

PAKISTAN-RUSSIA WHEAT IMPORT DEAL - WILL IT BE ENOUGH?

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On October 29, 2022, dark shadows were cast on the future of global food security once again when amid the on-going Russia-Ukraine war, the Russian Federation announced its unilateral suspension of the landmark grain export deal¹ that was signed between the two warring parties with the assistance of Türkiye and the United Nations (UN).

Fortunately, with assistance and efforts of the UN and Türkiye, Russia on November 02, 2022 agreed to return to the deal, allowing food and fertiliser exports to continue to the global food market as per terms of the agreement.²

The deal was signed on July 22, 2022 and is valid for 120 days (4 months). It is set to expire in 2 weeks' time on November 19, 2022 and will be up for renewal, provided the signing parties agree to it. Therefore, the dark shadows might have been dispelled for the time-being but not completely decimated since matters can take a turn for the worst in the coming days.

As a country with a burgeoning population, dangerously increasing population density along with shrinking resources and limited territorial area, Pakistan has been one of the largest victims of food

¹ Pavel Polityuk & Michelle Nichols, "UN, Turkey, Ukraine press ahead with Black Sea grain deal despite Russian pullout", Reuters, published on October 31, 2022.
<https://www.reuters.com/world/europe/russia-suspends-participation-deal-ukraine-grain-exports-tass-2022-10-29/>

² "Russia agrees to rejoin Ukraine grain export deal", Aljazeera, published on November 02, 2022.
<https://www.aljazeera.com/news/2022/11/2/ukraine-grain-shipments-resume-as-russia-rejoins-deal>

and energy insecurity that followed the commencement of the Russia-Ukraine war early this year. This was mainly due to: blockage of Ukrainian ports; destruction of Ukrainian agricultural facilities; sanctions against Russian energy sources; and restrictions imposed by Russia on its own export of agricultural products and fertilisers, since Western sanctions do not restrict EU and third countries' trade in agricultural food items.³

Although Pakistan is not a direct beneficiary of the Russia-Ukraine grain export deal, the deal's existence and smooth functioning does ensure substantial supply to the global food market and keeping the prices of food commodities (such as grains) stable throughout the world. This in turn helps small and medium countries like Pakistan import wheat at affordable prices from other countries.

Since the grain export deal materialised in July of 2022, Pakistan did not place any order for the import of Ukrainian wheat so far.

However, on October 31, 2022, Pakistan formally decided to import 300,000 tonnes of wheat from Russia on Government-to-Government (G2G) basis.⁴ The decision was taken during the meeting of the Economic Coordination Committee (ECC) of the Cabinet, chaired by Finance Minister of Pakistan.

A Memorandum of Understanding (MoU) in this regard was also signed between the Trading Corporation of Pakistan (TCP) and M/s Prodintorg — a state-owned enterprise of the Russian Federation to finalise the terms and conditions of the deal. This deal comes after earlier negotiations for procurement of Russian wheat by Pakistan were unsuccessful a couple of months ago.⁵

According to the agreement, M/s Prodintorg will export 300,000 tonnes of wheat to Pakistan at the rate of US\$ 372 per tonne, making the entire deal worth approximately US\$ 112 million. Shipment of Russian wheat under this deal is to be made between November 01, 2022 and January 15, 2023.

3 "Agrifood trade and EU sanctions adopted further to the invasion of Ukraine by the Russian Federation and the support of Belarus to it", EU Food Security Fact Sheet, EEAS of EU, accessed on November 05, 2022.

https://www.eeas.europa.eu/sites/default/files/documents/Food%20Security_Fact-sheet.pdf

4 Khaleeq Kiani, "ECC okays import of Russian wheat", DAWN, published on November 01, 2022.

<https://www.dawn.com/news/1718089>

5 Muhammad Taimur Fahad Khan, "Pakistan's Persisting Food Security Woes", Issue Brief, Institute of Strategic Studies Islamabad (ISSI), September 07, 2022.

<https://issi.org.pk/issue-brief-on-pakistans-persisting-food-security-woes/>

How much wheat Pakistan requires right now?

Even before the recent devastating floods in Pakistan, the country was already facing a serious food crisis and experiencing a wheat shortage of about 2.4 million tonnes.⁶ Till July 2022 (almost a month after the devastating floods), Pakistan was facing a wheat shortage of approximately 4 million tonnes, of which the government had arranged 1 million tonnes via open tendering (2 separate contracts).⁷

There's still significant wheat shortage in Pakistan despite multiple wheat procurements by the government through private tendering and G2G contracts which is close to 2 million tonnes (quoting government figures)⁸, including the recent wheat import deal with Russia.

Pakistan is facing this predicament because unfortunately, it failed to reach the goal of locally producing 27 million tonnes of wheat in the year 2022 owing to multiple factors such as: destruction of standing crops due to recent floods; water shortage; drought conditions at the time of sowing; less fertiliser off-take; heat wave during the months of March and April; and decrease in acreage.

To put things in perspective regarding the decrease in acreage, it is pertinent to highlight that the area under cultivation in 2020-21 was 9,168,000 hectares whereas area under cultivation in 2021-22 was 8,976,000 hectares. There was a decrease of 2.1% in cultivable acreage in just 1 year. This reduction naturally resulted in production decline as well, which estimates to be 3.9% (from 27.464 million tonnes down to 26.394 million tonnes).

Other factors that also contributed to the decline in production and caused the failure to reach the intended goal include most farmers switching to the cultivation of alternate crops such as maize and rice due to the declining profit margin and high input costs of growing wheat in Pakistan (besides the alternate crops are more profitable).

⁶ Mangi & Dilawar, "Deadly Floods Inundate Farms in Pakistan, Flushing Away Crops", TIME, published on August 31, 2022.

<https://www.bloomberg.com/news/articles/2022-08-31/deadly-floods-inundate-farms-in-pakistanflushing-away-crops>

⁷ Munawar Hasan, "Pakistan gets offer in 300,000T wheat import tender", The News International, published on July 20, 2022.

<https://www.thenews.com.pk/print/975052-pakistan-gets-offers-in-300-000t-wheat-import-tender>

⁸ Sana Jamal, "Pakistan approves import of 300,000 tonnes of wheat from Russia", Gulf News, published on November 01, 2022.

<https://gulfnews.com/world/asia/pakistan/pakistan-approves-import-of-300000-tonnes-of-wheat-from-russia-1.91657140>

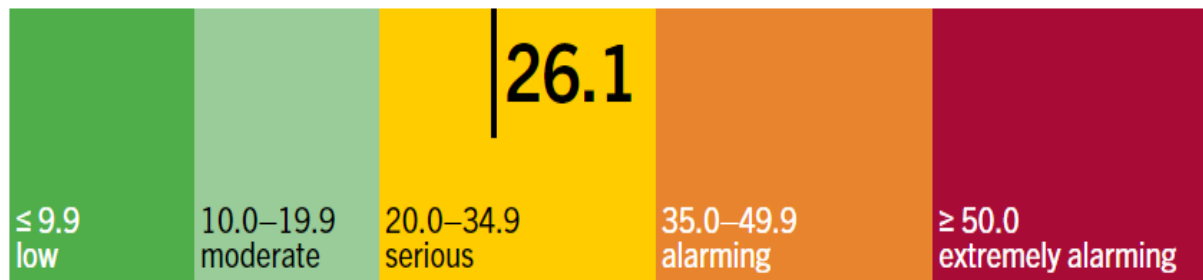
Furthermore, practices of over-profit maximisation by middlemen (*artis*) also discourage the farmers as they never get good buying price for their produce but it also exponentially increases the commodity price in the local market putting stress on the end-consumer as well.

In addition, most of the cultivable land in Pakistan (Southern Punjab and Sindh province) have been rendered unfit for cultivation after the massive flooding. Since October is the month for cultivation of wheat in Pakistan, the intended amount of cultivation is not possible. This will have a negative impact on wheat production in the coming year.

Therefore, despite government assurances, the issue of food scarcity lingers on and a significant wheat supply vacuum remains in the country which is yet to be filled by timely procurement and supplementary measures that need implementation on war footing. Food reserves are also dwindling in the country and under continuous stress due to increasing population.

What is the government doing and are those efforts enough?

As per the 2022 estimates of the Global Hunger Index (GHI), Pakistan ranks 99th out of the 121 countries with its level of hunger termed as "serious".⁹



The situation is only getting worse as evident from the trend shown in graph¹⁰ below:

⁹ "Global Hunger Index Scores by 2022 GHI Rank", Global Hunger Index, accessed on November 02, 2022. <https://www.globalhungerindex.org/ranking.html>

¹⁰ "Country Profile - Pakistan", Global Hunger Index, accessed on November 02, 2022. <https://www.globalhungerindex.org/pakistan.html>

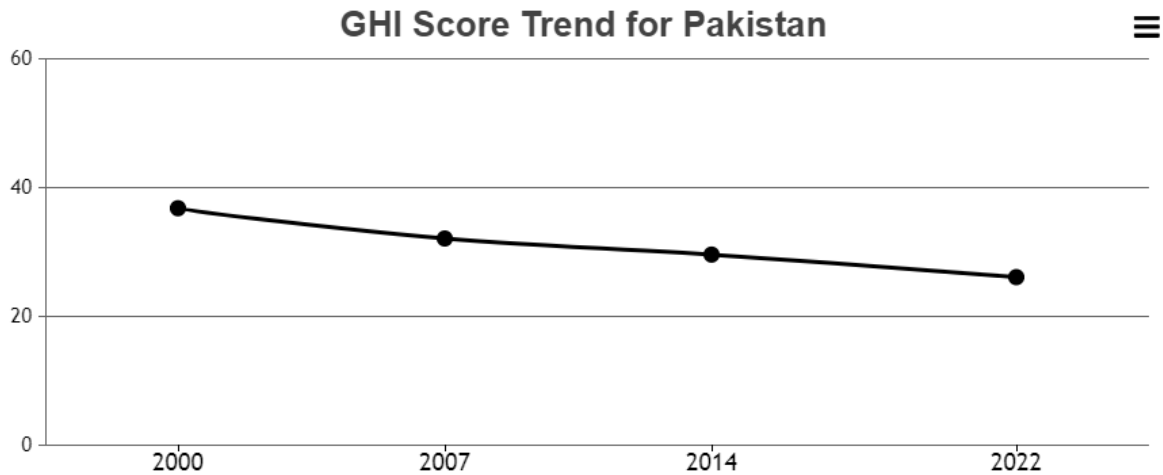


Figure 1.0

Hence, it is extremely important for the government to take measures to amicably mitigate the challenge of wheat scarcity and ultimately food security in the country.

In this regard, as mentioned earlier, the government is making procurements of wheat from different sources via private tenders and G2G contracts but it seems to be insufficient in the face of growing demand.

As a conciliatory measure, the Prime Minister of Pakistan has decided not to allow the private sector to import wheat in order to make such procurements via G2G contracts to be able to import wheat at cheap rates and save on the country's depleting foreign reserves.¹¹

Government has also sponsored support pricing but that is also insufficient as the cost of production has almost doubled in a year's time. Loans to farmers on concessionary rates, subsidies, import of and access to latest technology and machinery is being provided by the government, however, due to the prevalent precarious economic situation in the country, global price hikes of commodities, combined with disruption in international supply chains, the government of Pakistan is finding it hard to fulfil the existing demands efficiently.

However, it continues to make efforts with the resources it has at its disposal. Besides taking measures at national level, Pakistan is also raising the issue at international forums as well such as the UN, SCO, CICA and now at COP27 as well by highlighting the issues pertaining to impacts of climate change and global food security.

¹¹ Asif Shahzad, "Pakistan government approves plan to buy 300,000 tonnes of Russian wheat", published on October 31, 2022.
<https://www.reuters.com/article/pakistan-russia-wheat-idAFL1N31W1XS>

Conclusion

To sum up, efforts are being made to address the profound challenges of food scarcity and food security in Pakistan and procurements such as the recent Pak-Russia wheat import deal are a good step in this regard. However, there is a massive room for improvement.

Apart from reaching out to Russia for affordable wheat, Pakistan should also consider placing an order for Ukrainian wheat and capitalise on this time sensitive opportunity offered by the Russia-Ukraine grain export deal. Subsidies and concessions to the farmers can be made by importing cheap and affordable fertilisers from countries like Russia and Iran which will help in lowering the cost of production but will increase yield as well.

Most importantly, the government should devise and implement mechanisms that will address the issues of system manipulation by middlemen in the country and ensure fair prices for farmers' produce. Effective water management and farm management practices, along with fertiliser distribution, efficient irrigation are some of the measures that the government can ensure in order to increase production, reduce overall cost and conserve resources.