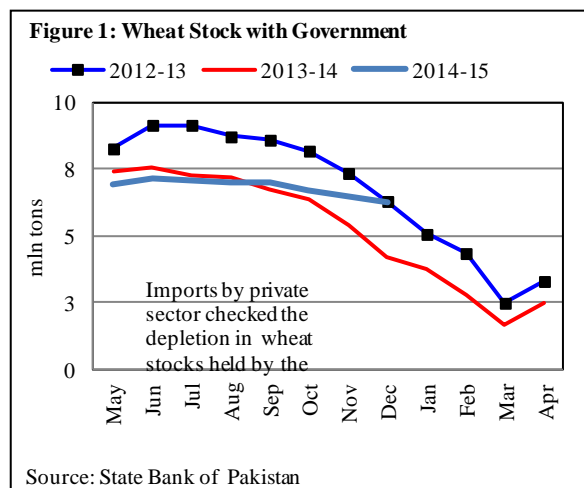


## Special Section: Prospects of Wheat Exports

While a better showing by the wheat crop would certainly help overall economic growth, this brings some policy challenges as well. Specifically, with already high level of wheat inventories in the country, the key challenge for the government is to offload this surplus wheat. Given the available stocks and a large (expected) crop size, the government has allowed wheat export of 1.2 million tons. In the backdrop, this section analyzes prospects of wheat export when the global market is in surplus.

A large expected wheat crop in 2014-15, high level of carryover stocks and limited storage capacity put the government in a difficult situation as it has to offload surplus wheat before the arrival of the next crop.<sup>1</sup> In the meantime, the private sector imported 0.7 million tons of wheat in response to a sharp decline in international wheat prices.<sup>2,3</sup> Consequently, the release of wheat stocks held by the government was considerably slower than the norm (**Figure 1**).

One option is to encourage export of these stocks. However, as international wheat prices are even lower than the procurement cost for these stocks, this wheat cannot be exported unless the government provides a subsidy to exporters. Realizing this, in January 2015, the government offered subsidy in the range of US\$ 45-55 per ton on the export of 1.2 million tons of wheat from its surplus stocks in Punjab and Sindh.<sup>4,5</sup> Later on, as



<sup>1</sup> The end-Jan 2015 wheat stock with provincial governments and PASSCO, were as high as 5.80 million tons, considerably higher than 3.75 million tons a year earlier.

<sup>2</sup> The prices of imported wheat ranged from Rs 2,800 to 3,000 per 100 kg bag, inclusive of overhead charges, while government's food department was issuing wheat at Rs 3,450 per bag.

<sup>3</sup> Effective from November 1, 2014, government announced a 20 percent regulatory duty on wheat import.

<sup>4</sup> Accordingly, Punjab will export 800,000 tons while Sindh has been allocated export quota of 400,000 tons of wheat.

international prices fell further, the government raised the subsidy to US\$90 per ton.<sup>6</sup>

Even after adjusting for this subsidy, the FOB price of wheat at Karachi port comes around US\$ 275 per ton (**Table 1**), which still exceeds the current rate of \$210-220 per MT offered by the Russian Federation and Ukraine by a wide margin. Unfortunately, global wheat prices are likely to remain low in near future due to a record crop and a large buildup in stock, weak demand, and a better supply of competing grains (**Box 1**).<sup>7</sup>

**Table 1: Estimates of FOB Price of Wheat**

Wheat issue price	1,300	Rs per 40 kg
Price per ton	32,500	Rs per ton
Cost of jute bag	1,240	Rs per ton
Transportation to Karachi	1,500	Rs per ton
Other costs <sup>1</sup>	2,200	Rs per ton
<b>Wheat cost at port (Rs)</b>	<b>37,440</b>	<b>Rs per ton</b>
Wheat cost (fob at Karachi port)	368.2	US\$/ton
Government subsidy for export of wheat	90	US\$/ton
<b>Subsidy Adjusted FOB Price</b>	<b>278.2</b>	<b>US\$/ton</b>

Source: Traders in the market.

<sup>1</sup> This includes warehousing charges, fumigation cost, pre-shipment inspection fee, exporters' margin etc.

In this scenario, supporting farmers against the continuing depressed prices of their produce is not an easy task. On one hand, availability of surplus wheat may drag down the market price below the support price of Rs 1,300 per 40 kg. On the other hand, potential procurement volume is constrained by available storage capacity. Even if the government procures wheat in large volume, it may not be able to export the surplus quantity due to lower prices in the international market. Hence, this may lock-in a significant amount of money in wheat finance. It may be noted that the outstanding stock of commodity loans against wheat procurement has already reached at Rs 363 billion by end-December 2014.

<sup>5</sup> Furthermore, taking notice of unhindered import of wheat byproducts, the government also issued instructions for immediate ban on their import.

<sup>6</sup> Interestingly, almost a similar situation has evolved in the sugar sector. In view of depressed international prices and surplus sugar stock in the country; government has allowed 650,000 tons of sugar export till 15<sup>th</sup> May 2015. Furthermore, to get rid of surplus stocks ahead of fresh sugar, government also offered a price subsidy of Rs 2 per Kg on inland freight and Rs 8 per Kg in cash.

<sup>7</sup> The World Bank also expects wheat price decline to extend in 2015 as well.

**Box 1: Recent Trends in Global Wheat Production**

According to recent estimates from US Department of Agriculture (USDA), the global wheat production is expected to reach 725 million tons in 2014-15, which is the second consecutive year of record wheat production (**Table 1.1**).<sup>8</sup> While crop in US, Canada and Australia is likely to suffer due to dry spell, growing conditions remained favorable in EU, FSU, India and China. In overall terms, the improvement in production was driven by both increase in area harvested and higher yields (**Figure 1.1**).

In the meanwhile, according to USDA, global wheat consumption in 2014-15 is expected to increase by 1.5 million tons on both higher food and feed use. As a result, wheat stocks are likely to reach 197.9 million tons at the end of current crop season.

The global trade in wheat is likely to remain low due to increased production in key importers (e.g., China), and a healthy growth in other competing grains (e.g., corn and soybean).

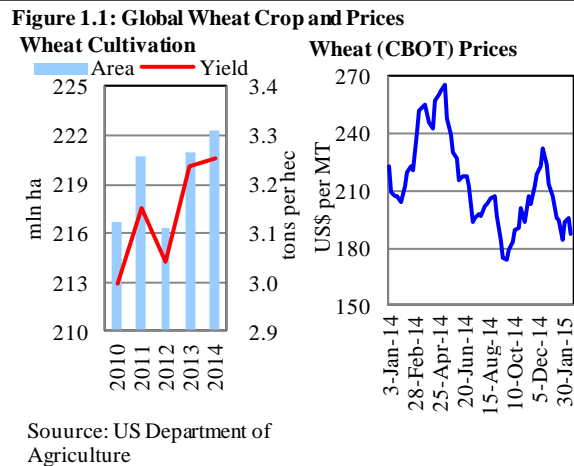
Hence, with a steady buildup in global wheat stock, no immediate pressure on the demand, and low global trade, it is expected that the market prices of wheat will be driven more by supply-side conditions. In case if weather remains favorable, increased wheat production is likely to keep market prices under pressure.

**Table 1.1: World Wheat Supply and Stock**

million tons			
	2012-13	2013-14	2014-15 <sup>P</sup>
<b>World supply</b>	<b>658.5</b>	<b>716.1</b>	<b>725.0</b>
EU	134.0	143.5	155.7
China	121.0	121.9	126.0
FSU <sup>1</sup>	77.8	103.9	112.3
India	94.9	93.5	95.9
US	61.3	58.1	55.1
Pakistan	23.3	24.0	25.0
Australia	22.9	27.0	24.0
Canada	27.2	37.5	29.3
<b>Wheat stock</b>	<b>175.5</b>	<b>187.5</b>	<b>197.9</b>

<sup>1</sup>Former Soviet Union states; <sup>P</sup> Projection

Source: US Department of Agriculture



<sup>8</sup> These estimates, issued in February 2015, were slightly higher than their previous projections of 723 million tons.