Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 2/22/2000

GAIN Report #PK0007

Pakistan

Grain and Feed

Annual

2000

Approved by: **Jim Dever, Ag Attache U.S. Embassy Islamabad, Pakistan**
Prepared by: **Asif Farrukh, Ag Specialist U.S. Embassy Islamabad, Pakistan**

Report Highlights:

Pakistan's MY 2000/2001 wheat production is forecast at a record 20 million metric tons due to a 25 percent increase in the procurement price of wheat. Even so, MY 00/01 wheat imports are forecast at 2 million metric tons. U.S. export assistance programs, particularly GSM-102, will need to remain as competitive as possible in order to compete with the predatory pricing practices of the Australian Wheat Board if the United States is to increase sales to this traditional U.S. market.

Pakistan's MY 2000/2001 rice crop is forecast at 5 million metric tons (MMT), assuming normal weather. Exports are forecast at a record 2.2 MMT, 10 percent higher than the last year.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Islamabad [PK1], PK

Table of Contents

Executive Summary 1
WHEAT: 1
PRODUCTION: 1
Table 1. Wheat Production, Supply and Demand 2
CONSUMPTION: 2
TRADE: 3
Table 2: Wheat Imports by Origin (‘000 MT, MY 1999/00 (Jul-Jun) 4
STOCKS: 4
RICE: 6
PRODUCTION: 6
Table 3. Rice Production, Supply and Demand 6
CONSUMPTION: 7
TRADE: 7
Table 4: IRRI Exports by Destination (‘000 MT, MY 1999/00 (Jul/Jun) 7
Table 4: Basmati Exports by Destination (‘000 MT, MY 1999/00 Jul/Jun) 8
STOCKS: 8

Executive Summary

Pakistan's MY 2000/2001 wheat production is forecast at a record 20 million metric tons due to a 25 percent increase in the procurement price of wheat. Even so, MY 00/01 wheat imports are forecast at 2 million metric tons. U.S. export assistance programs, particularly GSM-102, will need to remain as competitive as possible in order to compete with the predatory pricing practices of the Australian Wheat Board if the United States is to increase sales to this traditional U.S. market.

Pakistan's MY 1999/2000 wheat imports are estimated at 2.4 MMT, of which the United States' share was 400,000--its lowest in recent years. Estimated imports have declined as a result of (1) the new military government's crackdown on wheat and flour smuggling to Afghanistan, (2) the government recent decision to forego additional imports to save foreign exchange and instead draw stocks down to extremely low levels against early procurement of new crop wheat.

WHEAT:

PRODUCTION:

Pakistan's MY 2000/01 (May-April) wheat crop is forecast at a record 20 million metric tons (MMT) or about 12 percent above last year's harvest due to higher yields and increased area. The single most important factor for the forecast increase in production is the government's 25 percent increase in the procurement price of wheat to Rs. 7,500 (about $145) per metric ton. As a result of the sharp increase in the procurement price, farmers: (1) increased fertilizer usage and seeding rates (sources estimate consumption of phosphatic fertilizers increased 40 percent due to the expected higher returns as well as to lower fertilizer prices and better availability), and (2) planted more wheat (by switching out of sugarcane due to falling cane prices) and planted on a more timely basis (by foregoing the third picking due to low cotton prices). Additionally, better irrigation supplies (as a result of the army's campaign to de-silt irrigation canals) and better soil moisture at planting as well as timely winter rains have boosted prospects for rain-fed production (which accounts for roughly 16 percent of total wheat production).

Overall the crop is in excellent condition. Relatively cool weather through the third week of February has helped to improve prospects for the late-planted crop. Thus far, there have been isolated reports of rust affecting minor varieties. Temperatures through mid-March are an important determinant of final production. The crop requires a gradual increase in temperature during flowering and filling. Sharp temperature increases during this period will diminish yields.
Harvest begins in Sindh in mid-March, where conditions continue to be excellent.

Pakistan does not have a comparative advantage in wheat production and this year's increase came at a significant cost–about $30 per metric ton. Additionally, it is not clear that additional increases can be achieved or that this forecast level of production can be sustained given competition from alternative crops and problems with salinization, input supply and seed quality.

Table 1. Wheat Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1998		05/1999		05/2000
Area Harvested	8355	8355	8330	8230	0	8600
Beginning Stocks	3211	3211	3810	3810	0	2481
Production	18694	18694	17854	17854	0	20000
TOTAL Mkt. Yr. Imports	2875	2875	3200	2390	0	2000
Jul-Jun Imports	2875	2875	3200	2209	0	2000
Jul-Jun Import U.S.	1100	1100	1200	450	0	1000
TOTAL SUPPLY	24780	24780	24864	24054	0	24481
TOTAL Mkt. Yr. Exports	20	20	0	25	0	0
Jul-Jun Exports	20	20	0	25	0	0
Feed Dom. Consumption	400	400	400	400	0	500
TOTAL Dom. Consumption	20950	20950	22000	21548	0	22500
Ending Stocks	3810	3810	2864	2481	0	1981
TOTAL DISTRIBUTION	24780	24780	24864	24054	0	24481

Bread is the staple food and wheat is a strategic commodity. The Government of Pakistan (GOP) encourages wheat production and supplies fertilizers, seeds and irrigation to growers. Input subsidies have declined or been eliminated in recent years as part of ongoing IMF reforms. The GOP also procures about 25 percent of the domestic crop via a procurement price, which acts as a support price. Generally, prices would be expected to fall in response to a record production but because the GOP's procurement price is artificially high, wheat prices are expected to increase significantly. Free market wheat prices, which generally are higher than the government's issue price, currently are around Rs. 8,500 per MT. Although the government will not announce a new issue price until May 1, free market prices have begun to increase in expectation of a higher new crop prices. Given GOP commitments to the World Bank to reduce the consumption subsidy on wheat, it appear that much of the increased price of wheat will be passed on to consumers.

The government uses local procurement plus imports to augment wheat supply in urban areas. The government restricts free market wheat movement between provinces and may extend these restrictions to the district level to regulate the local market more tightly.

CONSUMPTION:

Aggregate consumption is increasing as a function of Pakistan's 2.8 percent population growth rate. Per capita consumption also may be increasing due to declines in consumers' purchasing power as a result of rising inflation from last several years. The government recently recalculated per capita consumption data upon which it bases it release or issue quotas in hopes of reducing or eliminating chronic problems with spot shortages.

Consumer preferences are shifting as well: both from traditional flat bread to western-style loaf-bread, particularly in urban areas as a convenient breakfast food as well as from traditional home-ground flour to commercially-produced flour. The impact of these changes from higher to lower extraction flour is to increase wheat consumption

Demand for specialized products also is expected to increase with the recent introduction of western-style fast food chains. [Consumption is difficult to gauge. Figures include a conservative estimate of 500TMT of wheat diverted to poultry feed as well as another 600TMT (grain-equivalent basis) of wheat and flour smuggled into Afghanistan.]

Pakistan's wheat milling industry is privately owned. The two main milling products are "midda" (or 72 percent extraction flour used for loaf bread and other products) and "atta" (or 82 percent extraction flour used for flat breads). The government regulates the price of flour. The current ceiling price for "atta" is Rs. 765-850 for 100 kilograms and the market price ranges between Rs. 785 and Rs. 1,000 ex-mill, depending on quality.

The government allocates its wheat stocks to mills based on a number of factors, including the mill's historic grind. This allocation is issued or released to the mills at a subsidized price–currently Rs. 6,500 per MT (for both imported and local wheat) for all mills throughout the country. There is no set subsidy. The subsidy derives from the fact that the release price is less than the government's total cost and does not fully include storage, handling and transport costs. The GOP has agreed to phase out this subsidy as part of its reform package with the World Bank.

In general, the government's subsidized allocation does not cover a mill's entire requirement. As a result, mills also buy from the local market and in the recent past from the international market. For quality and price reasons, millers prefer to mix local semi-hard white wheat with imported soft white wheat in a 60:40 ratio. Although consumers traditionally prefer white bran wheats, millers can blend up to 20 percent red-bran wheats to produce "atta" and up to 10 percent to produce "midda" and apparently produce an acceptable product.

TRADE:

Pakistan is expected to remain a major wheat market for the foreseeable future. Sources expect MY 2000/01 imports will be 2 MMT only due to the combination of increased consumption and record crop. The major changes in Pakistan's import regime include: (1) a government ban on private sector imports in June 1999, ostensibly to conserve foreign exchange, and (2) the new military government attempt to eliminate wheat and flour smuggling to Afghanistan thereby conserve domestic supplies. The crackdown on smuggling appears at least partly successfully but a longer-term solution is required in order to move an adequate supply of wheat to landlocked Afghanistan. Details of Pakistan's MY 1999/00 wheat imports are provided in the following table:

Table 2: Wheat Imports by Origin ('000 MT, MY 1999/00 (Jul-Jun)

ORIGIN	US	AWB	EU	TMO	Other	TOTAL
Public	400	1,200	22	–	109*	1,731
Private	50	242		186	--	478
TOTAL	450	1,442		186	109	2,209

US: Public sector includes 300,000 MT under GSM-102 and 100,000 MT under P.L. 480 Title I.
AWB=Australian Wheat Board, TMO=Turkish Cereals Office, EU=European Union
*World Food Program Donations for Afghan Refugees from various sources

The United States traditionally has been the primary supplier to the Pakistani market due to the quality and reliability of its wheat supply as well as to the important partnership it maintains with Pakistan. Australian wheat, however, continues to make significant inroads into this market following recent large Australian harvests through the use of predatory pricing, cheap freight and credit, and other nonmarket tactics. Canada is an occasional supplier.

Despite Pakistan financial woes, the AWB considers Pakistan to be a premium market. The AWB often commands a $10 or more premium in this market over U.S. soft white wheat (SWW) FOB prices by virtue of its freight advantage. The AWB also receives an additional premium because of the manner in which Pakistan tenders. Since Pakistan's 1998 financial crisis (bought about by sanctions following nuclear test and the Asian financial crisis), Pakistan's wheat tendering can best be described as an exercise in crisis management. As a result, Pakistan buys more wheat later in the year in large tenders. Although U.S. participation ensures the required competition, that competition generally occurs at a much higher price level the later it is held. Pakistan could tender much more effectively by buying wheat closer to the U.S. harvest.

Pakistan's MY 1999/2000 wheat import forecast has been reduced significantly as a result of the government's plan to draw stocks down against the prospects of procuring significant amounts of the record crop, particularly the early Sindh crop. In normal years, this would be a risky plan. However, this year the government apparently feels the risks are outweighed against the advantages of saving foreign exchange. If shortages begin to occur, traders feel the government may authorize private imports to make up for the shortfall.

Both public and private wheat imports are exempt from duty and the 15 percent sales tax. Flour imports are subject to a 10 percent import duty and the 15 percent sales tax.

STOCKS:

MY 1999/00 ending stocks are forecast to decrease to 2.5 MMT, of which about 300,000 are held by the government. This is well below the government preferred stock level of 1 MMT but, as explained above, appears to be part of a plan to conserve foreign exchange. MinFAL currently is assessing the quantity and quality of its stocks.

RICE:

PRODUCTION:

Pakistan's (MY) 2000/01 (November-October) rice crop is forecast at 5.0 (MMT) or about 2.6 percent lower than the last year's harvest, assuming normal weather. The weather during MY 1999/2000 was better than normal and pest problems were minimal. Sources expect returns to rice production will remain attractive so there will be only a minor shift from rice to competing crops--mainly sugarcane. The composition of production also is expected to remain fairly steady--an estimated 52 percent of rice area is expect to be Basmati and the remainder will consist of IRRI and other local varieties.

Table 3. Rice Production, Supply and Demand

PSD Table						
Country:	Pakistan					
Commodity:	Rice, Milled					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		11/1998		11/1999		11/2000
Area Harvested	2424	2424	2450	2513	0	2470
Beginning Stocks	122	122	396	396	0	926
Milled Production	4674	4674	4800	5130	0	5000
Rough Production	7012	7012	7200	7696	0	7501
Milling Rate(.9999)	6666	6666	6666	6666	0	6666
TOTAL Imports	0	0	0	0	0	0
Jan-Dec Imports	0	0	0	0	0	0
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	4796	4796	5196	5526	0	5926
TOTAL Exports	1850	1850	2000	2000	0	2200
Jan-Dec Exports	1850	1850	2000	2000	0	2200
TOTAL Dom. Consumption	2550	2550	2600	2600	0	2650
Ending Stocks	396	396	596	926	0	1076

As with wheat, the Government of Pakistan (GOP) encourages rice production and supplies fertilizers, seeds and irrigation to growers. Input subsidies have declined or been eliminated in recent years as part of ongoing IMF reforms. The GOP plays a much smaller role in the rice market than in the wheat market. Although the GOP announces a procurement price (which acts as a support price), it has not procured rice since 1995. Earlier in the year, rice farmers petitioned the government to procure a part of the crop to support prices, as was done for cotton. However, since then, trade prospects have improved and the rice farmers appear to be relatively more satisfied. The MY 2000/01 procurement price is expected to be announced around planting time in May.

CONSUMPTION:

Per capita consumption is small-- wheat, not rice, is the staple grain. As a result, aggregate consumption is stable or growing slowly. The rice milling industry is privately owned. A little over half of the crop is destined for local consumption and the remainder is exported. The government does not maintain a consumer subsidy for rice.

TRADE:

Pakistan is a major rice exporter and annually exports around 2 MMT or about 10 percent of world trade. Exports consist of about 75 percent of IRRI rice and 25 percent of Pakistan's famous, fragrant Basmati rice. Rice is Pakistan's second leading source of export earnings. There is no subsidy or tax on rice exports. Exporters compete in the market for exportable supplies. Details of Pakistan's MY 1998/99 rice exports by destination are submitted in the trade reports. The following tables provide information about top ten rice export markets.

Table 4: IRRI Exports by Destination ('000 MT, MY 1999/00 (Jul/Jun)

Country	1998/99	1997/98
Africa NES	317,393	286,955
Bangladesh	192,094	15,724
Indonesia	173,271	396,070
Kenya	70,432	275,225
South Korea	61,626	8,328
Dubai	47,759	32,254
Malagasy	42,887	2,000
Afghanistan	37,951	34,715
Malaysia	37,419	3,302
Sri Lanka	27,675	124,013
Others	191,243	348,764
USA	261	11,474
Total	1,200,011	1,538,824

Source: Federal Bureau of Statistics
Ranking of countries is based on 1998/99 exports

Table 4: Basmati Exports by Destination ('000 MT, MY 1999/00 Jul/Jun)

Country	1998/99	1997/98
Dubai/U.A.E.	208,166	152,874
Saudi Arabia	76,778	58,342
Oman	50,768	78,270
U.K.	30,470	18,692
Kuwait	25,678	18,971
Qatar	25,640	24,932
Bahrein	22,439	21,703
Mauritius	14,008	10,451
Yemen, rep	13,933	19,557
Afghanistan	12,847	3,698
Others	93,131	134,657
USA	14,905	10,272
Total	588,763	552,419

Source: Federal Bureau of Statistics
Ranking of countries is based on 1998/99 exports

Pakistan does not import rice. The import tariff on rice is 25 percent. In addition, imported rice is subject to a 15 percent sales tax, as are all rice sales in theory.

STOCKS:
Most rice is held by private traders, generally in small lots.