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Report Highlights:

Pakistan's MY 2002/03 wheat production is forecast to decline nearly 5 percent to a maximum of 18 million metric tons (MMT), due to the on-going severe drought as well as to decreased use of phosphatic fertilizer and herbicides. As a result, Pakistan is forecast to again become a net wheat importer, with MY 2002/03 imports forecast at a minimum of 500,000 MT. The availability of GSM-102 will help maintain U.S. competitiveness in this important market for soft white wheat.

Pakistan's MY 2002/03 rice crop is forecast at 3.7 MMT, assuming timely planting and the availability of adequate irrigation supplies. Exports are forecast at 1.2 MMT.

Includes PSD changes: Yes
Includes Trade Matrix: No
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SUMMARY

Pakistan's MY 2002/03 wheat production is forecast to decline to a maximum of 18 million metric tons (MMT) due to the on-going severe drought and decreased use of phosphatic fertilizer and herbicides. As a result, Pakistan is expected once again to become a net wheat importer, with imports forecast at a minimum of 500,000 metric tons. Thus far in MY 2001/02, Pakistan has exported about 900,000 metric tons (MT) of wheat, of which about 840,000 metric ton have been shipped. The government has invited export bids for remaining government-held stocks at a fixed price of Rs. 8,500 per MT. Sales under this offer require an export subsidy of about \$40 per metric ton. As of March 5, the government had awarded only 13,000 MT with an export subsidy of \$30 per metric ton. The government may abandon the idea of exporting wheat once the harvest starts in Sindh later this month and the full impact of the drought and decreased input usage becomes clearer.

Pakistan's MY 2002/03 rice production is forecast to be 3.74 MMT or the same as last year's drought-reduced crop. MY 2002/03 rice exports are forecast at 1.2 MMT, as a result of reduced production.

WHEAT

PRODUCTION

Pakistan is forecast to produce 18 million metric tons (MMT) of wheat in MY 2002/03 or about 5 percent below last year's crop due to expected decreases in both area and yield, as a result of inadequate irrigation supplies and lower-than-expected returns. Last year, farmers generally received less than the guaranteed minimum price of Rs. 7,500 per MT and, as a result, have reduced phosphatic fertilizer usage by 20 percent and herbicide usage by 10 percent in order to cut production costs. The 18-MMT forecast represents the maximum production potential and assumes no further deterioration in the condition of the crop. Although 18 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 currently are 74 percent below normal, compared to 46 percent below normal for the same period last year. Irrigation supplies are stored mainly in two large reservoirs (Tarbela and Mangla) during the summer for use mainly during the "rabi" or winter season to grow wheat. About two-thirds of Pakistan's irrigation supplies are from snow and glacier melt and the remainder is from monsoon rains.

The primary short-term reasons for the current acute irrigation shortage is several 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 by the first week of 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 normal. As a result of water problems (and better return from cotton and sugarcane in October-November), sources estimate that only 20 percent of the crop was planted before November 15, the ideal planting time, and most of the crop was planted late between November 15 and December 31. Sources report wheat was planted late in the cotton and central zones but was planted on time in the rice zone. 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. 60) while early season seed cotton prices were better than last year's.

Currently, the condition of the rain-fed crop, which comprises less than 10 percent of total production, is below average but better than last year. The crop in Sindh, where the water shortage reportedly is the most acute (because ground water in most areas is alkaline and is not fit for tube well irrigation) and where harvest will begin in two weeks, generally is considered to be 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 month of March will be critical if the crop is to attain the 18 MMT forecast.

Table 1: Wheat Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Wheat		(1000 HA)(1000 MT)		(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		05/2000		05/2001		05/2001
Area Harvested	8463	8463	8300	8181		8170
Beginning Stocks	3252	3252	3728	3728		2451
Production	21079	21079	19000	19023		18000
TOTAL Mkt. Yr. Imports	150	150	500	500		500
Jul-Jun Imports	150	150	500	500		500
Jul-Jun Import U.S.	0	0	0	0		0
TOTAL SUPPLY	24481	24481	23228	23251		20951
TOTAL Mkt. Yr. Exports	253	253	1000	1000		600
Jul-Jun Exports	253	253	1000	1000		600
Feed Dom. Consumption	500	500	400	400		400
TOTAL Dom. Consumption	20500	20500	20400	19800		20000
Ending Stocks	3728	3728	1828	2451		351
TOTAL DISTRIBUTION	24481	24481	23228	23251		20951

CONSUMPTION

Consumption is difficult to gauge. The MY 2001/02 consumption estimate has been lowered to 19.8 MMT based on the reported decrease in cross border trade with Afghanistan. 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. However, in MY 2001/02 about 380,000 MT of wheat was commercially exported to Afghanistan during July 2001 through January 2002 period. An additional 200,000 MT of wheat is estimated to have been trucked to Afghanistan through April 2002. Since exports are now legal, the PS&D now accounts for this cross border trade as "Exports," rather than as "Consumption." Domestic flour and bread prices remained generally stable due to large opening government stocks and lower than projected exports.

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 is working on eliminating the remaining consumption subsidy 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. Secondly, the government has removed many of the restrictions on wheat transportation and storage. Thirdly, the State Bank of Pakistan (Central Bank) for the first time has authorized banks to provide financing to the private sector for wheat purchases. One important result is that the government may not be interested in procuring a significant amount of wheat, leaving it with this year's stocks and imports, when required, to regulate the market.

TRADE

Pakistan is a traditional wheat importer and is forecast to import wheat near the end of MY 2002/03, especially if the government's liberal wheat export policy (and export subsidies) continues. The GOP appears to be interested in exporting additional wheat prior to arrival of the new crop in May/June 2002. GOP's forecast indicate it will need to procure about 4 MMT of new crop wheat to maintain the open market price at the minimum guaranteed price of Rs. 7,500/MT. If the current liberal export policy continues, the private sector is forecast to export 600,000 MT of wheat to Afghanistan between March and August 2002. Given the short crop, prices are likely to begin increasing in September, which will increase demand for subsidized government stocks. Most observers believe the government will need to import about a minimum of 500,000 MT of wheat or reduce the duty on private sector imports to stabilize prices.

Despite the drought, quality problems and large subsidy costs, Pakistan seems determined to export at least some wheat on a regular basis. All export sales by Pakistan require a significant export subsidy since the cost of Pakistani wheat FOB Karachi is estimated at close to \$180/MT (based on \$125/MT official minimum purchase price). This export subsidy is 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 will find it difficult to understand why the GOP actively encourages this mis-allocation of scarce resources.

Pakistan's MY 2001/02 wheat imports consisted of World Food Program donations for Afghan refugees both in Pakistan and Afghanistan, mainly from the United States. 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, has made significant inroads into this market 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 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. 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.

Private sector wheat imports are charged a 35-percent import duty and 15-percent sales tax. Imported flour is subject to a 10-percent import duty and the 15-percent sales tax.

STOCKS

MY 2001/02 ending stocks are estimated at 2.45 MMT. The government holds most of these stocks in various provincial food departments. MY 2001/02 ending stocks have been adjusted primarily based on the revised consumption estimates. MY 2002/03 ending stocks are projected at critically low levels unless the government augments them through additional imports.

RICE

PRODUCTION

Pakistan's MY 2002/03 rice production is forecast at 3.7 MMT or about the same as the previous year's harvest, due to continued irrigation problems in MY 2002/03 which are expected to result in late planting of IRRI rice and lowered yields. During MY 2001/02, Basmati production totaled 1.77 MMT (about 70,000 MT more than last year's crop) and IRRI production totaled 1.76 MMT (down 800,000 MT from last year's crop).

The governments recently indicated it will further reduce water releases (irrigation supplies are more than 74 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. Despite low prices and increasingly vocal complaints from rice producers, the government continues to play 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 MY2001/02.

Table 2: Rice Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Rice, Milled		(1000 HA)(1000 MT)			
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New		
Market Year Begin		11/2000		11/2001		11/2002
Area Harvested	2350	2350	2032	2020	0	2040
Beginning Stocks	811	811	504	432	0	372
Milled Production	4700	4700	3740	3740	0	3740
Rough Production	7051	7051	5611	5611	0	5611
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	5511	5511	4244	4172	0	4112
TOTAL Exports	2357	2429	1100	1100	0	1200
Jan-Dec Exports	2100	2398	1100	1100	0	1200
TOTAL Dom. Consumption	2650	2650	2700	2700	0	2700
Ending Stocks	504	432	444	372	0	212
TOTAL DISTRIBUTION	5511	5511	4244	4172	0	4112

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 is used in the poultry feed annually.

TRADE

Pakistan is a major rice exporter and is forecast to export 1.2 MMT of rice in MY 2002/03, consisting of 650,000 MT of IRRI and 550,000 MT of Basmati. 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 2000/01 or CY2001. Rice exports by type and destination from January 2001 through June 2001 is contained in PK1029. Of the total 2.428 MMT of rice exported during MY 2000/01: IRRI rice exports totaled 1.893 MMT and Basmati exports totaled 536,000 MT.

The major destinations for IRRI rice for July 2000-June 2001 were: Afghanistan (287,673 MT), Iran (220,401 MT), Ivory Coast (105,629 MT), Bangladesh (81,457 MT), Kenya (75,668 MT), Congo (68,985 MT), and Malagasy (64,535 MT).

The major destinations for Basmati rice exports for July 2000-June 2001 were: United Arab Emirates (172,422 MT), Saudi Arabia (50,578 MT), Oman (35,930 MT), United Kingdom (26,925 MT), Yemen (26,479 MT), Qatar (26,389), Bahrain (20,927 MT) and Kuwait (19,142 MT). 11,311 MT of Basmati rice and 470 MT of IRRI rice was shipped to the United States between July 2000-June 2001 period.

STOCKS

MY 2002/03 ending stocks are projected to decrease due to stable production and a forecast of increase in export of IRRI rice, compared to the previous year. All rice stocks are held by the private sector in small lots.