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Annual Report

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Report Highlights:

Pakistan's MY 2005/06 wheat production is forecast at 20.5 Million Metric Tons (MMT), due to an early crop planting in Punjab province, above normal widespread and well-spaced rains in January-February 2005, and a decrease in fertilizer use. Pakistan is forecast to import 1 MMT of wheat despite a better harvest. This is due to a reduced opening of government stocks of MY 2005/06, and an anticipated reduction in the procurement of government food departments. At the same time Pakistan has opened its wheat import market for non-traditional suppliers, including Russia.

Pakistan's MY 2005/06 rice production is forecast at 4.9 MMT and exports at 2.0 MMT.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

Pakistan's MY 2005/06 wheat production is forecast at 20.5 MMT on higher expected yields based on above normal rainfall pattern during crop growing season. Imports are estimated at 1 MMT given the government's determination to continue its unrestricted trade policy coupled with the domestic market that attracts above market rates for wheat and wheat flour.

Pakistan's MY 2005/06 rice production is forecast at 4.9 MMT on higher production of IRRI rice and anticipated decrease in production of Basmati rice. Farmers have diverted large acreage of Basmati rice to IRRI rice especially in Balochistan province. MY 2005/06 rice export forecast is at 2.0 MMT.

WHEAT

Table 1: Wheat Production, Supply and Demand

Pakistan Wheat							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		05/2003		05/2004		05/2005	MM/YYYY
Area Harvested	8094	8000	8200	8216	0	8300	(1000 HA)
Beginning Stocks	1438	1467	1584	1367	2534	2267	(1000 MT)
Production	19192	18200	19000	19500	0	20500	(1000 MT)
TOTAL Mkt. Yr. Imports	47	2000	1500	1400	0	1000	(1000 MT)
Jul-Jun Imports	47	2000	1500	1400	0	1000	(1000 MT)
Jul-Jun Import U.S.	14	1000	0	373	0	500	(1000 MT)
TOTAL SUPPLY	20677	21667	22084	22267	2534	23767	(1000 MT)
TOTAL Mkt. Yr. Exports	193	300	50	0	0	0	(1000 MT)
Jul-Jun Exports	43	0	50	0	0	0	(1000 MT)
Feed Dom. Consumption	400	400	400	400	0	400	(1000 MT)
TOTAL Dom. Consumption	18900	20000	19500	20000	0	20400	(1000 MT)
Ending Stocks	1584	1367	2534	2267	0	3367	(1000 MT)
TOTAL DISTRIBUTION	20677	21667	22084	22267	0	23767	(1000 MT)

Production

MY2005/06 production is forecast at 20.5 MMT, or 5 percent above last year's crop, due to an expected increase in area and yield. This year's crop planting was early due to less acreage under sugarcane and farmers' efforts to expand early planting to improve wheat yields. The main driving force has been the good returns to wheat experienced by farmers for two years in a row. This year's crop is forecast to be the second largest crop harvest. This is due to a one percent increase in area planted, above normal rainfall from January through early March 2005, an increased application of herbicides and above normal irrigation from rains compared to the corresponding period of last year. The 20.5 MMT production forecast

represents potential production and assumes no further deterioration in the condition of the crop before the harvest scheduled to commence the later half of March.

Pakistan has emerged rapidly from the ravages of the 4-year drought that many be considered the worst since the world's largest contiguous irrigation network became operational in the 1970's. Water available for agricultural irrigation currently is normal, compared to 20 percent below normal for same period a year ago. Stored water used for irrigation is held mainly in two large reservoirs -Tarbela and Mangla, during the summer for use during "Rabi," or the winter growing season. About two-thirds of the country's water for irrigation is sourced from snow and glacier melts, with the remainder derived from seasonal monsoon rains.

Since the irrigation system was completed in the 1970s, demand has increased by more than 50 percent while storage capacity has decreased one-third due to silting. This has left per capita availability at a fraction of its original level. As a result, chronic shortfalls in water available for irrigation are expected to play an increasingly larger constraint on Pakistan's agricultural advancement in the absence of more systematic planning and water management resources.

In Sindh Province, where the shortage of water is less severe than last year and where the Pakistan harvest begins early, the crop is good. In this province ground water in most areas is alkaline and not fit for tube well irrigation, necessitating a greater reliance on canal water. In the Punjab province, where extensive tube well irrigation is utilized, the crop is generally considered to be in normal condition as of March 9, 2005. With the bulk of the Punjab crop about to enter the grain-formation stage moderate temperatures and sunlight during the month of March will be critical for the success of this year's output. The condition of the highland crop, which comprises 10 percent of total production, is in better shape compared to last year's crop.

The 2005/06-crop output forecast of the Ministry of Agriculture (MINFAL) is 20.2 MMT. The MINFAL production target of 20.2 MMT is based on a harvest of 16.9 MMT in Punjab. However, Punjab province scientists and farmers groups disagree with this revised size of harvest. The market apparently agrees with the Punjab locals as open market prices of Rupees 11,250 per metric ton are significantly above the official procurement price of Rupees 10,000 per metric ton, with only 3-4 weeks to start bulk wheat harvest in Punjab.

Consumption

Consumption is difficult to gauge. As wheat exports are not legal, cross-border trade with Afghanistan has been captured in domestic consumption again, whereas it disappeared as exports during 2000-03 period. However, local officials note around 1,000 MT of wheat and wheat flour is still moving across the border to Afghanistan from different points daily. Further, customs data do not report export to Afghanistan. Therefore, MY 2004/05 consumption estimate has been increased to absorb the cross-border trade with Afghanistan and Iran.

Prior to September 2004, domestic flour and bread prices generally remained stable due to adequate government and privately held stocks. However the quick draw down of government-held stocks and very limited availability of supplies in the open market have combined to nudge wheat and wheat-based product prices upward.

Consumer preferences are shifting, from traditional flat bread to western style loaf bread, particularly in urban areas where it is viewed as a convenient breakfast food, and from traditional home-ground flour to commercially produced flour. The change in preference

from higher to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products also is expected to increase in response to changing lifestyles more supportive of western-style fast food chains recently introduced into the country.

Pakistan's wheat milling industry is privately owned. Principal milled products include "midda" (which is a 72 percent extraction flour used for loaf bread and other products) and "atta" (which is an 82 percent extraction flour used for flat breads). For quality and price reasons millers prefer to mix local semi-hard white wheat with imported soft white wheat at a 60:40 rate. Although consumers traditionally prefer white bran wheat, millers can blend up to 20 percent bran wheat to produce "atta" and up to 10 percent to produce "midda" while still producing an acceptable product.

Under ongoing reforms the government is removing itself from regulating the market and is reducing the remaining consumption subsidy offered for wheat. With the market better able to set price, the advantages accrued for buying from or selling to the government is declining. With removal of many restrictions on wheat transportation and storage, the government is creating an environment better able to facilitate trade. Further, the State Bank of Pakistan (Central Bank) now authorizes commercial banks to provide private sector financing for 50 percent of the wheat stocks. If the government stays on course, barring a natural disaster, this year's wheat market should be regulated only by stock availability and international price.

Trade

Pakistani may not be able to enter into export market for the next couple of years. Traditionally, Pakistan is a wheat importer. It is expected that imported wheat arrivals would commence from the fall 2005 to cater demands in MY 2005/06, especially if the government's liberal domestic sales and wheat import policy continue. The GOP has announced a continuation of the more liberal trade policy set for wheat and its products in the coming years. MY 2005/06 import volume is projected to be larger based on a combination of a smaller than initially projected MY 2004/05 ending stock, a more moderate MY 2005/06 crop than forecasted, stronger open market prices and stronger domestic demand. Political pressures to check prices may increase demand for government release of subsidized stocks onto the market, which leads most observers to believe that imports would be necessary to avoid a crisis during the second half of MY 2005/06.

During MY 2004/05 the Ministry of Food, Agriculture and Livestock (MINFAL) redefined its wheat specifications to be used for government tenders. Revised specifications and type follows (note the specs call for GM free and new crop wheat):

Type:	Medium Hard White Wheat/Red Wheat
Test Weight:	76 kg/HL minimum
Protein:	10% minimum
Moisture Contents:	12% maximum
Foreign Matter:	0.5% maximum
Wet Gluten:	23% minimum
Falling Number:	350 per second minimum
Shrunken & broken Kernel:	2% maximum
Damaged grains: (sprouted, heat damaged etc)	0.5% maximum
Edible grains other	1% maximum
Color	Original

Mycotoxin:	Not more than 5 parts per billion
Dockage total deductible:	Over one half of one percent
Quarantine:	Should meet quarantine requirements of Pakistan
Ergot:	Nil
Dioxin:	Free
Dead/Live insects/larvae:	Free
GMO:	Free
Heavy metals:	Within WHO permissible limits
Special requirements:	a) Minimum lot size 25,000 metric ton b) Free from Kernel bunt and Striga weed c) Fit for human consumption d) Treated with phosphene at or immediately prior to loading at the rate of 10 ounces of active ingredients per 1,000 bushel of wheat e) Fresh crop stocks

During MY 2004/05 MINFAL contracted to import 1.4 MMT of wheat. Due to a delay in scheduling imports, and a smaller than anticipated stock level, open market wheat prices now average around 15 percent higher than official government prices. Prices are not likely to drop as reportedly based on anticipation of record crop because of growth in demand from rising population. Reports of wheat flour shortages in many parts of the country are now appearing.

The United States traditionally has been the primary wheat supplier to the Pakistani market for quality and reliability reasons. Australia, however, has made significant inroads into this market through the use of predatory pricing, cheap freight and credit, and other non-market tactics. Canada is an occasional supplier to this market. The Australian Wheat Board Ltd. (AWB) considers Pakistan to be a premium market. The AWB often commands a premium of \$10 or more in this market over better-quality U.S. soft white wheat (SFW) FOB prices by virtue of its freight advantage. The AWB also receives an additional premium through the manner in which Pakistan tenders (asking for C&F offers). Although June is when U.S. prices are lowest and the government already has a clear idea on the local crop size and import requirements, the GOP generally waits several months before buying. As a result, Pakistan buys more wheat late in the year via large tenders. Although U.S. participation in these tenders ensures the required competition, timing is such that the tender offers are much higher than necessary. Pakistan could save significant foreign exchange by procuring earlier in the summer when prices are more attractive. With an increasingly liberalized environment, the private sector is likely to apply a stronger business orientation in their buying decisions.

Import duties/taxes are as follow:

Wheat	- zero import duty, zero sales tax
Wheat flour	- 10 percent import duty, 15 percent sales tax on import

Export duties/taxes are as follow:

Wheat flour	- 15 percent export duty
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Stocks

The GOP holds most stocks through various provincial food departments. MY 2005/06 opening stocks of the government food departments have been forecast at 100,000 MT only. MINFAL is satisfied with the marginal opening stocks based on estimate of a larger than initially estimated harvest of MY 2005/06 crop.

Policy

MINFAL has announced it will continue the current policy for wheat procurement and trade through the new marketing year. Wheat and wheat products can be traded freely and banks can finance such trade.

RICE

Table 2: Rice Production, Supply and Demand

Pakistan Rice, Milled							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		11/2003		11/2004		11/2005	MM/YYYY
Area Harvested	2400	2460	2400	2500	0	2500	(1000 HA)
Beginning Stocks	45	45	470	428	720	748	(1000 MT)
Milled Production	4900	4848	5000	4920	0	4900	(1000 MT)
Rough Production	7351	7273	7501	7381	0	7351	(1000 MT)
MILLING RATE (.9999)	6666	6666	6666	6666	6666	6666	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Imports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	4945	4893	5470	5348	720	5648	(1000 MT)
TOTAL Exports	1775	1715	2000	1800	0	2000	(1000 MT)
Jan-Dec Exports	1800	1958	2100	1800	0	2000	(1000 MT)
TOTAL Dom. Consumption	2700	2750	2750	2800	0	2850	(1000 MT)
Ending Stocks	470	428	720	748	0	798	(1000 MT)
TOTAL DISTRIBUTION	4945	4893	5470	5348	0	5648	(1000 MT)

Production

MY 2005/06 rice production is forecast at 4.9 MMT based on expected improvement in yields and expanded planting of IRRI rice. In MY 2004/05, Basmati production totaled 2.53 MMT, (not different from last year) and IRRI production totaled 1.96 MMT (up 60,000 MT over the previous year).

Water availability during the critical March-May period is expected to be good. If a cut in water distribution during this period occurs, the affect would be more pronounced on the IRRI rice acreage than the Basmati. The IRRI rice generally is grown in areas that rely heavily on canal irrigation, while Basmati is grown in areas employing large-scale tube well irrigation. Based on the source of the water input and current water availability situation, both types of rice are expected to be sown on time. Since 2000, the government discontinued setting a procurement price for paddy and milled rice, and abandoned rice procurement through state trading enterprises.

Consumption

Rice is not a staple commodity in the Pakistani diet. Its consumption is increasing slowly as compared to that for wheat. About 60 percent of the crop is destined for local consumption with the remainder exported. The government does not maintain official grade standards for rice. Annually an estimated 150,000 metric tons, 40 -100 percent broken, is used in poultry feed.

Trade

Pakistan is a major exporter of rice. MY 2005/06 export volume is projected at 2.0 MMT, consisting 800,000 MT of Basmati and 1.2 MMT of IRRI rice varieties. All trade is conducted by the private sector, as the state owned Rice Export Corporation was abolished in early 90's. Today, another state trading agency, the Trading Corporation of Pakistan (TCP), plays a limited role in the rice trade by facilitating government-to-government exports through the private sector. The GOP, in consultation with the Rice Exporters Association of Pakistan (REAP), established a quality review committee to certify the quality of Pakistani rice prior to shipment in an effort to boost the image of Pakistani rice, especially that of Basmati rice. Based on preliminary figures, in CY 2004 Pakistan exported 812,507 MT (823,242 MT in CY 2003) of basmati rice and 973,565 MT of IRRI rice. The decrease in IRRI rice trade in CY 2004 was due to less price competitiveness of bullish domestic market. Pakistani Basmati rice traders are optimistic that the EU concession on Basmati rice import tariff will help to negotiate new contracts in CY 2005.

Stocks

MY 2005/06 ending stocks are projected to increase due to marginally better harvest. All stocks are held by the private sector and are in small lots.

Policy

There is no restriction on rice exports. For rice imports there is 10 percent import duty and 15 percent sales tax.