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Pakistan

Grain and Feed

Wheat Update

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 2000/01 wheat production forecast has been reduced 700,000 MT to 19.3 million metric tons due to dry weather and the lack of adequate irrigation supplies. Although a 19.3 MMT crop is still a record, the import forecast has been increased to 2.5 MMT due to low stocks, lower-than-expected procurement and the potential for increased demand as a result of the continuing drought in Afghanistan, southern Pakistan and bordering areas of India.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Islamabad [PK1], PK

PRODUCTION:

Pakistan's MY 2000/01 wheat production prospects have diminished in recent weeks due to continued dry weather in rain-fed areas and the lack of adequate irrigation supplies. About 85% of Pakistan's wheat crop is irrigated. Pakistan depends on snow melt for about two-thirds of its irrigation supplies and rainfall for the remainder. Although the snow pack is reported to be normal to above normal, irrigation supplies are at critically low levels because of large releases last fall following a weak monsoon and later-than-usual snow melt due to cooler-than-normal temperatures in the mountains. Although the situation reportedly is improving, cotton, rice and cane planting could be delayed in some areas with some potential for yield loss.

The Ministry of Food, Agriculture and Livestock (MinFAL), which initially indicated irrigation problems would not affect wheat, now concedes that the lack of the final watering will result in some yield loss. Reports from Sind indicate significant amounts of shriveled kernels due both to the lack of water as well as high temperatures during filling. Last week, MinFAL released it first crop estimate at 19.3 million metric tons (MMT)–which is still a record (the previous record was 18.7 MMT in 1998)–but well below the targeted 20 MMT. MinFAL's initial estimates have historically been high.

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	8230	8230	8600	8600
Beginning Stocks	3211	3211	3810	3810	2481	2481
Production	18694	18694	17854	17854	20000	19300
TOTAL Mkt. Yr. Imports	2875	2875	2390	2390	2000	2500
Jul-Jun Imports	2875	2875	2209	2209	2000	2500
Jul-Jun Import U.S.	1100	1100	450	450	1000	1500
TOTAL SUPPLY	24780	24780	24054	24054	24481	24281
TOTAL Mkt. Yr. Exports	20	20	25	25	0	0
Jul-Jun Exports	20	20	25	25	0	0
Feed Dom. Consumption	400	400	400	400	500	500
TOTAL Dom. Consumption	20950	20950	21548	21548	22500	22500
Ending Stocks	3810	3810	2481	2481	1981	1781
TOTAL DISTRIBUTION	24780	24780	24054	24054	24481	24281

In addition to production problems, MinFAL also is experiencing difficulties procuring the crop. Several months ago, MinFAL decided to cancel a needed import tender and to draw stocks down to uncomfortably low levels against early procurement in Sind of 1 MMT. Thus far, six weeks into the procurement campaign, MinFAL has procured only 260,000 MT in Sind and lags behind last year's overall national procurement pace. Procurement is important, independent of total output, because it (along with imports) allows the government to regulate the market and moderate flour (and bread) prices.

There are several reasons for the slow procurement pace thus far. Bureaucratic and other transaction problems make farmers reluctant to sell to the government. Secondly, the government only recently was able to fund this year's procurement. Many observers, however, believe the major reason for the slow procurement pace is MinFAL's reluctance to set a "release" price.

The "release" price is the subsidized price at which MinFAL provides wheat to mills. During the past few years, MinFAL has set the release price about rupees 500 above the procurement price (currently Rs. 7,500 per MT) in order to reduce its subsidy (from about Rs. 1,600 per MT to about Rs. 1,100 per MT, $1 = Rs. 54.20). Using this formula, this year's release price would be around Rs. 8,000 per MT and the market would then price its wheat several hundred rupees higher. This year, however, as part of World Bank reforms, the Government of Pakistan (GOP) has agreed to eliminate the consumption subsidy on wheat over the next three years. Assuming an equal reduction each year, this year's release price would need to be around Rs. 8,300 per MT. However, given the already large increase in wheat prices this year as a result of the 25% increase in the procurement price last fall, the government is reluctant to reduce the subsidy and has not announced the release price. Uncertainty over the release price causes other buyers to be cautious, which serves to depress prices.

In past years, the government invoked Section 144 restrictions during the wheat harvest. These restriction ban the inter-district movement of wheat, which depresses prices in surplus production areas and makes it easier and cheaper for the government to procure wheat. Thus far this year the GOP has not invoked Section 144. Instead, it has declined to send the market a clear price signal. Essentially, the farmer is waiting for the market to price his wheat and the market is waiting for the government to set the release price. Given the lack of on-farm storage, the government knows the farmer cannot wait long.

CONSUMPTION:

The GOP also is growing concerned that drought in Afghanistan, southern Pakistan and India will place additional demands on Pakistan's wheat supply. Severe drought in Afghanistan could lead to both an influx of refugees as well as to increased leakage of wheat across the borders. Drought in India and particularly the bordering state of Rajastan also could result in leakage due to the better logistics to supply parts of Rajastan from Sind than from India. An increasing severely drought in Pakistan, which currently affects about half of Baluchistan and parts of the Northwest Frontier Province and Sind, also holds the potential to place significant increased demands on Pakistan's wheat supply.

TRADE:

Pakistan's MY 2000/01 import forecast has been increased 500,000 MT to 2.5 MMT, based on the decline in production and potential increases in demand. Industry observers generally consider this to be the minimum necessary to maintain a minimal margin of safety. Observers indicate the government's strategy not to buy several months ago (at low world prices) but instead to draw stocks down very nearly resulted in a disaster. With Indian meteorologic officials predicting a weaker-than-usual monsoon, Pakistan is not in a position to flirt with another disaster by deferring needed imports for long.