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# GAIN Report

Global Agricultural Information Network

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## **Pakistan**

### **Grain and Feed Annual**

#### **Annual Report**

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**Report Highlights:**

Pakistan wheat production in MY 2010/11 is forecast to decrease about 6 percent relative to last year's record harvest of 24 MMT due to lower rainfall and less availability of irrigation water. While Pakistan's wheat supply situation remained relatively stable throughout MY2009/10, wheat and flour prices remained well above (30 percent) international levels.

Pakistan rice production in MY 2009/2010 is estimated at 6.5 MMT, slightly less than last year's record production of 6.7 MMT. Traders maintain that Pakistan's rice export interests have suffered as a result of the government's 2009 decision to intervene in the domestic rice market.

**Executive Summary:**

Pakistan's wheat production in marketing year (MY) 2010/11 (May/April) is forecast at 22.5 million metric tons (MMT), down about 6 percent relative to last year's record harvest of 24.0 MMT. Last year, the Government of Pakistan (GOP) procured 9.2 MMT of wheat from the local harvest, and has fixed a procurement target of 7.5 MMT for MY 2010/2011. The GOP currently maintains a ban on wheat exports and imports. While, Pakistan's wheat supply situation remained relatively comfortable throughout MY2009/10, wheat/flour prices remained well above (30 percent) international levels. In the face of limited storage capacity and in anticipation of this year's wheat procurement campaign, there is mounting pressure to allow exports of government-owned stocks. However, in light of the projected decline in Pakistan's 2010 crop, the wheat supply situation is expected to tighten in the coming year. Consequently, in the absence of any lifting of the ban on private sector wheat imports, significant exports of wheat in the coming year appear unlikely.

Post's estimate of Pakistan's MY 2008/2009 (Nov/Oct) rice production was increased (6 percent) to 6.7 MMT. The MY 2009/10 production estimate was increased (5 percent) to 6.5 MMT, with Basmati production estimated at 2.5 MMT and IRRI production at 4.0 MMT. Rice production in MY 2010/11 is forecast at 6.5 MMT. Post's estimate of Pakistan's rice exports in MY 2009/10 was reduced to 3.3 MMT and ending stocks increased to 1.2 MMT. The estimate for MY 2008/09 exports was reduced to 3.0 MMT and ending stocks increased to 1.0 MMT. Traders maintain that Pakistan's rice export interests have suffered as a result of the government's 2009 decision to intervene in the domestic rice market. Rice exports in MY 2010/11 are projected at 3.6 MMT, based on the expectation of another good harvest and large carry over stocks.

**Commodities:**

Wheat

Rice, Milled

**Production:****WHEAT**

Wheat is Pakistan's most important agricultural crop, grown by about 80 percent of all farmers, on close to 40 percent of the total cultivated area.

Wheat production in Marketing Year (MY) 2010/11 (May/April) is forecast at 22.5 million metric tons (MMT), down about 6 percent from last year's record production level of 24.0 MMT. The projected decline in production is attributed to lower rainfall and less availability of irrigation water. In spite of these factors, this year's crop is forecast to be the second largest harvest on record as farmers continued to plant wheat in response to the government's attractive procurement price. The government

procurement price for wheat was set during MY 2009/10 at Rs.950 per 40 kg (\$297/MT), and was maintained at that level for the 2010 procurement season (April-June). Improved availability of fertilizer and certified seed coupled with adaption of improved agricultural practices (including laser land leveling) helped to support yields.

Area harvested is almost at par with last year and is estimated at 9 million hectares. Wheat area harvested by province is shown in Table 2.

**Table 2: Wheat Area Harvested by Province**

Province	Area (Million Hectares)
Punjab	6.896
Sindh	1.020
NWFP	0.745
Baluchistan	0.367
Total	9.028

The use of fertilizer during the 2010 wheat growing season increased due to better availability as compared to last year. Total fertilizer nutrient off take for the period October-February increased by 16 percent (from 1.67 MMT during 2008/09 to 1.94 MMT during 2009/10, nitrogen use increased by 12.6 percent, and phosphate use was up by 31 percent

Water available for irrigation was 30 percent below normal. Last year, reduced water availability was largely off set by timely rains. This year, lower rainfall during December and January adversely affected the highland crop. Irrigated wheat, however, was not significantly affected. Stored water for irrigation is held mainly in two large reservoirs, Tarbela and Mangla, for use during the summer and during the “Rabi,” or winter growing season. About two-thirds of the country’s water for irrigation is sourced from snow and glacier melts, with the balance supplied by tube wells and seasonal monsoon rains.

Since completion of the nation’s irrigation system in the 1970s, demand for water has increased by more than 50 percent, while storage capacity has decreased by about one-third due to silting. This has left per capita water availability at a fraction of its earlier levels. As a result, chronic shortfalls in water available for irrigation are expected to impose an increasingly larger constraint on Pakistan’s agricultural prospects.

This year’s water shortage is reported to be more severe in Sindh province than in Punjab, as in many parts of Sindh the ground is alkaline and not fit for irrigation, thereby necessitating a greater reliance on canal water. In Punjab Province, where extensive tube well irrigation is utilized, the wheat crop is generally considered to be in better condition. With the bulk of the Punjab crop entering the grain-formation stage, dry weather and plenty of sunlight during the first half of April will be critical for the success of this year’s output.

## **RICE**

Post estimate of Pakistan’s MY 2008/2009 rice production was increased (6 percent) to 6.7 MMT. The MY 2009/10 production estimate was increased (5 percent) to 6.5 MMT, with Basmati production

estimated at 2.5 MMT and IRRI production at 4.0 MMT. MY 2010/11 production is forecast at 6.5 MMT.

Rice is the third largest crop in Pakistan (after wheat and cotton), and is grown under diverse climatic conditions. Unlike other South and South Asian countries, rice is not considered a staple crop in Pakistan. Pakistan is known for producing and exporting Basmati and IRRI rice. Basmati is grown in Punjab and IRRI is grown in both Punjab and Sindh. The major varieties of Basmati rice exported are Super Kernel Basmati Rice, Parboiled Super Kernel Basmati Rice, Basmati Pk 385 Rice, D 98 Basmati Rice, etc. Coarse varieties exported are IRRI-6 and IRRI -9 Medium Grain Rice etc.

Prospects for the 2010 crop will depend on water availability during the critical March-May period. Reduced water availability during this period would have a greater impact on the crop prospects for IRRI rice, as IRRI is mostly grown in Sindh and largely dependent on canal irrigation. Meanwhile Basmati is grown in Punjab, where large-scale tube well irrigation is available. Based on the source of water input and current water availability, both types of rice are expected to be sown on time.

### **Consumption:**

#### **WHEAT**

Wheat flour or 'atta' is the staple food for most Pakistanis, supplying 72 percent of caloric energy in the average diet. Per capita wheat consumption is estimated at around 124kg/year which is among the highest in the world. With a population of 170 million people, and a population growth rate of 1.5 percent per annum, Pakistan needs an additional 300,000 MT of wheat each year in order to maintain per capita consumption at its current level. Per Post's current estimates, Pakistan's wheat consumption is increasing at a slower rate than population growth.

There are about 1,000 flour mills in Pakistan, which meet the consumption needs of about 40 percent of the population, with the balance met by on farm consumption. The disbursement of government-owned wheat to the flour mills is managed in an effort to ensure that sufficient wheat is available throughout the country throughout the year. The government has set this year's wheat procurement target at 7.5 MMT, which will cost the government about US\$2.2 billion to purchase.

Consumer preference is shifting from traditional flat bread to western-style, loaf bread, particularly in urban areas where western bread is viewed as a convenient breakfast food. Traditional home-ground flour is also losing favor to commercially milled flour. The change in preference from higher whole grain to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products is also increasing in response to changing lifestyles which are more receptive to western-style fast food chains recently introduced into Pakistan.

#### **RICE**

Rice is not a staple food in Pakistan. Traditionally about 45 percent of the crop is used for local consumption, with the balance exported. Pakistanis, in general, prefer the higher priced Basmati rice which is mainly consumed by the more affluent. IRRI and other varieties are largely consumed by the less affluent due to the price differential.

The GOP does not maintain official grade standards for rice. Traditionally, an estimated 150,000 MT of 40-100 percent broken rice is used in poultry feed annually.

**Trade:**  
**WHEAT**

Pakistan maintains a ban on the import and export of wheat. In the face of limited storage capacity and in anticipation of the government's announced procurement target of 7.5 MMT of wheat, there is mounting pressure to lift the ban on wheat exports. The All Pakistan Flour Mills Association (APFMA) has urged the government to allow the export of wheat products and has proposed a subsidy of \$50 per ton to facilitate the export of wheat to Afghanistan. The association argues that the proposed subsidy is less than what the government would have to pay for continued storage. The Punjab province has also requested the federal government to allow wheat exports through the private sector to clear stocks and "stabilize" the market in advance of the 2010 wheat procurement campaign. It has also been proposed that following the end of the procurement season (June) and after assessing the country's wheat needs the government should auction off surplus stocks. It should be noted, however, that significant exports of wheat would render Pakistan's wheat supply situation increasing tight. The Federal government is reviewing the crop situation and is expected to take a decision on the wheat export issue shortly. Consequently MY 2010/11 wheat exports are forecast at 300,000 MT, consisting largely of informal trade with Afghanistan. Under the current scenario Pakistan is not expected to import wheat in the coming marketing year, however this situation could change depending on the actual size of this year's crop.

**RICE**

Rice is Pakistan's second largest export revenue earner after textiles. Post's estimate of Pakistan's rice exports in MY 2009/10 was reduced to 3.3 MMT and ending stocks increased to 1.2 MMT. The estimate for MY 2008/09 exports was reduced to 3.0 MMT and ending stocks increased to 1.0 MMT. Traders maintain the Pakistan rice export interests have suffered as a result of the government's 2009 decision to intervene in the domestic market. Rice exports in MY 2010/11 are projected at 3.6 MMT based on the expectation of another good harvest and large carry over stocks.

Due to the depressed international rice market, high interest rates and financial melt down in the global financial markets, Pakistan rice exporters were not able to exploit the full potential of export opportunities provided by back-to-back record/near record harvests. The price competitiveness of Pakistan rice was further complicated by the government's 2009 decision to intervene in the market by implementing a procurement scheme and purchasing rice at prices significantly higher than prevailing market prices. In 2009/10 the procurement scheme was expanded to include storage. The selection of beneficiaries of the government's rice procurement scheme remains unclear.

The United Arab Emirates, Saudi Arabia, Malaysia, Kuwait, Mauritius, South Africa and Iran are the major rice export destinations, while the EU and the United States are emerging markets. Afghanistan is another emerging market and though it is difficult to gauge the exact export number, trade circles estimate that rice exports to Afghanistan have increased in the past year and are estimated at about 150,000 tons in MY2009/10. India is Pakistan's main competitor, especially for Basmati.

Rice is a major Pakistani export to United States. Out of \$68 million in Pakistani agricultural exports to the United States during 2009, rice exports comprised \$21 million (31 percent) of the total.

**Stocks:**

**WHEAT**

The GOP holds most wheat stocks through various Provincial Food Departments and the federal agency Pakistan Agricultural Storage and Services Corporation (PASSCO). Last year the GOP procured 9.2 MMT of wheat from the local harvest and is expected to have an estimated 3.0 MMT of carry over stocks by the end of MY 2009/2010. On March 1, stocks were reported at 5.1 MMT, while last year in the same month the stocks were 1.2 million tons. The breakdown of current stock is: PASSCO 1.015 MMT; Punjab Food Department 3.458 MMT; Sindh 0.323 MMT; NWFP 0.182 MMT; and Baluchistan 0.083 MMT.

The Government has fixed a procurement target of 7.5 MMT for MY 2010/2011. The cost of purchasing the target volume at the procurement price is nearly \$2.2 billion. Given government wheat stocks of 3.0 MMT, storage constraints, as well as a difficult fiscal environment, there are concerns over the government's ability to finance the quantity of wheat targeted for government purchases.

**Table 3: Government Wheat Procurement Target**

Province	Procurement Target (Million Tones)
Punjab	4
Sindh	1.5
NWFP	0.3
Baluchistan	0.1
PASSCO	1.6
Total	7.5

## **RICE**

Record harvests and lower than expected exports have led to a substantial increase in the ending stocks, estimated at 1.0 MMT in MY 2008/2009, at 1.2 MMT for 2009/10 and projected at 1.1 MMT in 2010/11.

## **Policy: WHEAT**

Pakistan maintains a largely government controlled wheat marketing system. Wheat prices and the movement of wheat are controlled at the provincial and district levels. The federal government controls the market through a minimum guaranteed support price and an issue price for wheat sold to flour mills. Through Provincial Food Departments, the GOP procures wheat from farmers at the support price and then releases wheat to the provinces for sale to the flour mills at the government fixed issue price. The system aims to protect farmers from price fluctuations and ensure a minimum return to farmers in view of post harvest gluts, fragmented commodity markets, and poor storage capacity on the farm. Such a system however comes at a price as this year consumers were compelled to pay some of the highest prices in the world for their wheat (despite a record wheat harvest).

Due to last year's record harvest, Pakistan's wheat supply situation remained relatively adequate throughout MY2009/10. The GOP's 2010 wheat procurement price (\$297) is 30 percent higher than the average landed price of red wheat from Black Sea sources. The government ban on private sector wheat imports prevents access to lower priced wheat imports, and is contributing to Pakistan's rising food inflation. Pakistani consumers are paying some of the world's highest wheat prices despite good harvests and lower international prices. Since 2008 the price of wheat flour in Pakistan has increased by 50 percent. According to trade circles, a free-market wheat policy would: substantially lower the price of wheat/flour available to Pakistan consumers; mitigate the risk of food inflation; and allow for private sector economic activity in international grain markets.

## **RICE**

Rice trade in Pakistan was liberalized in the 90's after disbanding state run Rice Export Corporation of Pakistan (RECP). Since then (and until recently) the government intervention in rice market has been minimal. Exporters made huge investments in rice processing industry by installing state-of-the-art machinery to improve quality, enhancing the competitiveness of Pakistan's rice in the world market.

In 2009, however, in the wake of a record harvest and concerns over a slump in market prices the government decided to intervene in the rice market and fixed a procurement target of one million tons, at substantially higher than prevailing market prices. In the end, the government through Pakistan Agriculture Storage and Supplies Corporation (PASSCO) and Trading Corporation of Pakistan (TCP) purchased only 460,832 metric tons of rice, at a cost of \$400 million. The program's subsidy level is estimated at \$40 million, however, the true cost of the intervention scheme also need to take into account exports forgone due to the undermining of the price competitiveness of Pakistan rice in international markets. According to Rice Exporters Association of Pakistan (REAP) the government intervention in rice market was a serious blow to the price competitiveness of Pakistan rice exports in international markets. Despite strong criticism from the trade, during 2009/10 government again authorized a rice intervention 'scheme' expanding the program to include subsidization of storage. To date only 80,000 tons of rice has been procured. As was the case last year, it is unclear who received higher prices from the government and on what basis beneficiaries were selected. Nor is it clear, if the higher government price for rice was paid to farmers or local traders.



