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Pakistan

Grain and Feed

December Wheat Situation Update

2007

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Report Highlights:

A continuing shortage of wheat and wheat flour, coupled with rising food inflation, have created an unenviable situation in the run-up to Pakistan's general elections scheduled for January 8, 2008. The Government of Pakistan has taken various measures over the past several months to ensure a steady supply of flour at affordable prices -- with limited success. These steps include contracts to import nearly 1 million metric tons of flour and imposing a 35% export duty on wheat and wheat products.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Islamabad [PK1]
[PK]

Pakistan Faces Wheat Crisis on Eve of Election

A continuing shortage of wheat and wheat flour, coupled with rising food inflation, have created an unenviable situation in the run-up to Pakistan's general elections scheduled for January 8, 2008. The wheat crisis which began last spring has become an election issue, with the Government of Pakistan (GOP) taking various measures to ensure a steady supply of flour at affordable prices -- with limited success.

The GOP continues to maintain that Pakistan harvested a record 2007 wheat crop of 23.5 million metric tons (MMT). Analysts argue that the actual crop size was one MMT lower than the GOP's estimate.

In April 2007, the GOP lifted the ban on wheat exports, shipping out approximately 500,000 MT of wheat. In quick reaction, wheat prices began to rise, resulting in the GOP once again imposing a wheat export ban in May. Since then, domestic wheat and wheat flour prices have steadily climbed. Availability of flour for domestic consumption at retail markets has become sporadic. Speculative hoarding and smuggling to neighboring countries have also contributed in aggravating the domestic wheat supply situation.

Nearly 1 MMT Wheat Scheduled for Import

In September, the GOP announced its intent to import 1 million MT of wheat in order to stabilize the domestic market. To date, the Trading Corporation of Pakistan (TCP) has held four tenders – October 8, October 13, November 14 and December 8. Contracts have been negotiated for shipments totaling approximately 980,000 MT. The average import price of \$474 per MT is more than twice the export price of \$225-232 per MT received for Pakistani wheat during the April-May export window.

Pakistan Wheat Tenders Awarded as of December 8, 2007

| SOURCE | QUANTITY (MMT) | PRICE (\$ PER MT) |
|-----------------|-------------------|-------------------------|
| Russian/Ukraine | 372,000 | 444.60 |
| Russian/Ukraine | 200,000 | 428.55 |
| United States | 150,000 | 511.75 |
| Canada | 250,000 | 511.75 |
| TOTAL | 972,000 | 474.16 (average) |

GOP Imposes 35% Regulatory Duty on Wheat Exports

The GOP has imposed a 35% regulatory duty on the export of wheat and wheat products, including wheat flour, in an attempt to discourage exports, bolster domestic supplies and reduce the domestic price of flour. Pakistan's flour exports are destined almost exclusively for Afghanistan. In recent years, Pakistan's annual exports of wheat flour to Afghanistan were about 600,000 metric tons. This year, however, that figure is expected to rise by at least 1 million metric tons. Despite the 35% export duty, Pakistani flour remains cheaper than Kazakh flour, its major competitor in the Afghan market.

OTHER RELEVANT REPORTS

| REPORT # | SUBJECT | DATE SUBMITTED |
|----------|---|----------------|
| PK 7034 | Backdrop for Current Wheat Shortage | 12/20/07 |
| PK 7020 | Pakistan to Import 1 MMT Wheat | 09/18/07 |
| PK 7011 | Grain and Feed Update | 06/04/07 |
| PK 7006 | Oilseeds and Products Annual Report | 04/12/07 |
| PK 7002 | Grain and Feed Annual Report | 03/19/07 |

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