Preferential Currency Subsidy and its Effect on the Control of Essential Commodity Prices (Case Study: Iranian Chicken Meat Market)

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Abstract
With the increase of exchange rate fluctuations in early 2017, the government's economic headquarters began implementing a policy of allocating preferential currency at 4,200 tomans per US dollar. One of the most critical food products targeted by this policy is chicken meat, which depends on the supply of primary production inputs to imports. Given that, the question has always been discussed in scientific and political circles of the country: "How much subsidy goes to the import of products to the final consumer of products?", The present study, using monthly information 2017-2019, addresses this issue based on the Autoregressive Distributed Lag approach. According to the results, if, in the long run, the subsidy paid per kilogram of chicken meat by the government increases by one percent, the difference between the price of chicken meat in the Iranian and world markets will increase by 0.61 percent. Accordingly, it seems that although this policy has been able to keep the price of chicken meat below world prices, accordingly, it seems that although this policy has been able to keep the price of chicken below world prices, it has not been able to reach the final consumer and benefit her fully. Therefore, there is a 39% deviation of the hidden subsidies paid in the chicken meat market. Therefore, it is recommended that policymakers stop implementing this policy. According to the results, the government's direct intervention in the market through the monthly distribution of Market Regulation broiler, the accumulated surplus of imports of livestock inputs per hatchery, and feed supply risk in the poultry industry are other variables that affect the difference between the price of chicken in the Iranian and world markets.

Keyword: Allocation of 4200 Tomans Currency, Government Interventions, Market Regulation Broiler, Subsidies Paid Pass-Through, Import of Livestock and Poultry Inputs.

JEL Classification: D12, D52, E31, H24.

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1. Introduction

Governments are trying to reduce the impact of food market tensions by formulating and implementing macroeconomic policies and direct intervention (Laborde et al., 2019). According to several studies, one of the most important factors that affect food prices is the exchange rate (Chou, 2019; Reboredo and Ugando, 2014; Abbott et al, 2011).

Accordingly, following the increase in currency fluctuations, the government's economic headquarters for foreign exchange market management, on April 10, 2017, announced that to import basic goods, will allocate preferential currency at the rate of 4200 tomans per US dollar. The main purpose of this policy was to control the fluctuations of the domestic market, to prevent the increase of the prices of basic goods and the inflation rate of the country, as well as to compensate for the lost welfare of the households. After this date, the number of items receiving foreign exchange at the preferential rate gradually decreased, so that in April 2020, only the import of products such as corn, soybean meal, barley, oilseeds and crude oil, the preferred currency was allocated. Many experts believe that the preferential exchange rate policy is ineffective in achieving its goals and imposes high costs on the government (Islamic Consultative Assembly Research Center, 2018).

Accordingly, due to the various objections and problems that exist to provide this currency as well as access to its benefits for the target communities, the payment of this currency subsidy may be stopped or replaced by other supportive methods. Considering that a significant amount of foreign exchange subsidies in the agricultural sector is paid for the three main imported inputs for livestock and poultry consumption, including corn, barley and soybean meal, Therefore, the elimination of the preferred currency will strongly affect the cost of protein and dairy products in the country and will affect the welfare of consumers. With this approach, the present study, by calculating the amount of subsidy paid to the import of production inputs that reach the final consumer of products, has reviewed the continuation or cessation of the subsidy policy of preferential currency.

2. Model and data

In the present study, in order to evaluate the effect of subsidies paid in the form of preferential exchange rate policy on the chicken meat market, the difference between the price of chicken meat in the Iranian market and the opportunity cost of providing it has been used as a dependent variable. The theoretical basis of this subject is the law of one price. The law of one price states that a specific and homogeneous product in different countries, after converting prices into a common currency, must be sold at the same price. But typically, various factors such as transaction costs, trade restrictions, and shipping costs prevent this law from being Obstacle to full establishment in different economies (Woo et al., 2020). This issue is quite obvious in the Iranian poultry industry, given the payment of subsidized exchange rates to production inputs, direct government intervention in the market, and extensive domestic and foreign trade barriers. Accordingly, considering the study of Naylor et al. (2020) and Pless and van Benthem (2019), the theoretical model of the present study is as follows:

$$PWPD = f(SUBS, DIST, SIPI, RCSF) \tag{1}$$

In this model, the difference between the price of chicken meat in the Iranian market and the opportunity cost of providing it ($PWPD$) is a function of the amount of subsidy paid ($SUBS$), direct government intervention in the chicken market ($DIST$), surplus import of production inputs ($SIPI$) and chicken feed supply risk ($RCSF$).Finally, it should be noted that all the information needed is collected monthly for a period of 2017-2019 and Equation (1)estimated in the form of the Autoregressive Distributed Lag approach.

3. Results

According to the results, if, in the long run, the subsidy paid per kilogram of chicken meat by the government increases by one percent, the difference between the price of chicken meat in the Iranian and world markets will increase by 0.61 percent. Accordingly, it seems that although this policy has been able to keep the price of chicken meat below world prices, accordingly, it seems that although this policy has been able to keep the price of chicken below world prices, it has not been able to reach the final consumer and benefit her fully. Therefore, there is a 39% deviation of the hidden subsidies paid in the chicken meat market. In other words, the total amount of subsidies paid to the poultry industry in the framework of the policy of allocating the preferential exchange rate during 35 months has been equal to 904.9 billion rials, and 352.9 billion rials (39%) of the subsidy has been diverted.

4. Conclusion

Given the high deviation of subsidies in achieving the set goals, the inability of the central bank to provide foreign exchange, increasing the risk of providing inputs in the poultry industry, it is proposed that the government refrain from continuing this policy. In this regard, alternative policies such as commodity cash payment can eliminate the existing shortcomings and provide a more appropriate distribution of subsidies.

According to the results, the market regulation policy of chicken distribution, which is referred to as direct government intervention in the market, is able to keep the price of chicken meat in the Iranian market at a lower level than its world price. Therefore, despite its small coefficient (equivalent to 0.06%), this policy seems to be appropriate to control short-term fluctuations in the price of chicken in the market. Therefore, it is recommended that the government use this tool to moderate the effects of short-term fluctuations on producers (negative fluctuations) and consumers (positive fluctuations) by increasing the working capital of the poultry distribution plan by the Livestock Support Company.

According to the results, it seems that the accumulated surplus of imports of livestock inputs per hatchery has a significant effect on controlling the price of chicken meat. Therefore, in a situation where the country is facing the escalation of economic sanctions and the process of providing foreign exchange resources needed for the import of strategic inputs is disrupted, the implementation of policies such as 4200 Tomans foreign exchange policy, especially similar to what was done at the beginning of this plan, The central bank's foreign exchange reserves and the deterioration of the quality of foreign exchange resources lead to and make it harder to deal with sanctions.

Finally, it should be noted that the risk of food supply in the poultry industry has caused high prices for chicken in the Iranian market. This risk has been exacerbated mainly by reasons such as government and parliamentary delays in deciding whether to remove or continue the policy, declining government oil revenues, problems with US sanctions, and the emergence of an emerging phenomenon such as the corona in the world. Therefore, according to the considerations raised, changing the currency of livestock inputs, increasing and completing the strategic reserves of inputs by state-owned companies and also using the capacities of private companies with regard to purity tools in commodity exchanges and credit purchases, it is something that should be given special attention.

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