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Report Highlights:

Pakistan's MY 2001/02 wheat production is forecast to decline nearly 20 percent to a maximum of 17.5 million metric tons due to on-going severe drought. As a result, Pakistan is forecast to again become a net wheat importer and import a minimum of 1 MMT. The availability of GSM-102 will help maintain U.S. competitiveness in this important market for soft white wheat.

Pakistan's MY 2001/02 rice crop is forecast at 4.5 MMT, assuming irrigation supplies will improve after June 2001. Exports are forecast at 1.8 MMT.

Includes PSD changes: Yes
Includes Trade Matrix: No
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EXECUTIVE SUMMARY

Pakistan's MY 2001/02 wheat production is forecast to decline to a maximum of 17.5 million metric tons (MMT) due to the on-going severe drought. As a result, Pakistan is expected once again to become a net wheat importer, with imports forecast at a minimum of 1 MMT. Thus far, Pakistan has sold 500,000 metric tons of wheat for export to Afghanistan. The government also continues to entertain international export bids on an additional 1 MMT. Thus far, no sales have occurred but any sale under this tender would require an export subsidy of more than $60 per MT and would not be WTO legal. Market observers predict the government will abandon the idea of exporting wheat once the harvest starts in Sindh later this month and the full impact of the drought on the crop becomes clearer.

Pakistan's MY 2001/02 rice production is forecast to be 4.5 MMT or the same as last year's drought-reduced crop. MY 2001/02 rice exports are again forecast at 1.8 MMT, however, as a result, of reduced production, Pakistan's exportable surplus is expected to decline.

WHEAT:

Production:

Pakistan's is forecast to produce 17.5 million metric tons MMT) of wheat in MY 2001/02 or about 17 percent below last year's record crop due to forecast decreases in both area and yield as a result of inadequate irrigation supplies and continued dry weather. This forecast represents the maximum production potential and assumes no further deterioration in the condition of the crop. Although 17.5 MMT would be Pakistan's fourth largest crop, this year's crop generally is considered a disappointment given the priority placed on wheat self-sufficiency.

Pakistan is experiencing its worst irrigation shortage since the completion of its irrigation system–the world's largest contiguous irrigation network--in the 1970's. Irrigation supplies are stored mainly in two large reservoirs (Tarbela and Mangla) during the summer for use mainly during the "rabi" or winter season. Wheat is the main winter crop. About two-thirds of the irrigation supplies are from snow and glacier melt and the remainder is from monsoonal rains.

The primary short-term reasons for the current acute irrigation shortage is two consecutive weak monsoons and inadequate glacier and snow melt due to below normal snowfall and cooler than normal temperatures. The Indus River System Authority currently projects irrigation supplies will be depleted in early March, leaving only river flow, which is minimal at this time of the year, available for irrigation.

The longer-term cause for the irrigation shortage is poor resource management and planning. Since the irrigation system was completed, demand has increased more than 50 percent while storage capacity has decreased by one-third due to silting, leaving per capita availability at a fraction of its original level. As a result, chronic irrigation shortfalls are expected to play an increasingly important part in Pakistan's agricultural production.

In addition to inadequate irrigation supplies, this year's crop suffers from a number of problems. Winter rainfall, which augments irrigation, has been less than half of normal. As a result of water problems (and better return from cotton), sources estimate that as much as 25 percent of the crop was planted late. Although fertilizer and herbicide usage and seeding rates reportedly were normal, late planting will limit yield potential. Additionally, the relative attractiveness of wheat declined somewhat, particularly against cotton, as the procurement price of wheat remained unchanged at Rs 300 per 40 kilograms ($1 = Rs. 62.85) while seed cotton prices were nearly double those of the previous season.

Currently, the rain-fed crop, which comprises less than 10 percent of total production is in poor condition. The crop in Sindh, where the water shortage reportedly is the most acute and where harvest will begin in two weeks, generally is considered to be below average. The crop in the major producing areas in the Punjab has received extensive tubewell irrigation and generally is considered to be in average condition. With the bulk of the Punjab crop about to enter the grain-formation stage, adequate irrigation and moderate temperatures during the next month will be critical if the crop is to attain the 17.5-MMT forecast.

Table 1: Wheat Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		05/1999		05/2000		05/2001
Area Harvested	8231	8231	8600	8463	0	8250
Beginning Stocks	3750	3750	2200	3456	0	3985
Production	17854	17854	21000	21079	0	17500
TOTAL Mkt. Yr. Imports	2000	2352	150	150	0	1000
Jul-Jun Imports	2000	2006	150	150	0	1000
Jul-Jun Import U.S.	0	508	0	150	0	800
TOTAL SUPPLY	23604	23956	23350	24685	0	22485
TOTAL Mkt. Yr. Exports	0	0	500	200	0	100
Jul-Jun Exports	0	0	500	300	0	100
Feed Dom. Consumption	400	400	500	500	0	500
TOTAL Dom. Consumption	21404	20500	21600	20500	0	21000
Ending Stocks	2200	3456	1250	3985	0	1385
TOTAL DISTRIBUTION	23604	23956	23350	24685	0	22485

Consumption:

Consumption is difficult to gauge. Previous consumption estimates included a conservative estimate of 500,000 MT of wheat diverted to poultry feed and another 600,000 MT (grain-equivalent basis) of wheat and flour smuggled into Afghanistan. Several factor, including the military government’s anti-smuggling campaign, increased demand in Afghanistan due to severe drought, and higher prices and revised census figures make it more difficult to estimate consumption. Domestic prices for flour and bread increased significantly last year due to the 25-percent increase in the procurement price of wheat as well as to the 33-percent reduction in the consumption subsidy. As a result of these changes, consumption figures have been revised slightly downward for MY 1999/00 onward. Although the government did not raise the procurement price for the MY 2001/02 crop, it announced it would completely eliminate the consumption subsidy this year.

Consumer preferences also are shifting--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. This change in preference from higher to lower extraction flour increases wheat consumption. Demand for specialized products also is expected to increase in response to changing life-styles as well as to the recent introduction of western-style fast food chains.

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). 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 produce an acceptable product.

The government recently announced it would eliminate the remaining consumption subsidy (and internal transportation restrictions) on wheat as part of on-going reforms. This change will result in significant changes in the government's role and ability to regulate the wheat market. Since the market now will determine the price of wheat, there will be no advantage either to buy or to sell to the government. One important result is that the government will not be able to procure a significant amount of wheat, leaving it with this year's large opening stocks but eventually only imports (which currently are less costly than the domestic crop) to regulate the market.

Trade:

Pakistan is a traditional wheat importer and is forecast to become a net wheat importer in MY 2001/02 as well as for the foreseeable future. MY 2001/02 imports currently are forecast at a minimum of 1 MMT, despite record opening stocks. The June 1999 ban on private sector wheat imports remains in effect and there is no clear indication if or when the recent liberalization of the domestic wheat market will extend to wheat trade.

Although wheat exports are illegal, the government has approved 500,000 MT of wheat sales for export to Afghanistan to better control its 1,000-mile long and 100-mile wide border with Afghanistan. In September, the Pakistan Agricultural Storage and Service Company (PASSCO) sold 200,000 MT of federal wheat stocks to private traders for export to Afghanistan for Rs. 9,100 per MT ex-PASSCO warehouses (which is the estimated acquisition cost). The export permits are valid for nine months. In December, the Punjab Food Department sold 300,000 MT to the Taliban at Rs. 8,700 per MT ex-PFD warehouses (which again is estimated to be close to the acquisition cost). These export permits are valid for five months. Thus far, and estimated 100,000 MT of the total 500,000 MT of wheat sold has been shipped.

In addition to sales for export to Afghanistan, the government appears to be actively seeking to export at least some wheat internationally, with the Ministry of Commerce's Trading Corporation of Pakistan (TCP) acting as its agent. Over the past several months, TCP has extended its standing tender seven times. On two occasions TCP reportedly counter-offered at $120 FOB Karachi--first to Iran (which offered $105 per MT) and more recently to private entities in Dubai (which offered $97-$102)--but has not done any business. Inconsistent quality and possible phytosanitary problems are the main reasons cited for the low offer prices and lack of business.

Still, the GOP seems determined to export at least some wheat, despite the pending short crop and the exorbitant cost. Any export sales by Pakistan would require a significant export subsidy since the cost of Pakistani wheat FOB Karachi is estimated at close to $180 per MT. Such an export subsidy would be a violation of Pakistan's World Trade Organization (WTO) agreement, which does not contain provisions for grain export subsidies. Additionally, the International Monetary Fund (IMF) and other international financial institutions (IFI's) as well as the Paris Club may find it difficult to support programs for Pakistan if Pakistan believes it is in a position expend large amounts to subsidize wheat exports.

The United States traditionally has been the primary wheat supplier to the Pakistani market due to the quality and reliability of the U.S. wheat supply as well as to the important partnership it maintains with Pakistan. Australian wheat, however, continues to make significant inroads into this market through the use of predatory pricing, cheap freight and credit, and other nonmarket tactics. Canada is an occasional supplier. Pakistan's MY 2000/01 wheat imports consisted of World Food Program donations for Afghan refugees both in Pakistan and Afghanistan.

Despite Pakistan financial woes, the 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 (SWW) FOB prices by virtue of its freight advantage. The AWB also receives an additional premium because of the manner in which Pakistan tenders. Pakistan's wheat tendering can best be described as an exercise in crisis management. Although the government has a clear idea of the size of the local crop, and thus import demand, in June when U.S. prices are lowest, the GOP generally waits months to buy. As a result, Pakistan buys more wheat later in the year in large tenders. Although U.S. participation in these tenders ensures the required competition, that competition generally occurs at a much higher price level than is necessary. Pakistan could save significant foreign exchange by buying earlier when prices are much more attractive.

Imported wheat is exempt from duty and the 15-percent sales tax. Imported flour is subject to a 10-percent import duty and the 15-percent sales tax.

Stocks:

MY 2000/01 government ending stocks are estimated at slightly more than 3 MMT in various provincial food departments. Some reports suggest that government stocks may not be in the best condition. Total ending stocks are estimated at 4.0 MMT. MY 1999/00 and MY 2000/01 ending stocks have been adjusted to account for revised consumption estimates. MY 2001/02 ending stocks are projected at low levels unless the government augments them through additional imports.

RICE:

Production:

Pakistan's MY 2001/02 rice production is forecast at 4.5 MMT–a decline of 200,000 MT from the revised MY 2000/01 production of 4.7 MMT (based on final production figures from the Punjab). Of the major varieties, IRRI production is forecast to decline to 2.4 MMT (down 150,000 MT from last year crop) and Basmati production is forecast to be 1.6 MMT (down about 100,000 MT from last year). The decrease in production is due to continued irrigation problems which are expected to result in a decline in both area and yield.

Table 2: Rice Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		11/1999		11/2000		11/2001
Area Harvested	2515	2515	2250	2350	0	2250
Beginning Stocks	359	359	1065	811	0	1061
Milled Production	5156	5156	4300	4700	0	4500
Rough Production	7735	7735	6451	7051	0	6751
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	5515	5515	5365	5511	0	5561
TOTAL Exports	1850	2104	1800	1800	0	1800
Jan-Dec Exports	1850	2000	1800	1800	0	1800
TOTAL Dom. Consumption	2600	2600	2650	2650	0	2700
Ending Stocks	1065	811	915	1061	0	1061
TOTAL DISTRIBUTION	5515	5515	5365	5511	0	5561

The governments recently indicated it will further reduce water releases (65 percent below normal) for March onward. The impact of this cut is expected to be greater on IRRI crop than on the Basmati crop since IRRI generally is grown in areas that rely heavily on canal irrigation, while Basmati is grown in areas with large scale tubewell irrigation. Thus, experts expect the basmati crop generally will be sown on time despite the water shortage, while the IRRI crop, which mainly is grown in Sindh, will be late. Because the Sindh crop will be late, IRRI area in the Punjab is expected to increase and Basmati area decrease as farmers attempt to take advantage of better returns to timely planted IRRI vis a vis Basmati and late-planted IRRI.

Despite low prices and increasingly vocal complaints from rice producers, the government plays a minor role in the rice market. Although the government establishes procurement prices for different grades of paddy, it did not purchase any paddy during MY2000/01.

Consumption:

Rice is not a staple and consumption is increasing slowly compared to the wheat. About 60 percent of the crop is destined for local consumption and the remainder exported. The government does not maintain grade standards for rice. An estimated 150,000 metric tons of 40-percent to 100-percent broken rice used in the poultry feed annually.

Trade:

Pakistan is a major rice exporter and is forecast to export 1.8 MMT, consisting of 1.2 MMT of IRRI and 600,000 MT of Basmati, during MY 2001/02.

All trade is done by the private sector. The state-owned Rice Export Corporation was abolished several years ago. 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) has 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, and especially Basmati rice.

Rice exports by destination data is not available for MY 1999/00 and CY2000. Rice exports by type and destination from January 1999 through June 2000 is contained in PK0003 and PK0034. Off the total 2.1 MMT of rice exports during MY 1999/00, IRRI rice exports totaled 1.548 MMT and Basmati exports totaled 555,000 MT.

The major destinations for IRRI rice exports for November 1999-June 2000 were: Afghanistan (183,726 MT), Bangladesh (120,738 MT), Sri Lanka (104,072 MT), United Arab Emirates (87,359 MT), India (77,218 MT) and South Africa (72,187 MT).

The major destinations for Basmati rice exports for November 1999-June 2000 were: United Arab Emirates (172,339 MT) Oman (68,360 MT), Saudi Arabia (64,680 MT), Qatar (44,678 MT), United Kingdom (27,452 MT), Bahrain (23,398 MT), and Kuwait (23,163 MT). 12,040 MT of Basmati rice and 1,679 MT of IRRI rice was shipped to the United States between November 1999-June 2000.

Stocks:

Despite large decrease in rice production in MY 2000/01 ending stocks are projected to increase due to large stocks of Basmati rice. Most of the MY 2001/02 ending stocks will consist of Basmati rice. All stocks are held by the private sector in small lots.