Date: 3/24/2012

GAIN Report Number:

Afghanistan

Post: Kabul

2012 Grain and Feed Annual

Report Categories:

Grain and Feed

Approved By:

Quintin Gray

Prepared By:

Abdul Jalal and Linston Terry

Report Highlights:

Post forecasts Marketing Year (MY) 2012/13 wheat production to reach a near record high of 3.8 million metric tons (MMT), a 52 percent increase over the previous year, on revival of rain-fed production areas due to better precipitation this year. Post forecasts Afghanistan's MY 2012/13 rice production at 350,000 metric tons (MT) from an area harvested of 205,000 hectares; the rice production forecast is a three percent increase from the previous year on good precipitation. To meet the total demand for grain, Afghanistan will import about 2.5 MMT of wheat and 260,000 MT of rice from historical suppliers Pakistan and Kazakhstan.

Executive Summary

Wheat

Rain-fed production areas are expected to recover in 2012/13. Post forecasts Marketing Year (MY) 2012/13 wheat production at 3.8 million metric tons (MMT), a 52 percent increase from the previous year, due to better precipitation and normal temperatures. Regional suppliers have ample grain to satisfy Afghanistan's import requirements of 2.5 MMT, a 24 percent decline from the previous year on increases in domestic production in the rain-fed areas. Pakistan and Kazakhstan are the leading suppliers for Afghanistan's wheat and wheat flour imports.

Wheat and wheat flour import prices are declining after bumper harvests in Russia and Central Asia pushed down regional prices. Wheat consumption is expected to increase by 7 percent to 6.3 MMT, based on a greater availability of wheat and wheat flour in local markets. Wheat is the most important crop in Afghanistan, supplying over half of the population's caloric intake, but consumers are slowly increasing their consumption of rice. Post estimates Afghanistan's wheat stocks will total 78,000 MT, up from zero the previous year on donations to the strategic grain reserves from India and Afghan government purchases of grain from small-scale local farmers.

Rice

Post forecasts Afghanistan's MY 2012/13 rice production at 350,000 metric tons from an area harvested of 205,000 hectares; the production forecast is a three percent increase from the previous year on good precipitation. Pakistan will remain the dominant supplier of rice to Afghanistan, as it supplies 95 percent of the market. Post estimates MY 2012/13 rice consumption at 610,000 metric tons, a four percent increase over the previous year on increasing consumer demand for rice consumption in urban areas.

Traders report that domestic rice prices track world prices very closely, and future price movements in Afghanistan will likely follow that trend. Post forecasts a decline in Afghanistan's rice prices as India re-entered the world market in mid-2011, causing prices in Pakistan and Vietnam to drop.

Commodities:

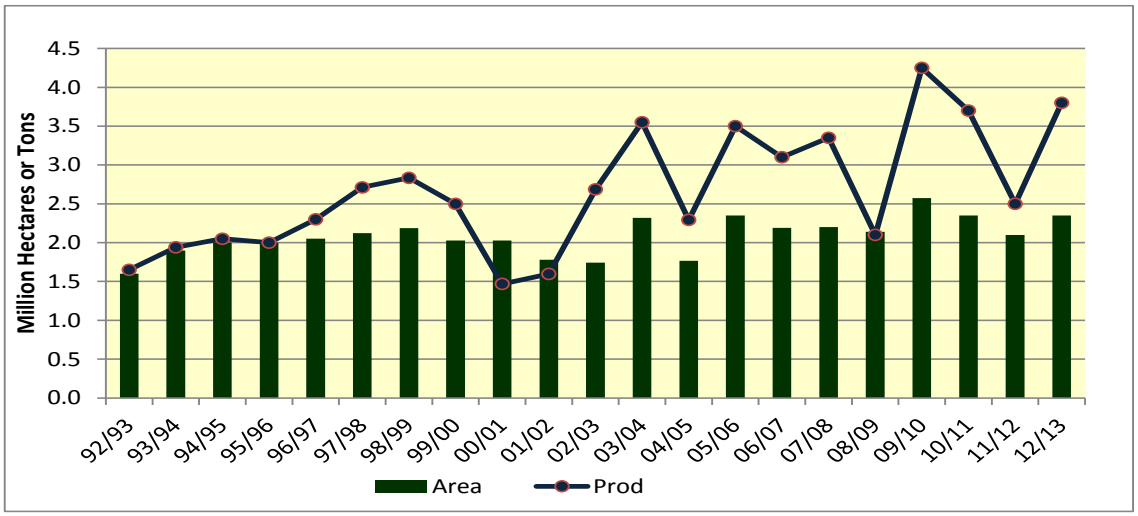
Wheat
Rice, Milled

PRODUCTION

Rain fed Production Area Recovers in 2012/13
Post forecasts Marketing Year (MY) 2012/13 wheat production at 3.8 million metric tons (MMT), a 52 percent increase from the previous year, on revival of rain-fed production areas due to better precipitation this year. Post forecasts MY 2012/13 wheat area harvested at 2.35 million hectares (HA), a 12 percent increase over the previous year on good spring precipitation and normal temperatures.

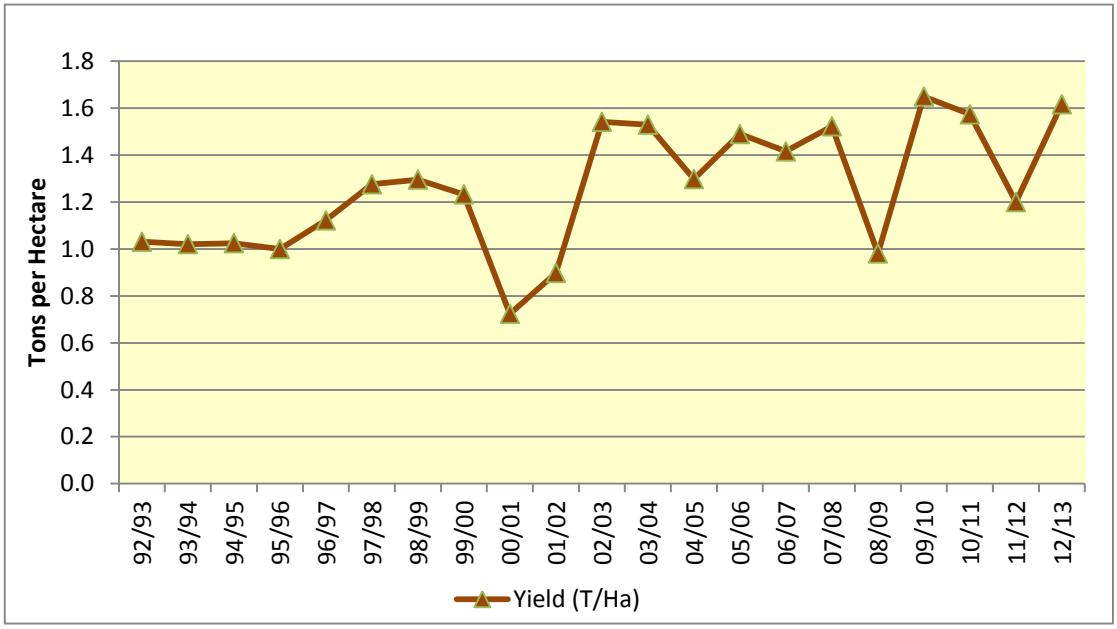
Post's current outlook for Afghanistan's 2012/13 winter wheat production remains favorable. Seasonal weather conditions through late February of 2012 were much better than the previous year. Assuming spring precipitation (March-May) continues to be favorable, Post expects improved yields in rain-fed areas. Figure 1 below shows wheat area harvested and production, and Figure 2 shows wheat yields.

Figure 1. Afghanistan: Wheat Area Harvested and Production (MY 1992-2012)



Source: USDA, PSD Online

Figure 2. Afghanistan: Wheat Yield Tons per Hectare (MY 1992-2012)



Source: USDA PSD Online

Afghanistan's autumn rainfall and planting soil moisture were near-normal, which is much improved compared to MY 2011/12 when major wheat producing provinces were affected by drought. This year, Afghan farmers had enough soil moisture to sow normal to above-normal acreage of winter grains. Seed supply in virtually all regions was reportedly satisfactory, and given excellent rainfall across the northern half of the country, Post expects a large rain-fed (non-irrigated) grain crop this year. The rain-fed crop failed in 2011.

Irrigation supply for spring and summer crops looks plentiful – if snowmelt occurs at a moderate pace. As of mid-March 2012, large snowpack accumulation is favorable, but could turn into a liability if a spring heat-wave develops and rapid snowmelt occurs over large regions. During the month of March, temperatures usually increase from an average of 37 degrees Fahrenheit (3 degrees Celsius) in early March to 64 degrees (18 degrees Celsius) in late March, which has caused the rapid melting of snow packs and flooding in recent years. The majority of flooding events in Afghanistan occur in the spring, with April having the highest number of recorded events (15 total).

With this large snowpack, there is currently a greater chance of spring floods damaging many lowland irrigated wheat croplands. Higher than normal crop losses could occur owing to flooding under rapid snowmelt conditions, as approximately 70 percent of annual wheat production originates from irrigated croplands. Most of Afghanistan's cropland lies in valleys alongside rivers and at the base of mountains. When the snow melts, and the spring rains come, the rivers can overflow and flood adjacent cropland. However, the temperatures for MY 2012/13 are tracking slightly below normal and Post anticipates a moderate snowmelt.

TRADE

Regional Suppliers Have Ample Grain to Satisfy Afghanistan's Import Requirements
Post forecasts MY 2012/13 wheat imports at 2.55 MMT, a 24 percent decline from the previous year on increases in domestic production in the rain fed areas. Pakistan and Kazakhstan are the leading suppliers for Afghanistan's wheat and wheat flour imports. Post estimates MY 2011/12 wheat imports at 3.37 MMT on drought that lowered production.

Afghan traders report regional wheat availability will fill deficits. In December 2010, Pakistan lifted its export ban on wheat and has 1.2 MMT of exportable supplies. Kazakhstan had a bumper wheat crop in MY 2011/2012 with 8.5 MMT of exportable supplies. Pakistan and Kazakhstan will seek to ship surplus wheat to regional markets, including Afghanistan, as large supply overhangs can dampen their domestic prices.

Afghanistan has an intricate network of grain and flour traders that are highly skilled and adept at importing flour to fill deficits. Historically, Pakistan is the dominant supplier of wheat to Afghanistan, filling 65 percent of Afghanistan's import requirement. Kazakhstan supplies 20 percent, while Uzbekistan, Iran, and India make up the balance. In years when Pakistan bans its exports, Kazakhstan becomes the major supplier of wheat and wheat flour.

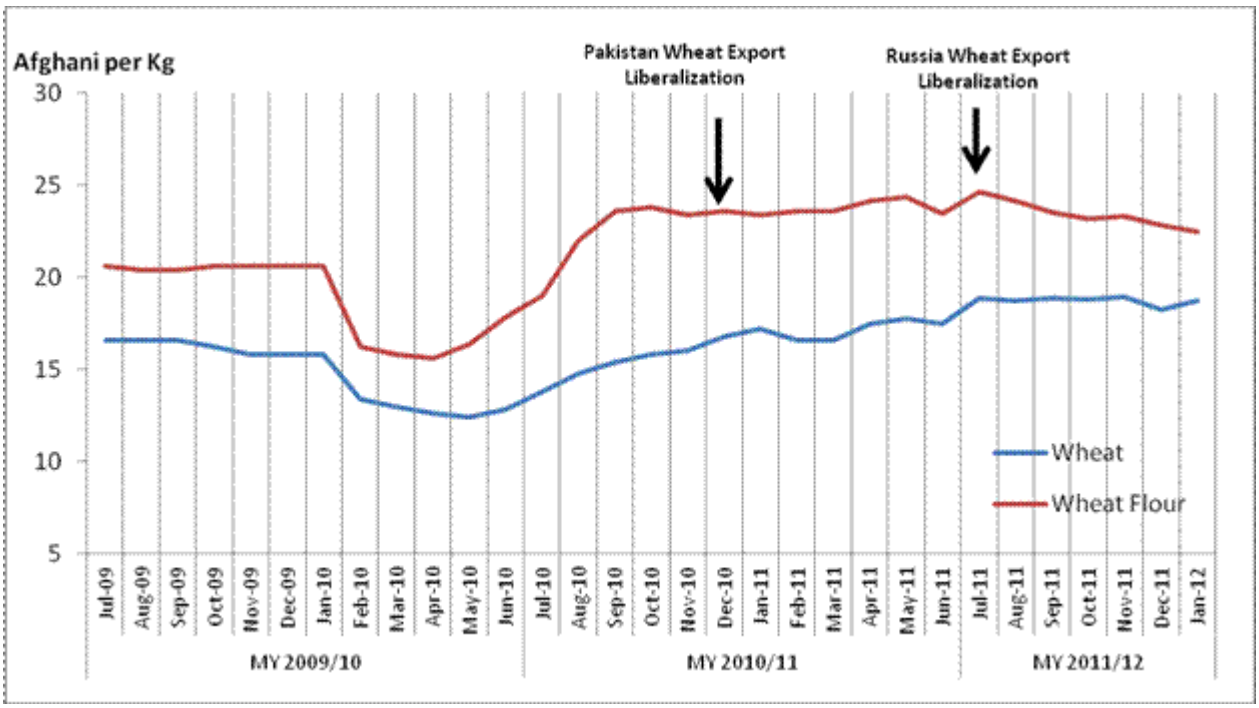
Pakistan traditionally exports wheat flour to Afghanistan shortly after the harvest ends in June, and continues until April of the next year when the Government of Pakistan adjusts the subsidy to further encourage or discourage trade, depending on the prospects of the next wheat crop and domestic availability. Iran appears to be playing a more important role in the western Afghan market (Herat City), exporting 40,000 Tons in MY 2011/12, and is expected to increase wheat exports to Afghanistan in MY 2012/13.

PRICES

Wheat Import Prices Steady Since July 2011; Wheat Flour Import Prices Decline Slightly
According to the World Food Program's price series information, average prices in Afghanistan's five main urban markets were USD 26 cent/kg for wheat and USD 47 cent/kg for wheat flour during February of 2012. The current retail price of wheat flour is basically equal to the five year average retail price.

Russia lifted its export ban on grains, including wheat and wheat flour, in July of 2011. Russia produced a bumper crop along with several other countries in the region in MY 2011/12, and when Russia released its grain into the regional markets, the oversupply put downward pressure on prices in the region. Therefore, Post expects Afghanistan will easily fill any shortages with wheat from regional suppliers as the import price of wheat is cheaper.

Figure 3. Afghanistan: Wheat and Wheat Flour Import Prices July 2009 – January 2012



Source: WFP – VAM Market Price Bulletins

STOCKS

Post estimates Afghanistan's wheat stocks at 78,000 MT, up from zero in the previous year on donations to the strategic grain reserves from India and government purchases from small-scale farmers in Afghanistan. Afghanistan is a wheat deficit country and does not have private stocks. However, the Ministry of Agriculture, Irrigation and Livestock (MAIL) has made great strides to establish a functional wheat reserve. MAIL purchased 28,000 metric tons of wheat for placement in the Strategic Grain Reserve to be used in emergencies and for stabilizing wheat prices in the market. In addition, MAIL has small grain reserves throughout the country located in eleven provinces, and has purchased 50,000 MT of wheat from small-scale farmers that are also used for emergencies. The overall capacity of the Strategic Grain Reserve is estimated at 150,000 MT, using government-owned silos in Kabul, Balkh, Herat, and Pul-e-Khumri.

CONSUMPTION

Post forecasts Afghanistan's MY2012/13 wheat consumption to increase by 7 percent to 6.3 MMT, over the previous year on increased availability in local markets. Wheat is the most important staple crop in Afghanistan as it supplies over half of the population's caloric intake. Afghans prepare Nan bread, their staple food, from wheat. Afghan wheat is low quality, does not bake well, has low protein content, and often requires blending with higher quality imported wheat. Afghans are primarily concerned with the baking characteristics and appearance, and pay little attention to protein content or nutritional value.

The milling industry is made up of five public mills, eight commercial mills, and many small scale water and diesel mills called "asiabs" or "zirandas". Public mills constructed in major Afghan cities by the

Soviet Union in the 1980s consist of large grain silos (with large storage capacity), flour mills, and bakeries. During the Afghan civil war, all of these mills were partially or completely destroyed. The public mill in Kabul is operational and the adjacent bakery prepares bread for the Afghan National Army. The public mill in Mazar is rarely used for milling and mostly used to store grain. Public mills in Kandahar, Herat, and Pul-e-Khumri are not functional and are used only for storage. Current storage in public mills is in bags as all mechanical silos have been damaged.

Eight commercial mills are located in Kabul, Mazar, Jalalabad and Herat, with a milling capacity ranging from 80 to 500 tons per day. These mills do not operate at full capacity, and on occasion shut down entirely due to the unavailability of wheat grain, high labor and electricity costs, and competition from Pakistani flour. Post estimates at present more storage exists at private mills than at public mills.

Small scale "asiabs" or "zirandas" are the most important subsector of the milling sector and process more than 90 percent of domestic production. These mills play a particularly important role in rural areas where transportation prohibits the internal movement of grain. These small-scale mills process 1 to 3 tons of wheat per day and normally operate on an in-kind basis where farmers compensate the miller with a portion of the flour milled.

Table 1. Afghanistan: Wheat Production, Supply, and Distribution

Wheat	Afghanistan	2010/2011	2011/2012	2012/2013
		Market Year Begin: Jul 2010	Market Year Begin: Jul 2011	Market Year Begin: Jul 2012

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	2,350	2,300	2,100	2,100		2,350
Beginning Stocks (1000 MT)	70	70	70	0		0
Production (1000 MT)	3,700	3,700	2,500	2,500		3,800
MY Imports (1000 MT)	2,300	2,250	3,000	3,375		2,548
TY Imports (1000 MT)	2,300	2,250	3,000	3,375		2,548
TY Imp. from U.S. (1000 MT)	38	0	0	0		0
Total Supply (1000 MT)	6,070	6,020	5,570	5,875		6,348
MY Exports (1000 MT)	0	0	0	0		0
TY Exports (1000 MT)	0	0	0	0		0
Feed and Residual (1000 MT)	575	555	350	375		570
FSI Consumption (1000 MT)	5,425	5,465	5,150	5,500		5,700
Total Consumption (1000 MT)	6,000	6,020	5,500	5,875		6,270
Ending Stocks (1000 MT)	70	0	70	0		78
Total Distribution (1000 MT)	6,070	6,020	5,570	5,875		6,348
Yield (MT/HA)	2	1.6	1.2	1.2		1.617
TS=TD		0		0		0

Rice, Milled

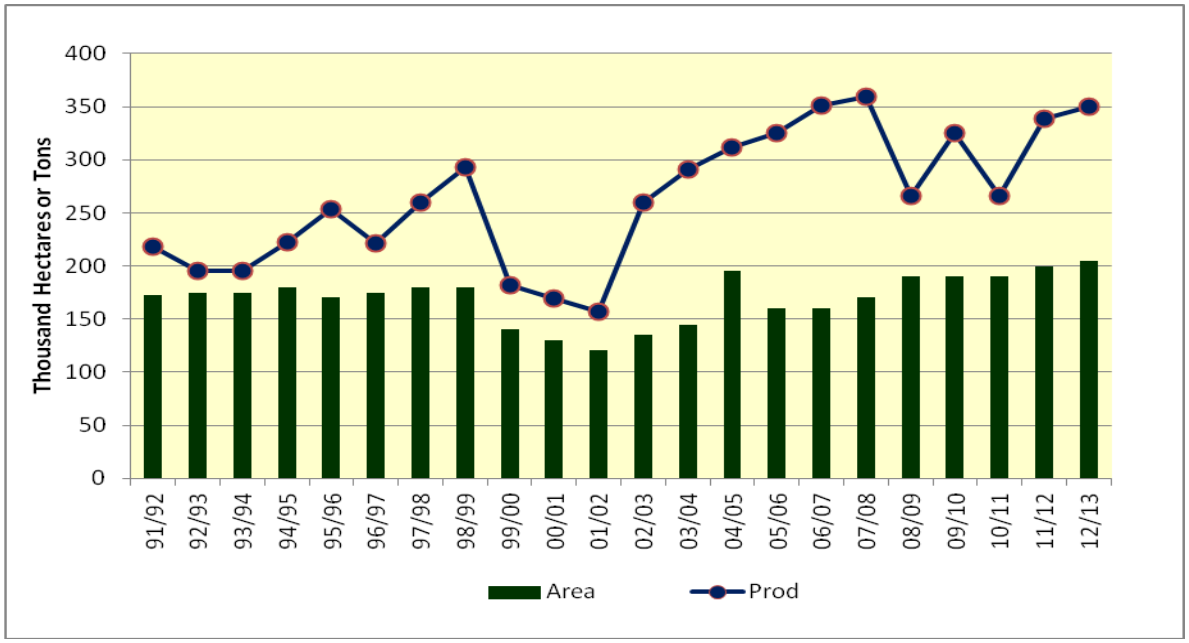
PRODUCTION

Post forecasts Afghanistan's MY 2012/13 rice production at 350,000 metric tons from a harvested area of 205,000 hectares; the production forecast is a three percent increase from the previous year on good precipitation.

According to the Afghan Ministry of Agriculture, Irrigation and Livestock (MAIL), 2011/12 rice yields were lowered to 2.14 MT/Hectare on drought during the rice grain formation stage (July-August). Rice is sparsely cultivated throughout Afghanistan and is the second most important grain in Afghanistan. Major rice growing provinces such as Kunduz, Baghlan, Laghman, Herat, Balkh, and Takhar have expanded area in recent years as rice cultivation has become more profitable, given improved access to inputs and rebuilt irrigation infrastructure. The major rice producing areas cover almost 77 percent (162,000 Hectares) of the total cultivated rice area.

The local milled rice is uncompetitive with imported rice, and more than 90 percent of local rice is processed traditionally by hand. Afghanistan has only two modern rice processing mills in Kunduz and Nangarhar provinces, recently established by private companies, with processing capacity of 15 to 20 metric tons per day.

Figure 4. Afghanistan: Milled Rice Area Harvested and Production (MY 1992-2012)



Source: USDA PSD Online

CONSUMPTION AND TRADE

Post forecast Afghanistan's MY 2012/13 rice import to reach 260,000 metric tons, a four percent increase from the previous year, due to a growing demand for rice. Pakistan is the primary source of

imported rice, capturing more than an estimated 95 percent of the market. Additionally, Kazakhstan rice donations are an important component of the market, accounting for 5 to 15 thousand tons annually.

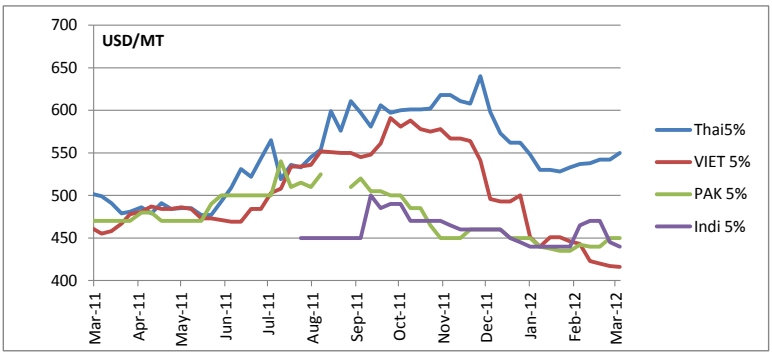
Post forecasts MY 2012/13 rice consumption at 610,000 metric tons, a four percent increase over the previous year on continued increasing consumer demand for rice in urban areas. In general, Afghan consumers prefer the imported Super Kernel Basmati "Sella" rice because of the taste and cooking characteristics. Basmati Sella rice constitutes 85 percent of total rice imports.

Consumption will continue to increase in future years as rising incomes and increasing urbanization in Afghanistan's major cities increase per capita consumption. The growing middle class of Afghans in urban areas are eating more basmati rice with lamb, chicken, or beef. Afghans cook the rice with raisins and carrots to prepare a famous afghan dish called Qabuli Pulao. Rice imports will also likely increase as there is limited land in Afghanistan agro-climatically suitable for rice cultivation. In the short term, Pakistan will remain the low cost supplier of Afghan rice imports.

RICE PRICES

According to MAIL, the average price of imported rice was 59 Afghani/kilogram (USD 1.19/kg) and local rice was 34 Afghani/kilogram (USD 0.69/kg) during December 2011. Traders report that rice prices track world prices very closely and future price movements in Afghanistan will likely follow that trend. India re-entered the global market in mid-2011, causing prices in Pakistan and Vietnam to drop. Afghanistan imports 95 percent of its rice from Pakistan, so import prices will be lower this year. Figure 6 below shows various benchmark rice prices. Rice prices in Thailand are still fairly high because of a domestic rice purchasing scheme that is keeping prices artificially high.

Figure 6. International and Regional Rice Export or Wholesale Prices (2008-2012)



Sources: USDA, Office of Global Analysis

Table 2. Afghanistan: Rice Production, Supply, and Distribution

Rice, Milled Afghanistan	2010/2011	2011/2012	2012/2013
	Market Year Begin: Oct 2010	Market Year Begin: Oct 2011	Market Year Begin: Oct 2012

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	190	190	200	200		205
Beginning Stocks (1000 MT)	0	0	0	0		0
Milled Production (1000 MT)	266	266	339	338		350
Rough Production (1000 MT)	409	409	522	520		538
Milling Rate (.6500) (1000 MT)	6,500	6,500	6,500	6,500		6,500
MY Imports (1000 MT)	300	305	250	250		260
TY Imports (1000 MT)	300	305	250	250		260
TY Imp. from U.S. (1000 MT)	0	0	0	0		0
Total Supply (1000 MT)	566	571	589	588		610
MY Exports (1000 MT)	0	0	0	0		0
TY Exports (1000 MT)	0	0	0	0		0
Consumption and Residual (1000 MT)	566	571	589	588		610
Ending Stocks (1000 MT)	0	0	0	0		0
Total Distribution (1000 MT)	566	571	589	588		610
Yield (Rough) (MT/HA)	2.	2.15	2.61	2.6		2.62
TS=TD		0		0		0