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Post: Kabul

2011 Grain and Feed Annual - May 2011

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Report Highlights:
Post forecasts 2011/12 wheat production at 2.5 million tons down 33 percent from the previous year due to unfavorable weather conditions in the early wet season. 2011/12 rice production is forecast at 350 thousand tons attributed to increased area in northern Afghanistan and normal yield. To meet continued growth in demand for grain, Post forecasts marketing year (MY) 2011/12 wheat imports at 3.5 million tons with rice imports at 250 thousand tons. Pakistan will remain the dominant source of imported wheat/flour in MY 11/12 after regaining the status as the number one source of imports in MY 10/11.

General Information

Over the last 30 years, Afghanistan's agricultural sector has suffered as the result of a variety of adverse factors such as civil strife, degradation of irrigation infrastructure, and droughts directly impacting the agricultural capacity of the country. Wheat production fluctuates widely from year to year as a result of variable precipitation during the growing season and subsequent availability of water for irrigation. The 2009 and 2010 crops were both above average at 4.2 million tons (record production) and 3.7 million tons, respectively. These crops have stabilized Afghanistan's food security over the past two years. However, concerns about the 2011 crop weigh heavy on Government of Afghanistan and the international community and threaten to weaken food security.[1]

Wheat

Early Season Dryness Cuts Wheat Production

Post forecasts the 2011 wheat crop at 3.5 million tons from a cultivated area of 2.1 million hectares. This is 33 percent below than last year. This anticipated decline in wheat production is attributed to unfavorable weather conditions in early wet season (October to December), when the crop received little or no rain/snowfall. This precipitation deficit negatively impacted the germination of rain-fed wheat varieties throughout most of the country and as a result, rainfed area has declined. A well-below average wheat harvest is to be expected in the Central Highlands and Northern Afghanistan due to the reduced rainfed area and yield. The yield potential of irrigated area, grown throughout Afghanistan and concentrated in river valleys, is below average but not as poor as rainfed prospects.

Post harvest loss remains a critical problem Afghan farmers face and a major factor contributing to food insecurity, especially in rural areas. It is estimated that between 10 – 30 percent of the wheat harvest is lost shortly after harvest. For the purposes of the supply and distribution balance sheet Post estimates 15 percent post harvest loss annually. Activities addressing post harvest loss at the farm or household level would have a very positive impact on food security, reduce the need for imports, and mitigate

[1] This report is a forecasted analysis of the national Afghan wheat and flour market during the 2011/12 Marketing Year (July 2011 – June 2012) and does not represent a food security assessment. This report provides estimates of production, consumption and trade at a national level as well as discusses price trends and government policy. The U.S. Agency for International Development's Famine Early Warning System Network provides detailed Afghan food security assessments throughout the year.

against price spikes in rural areas.

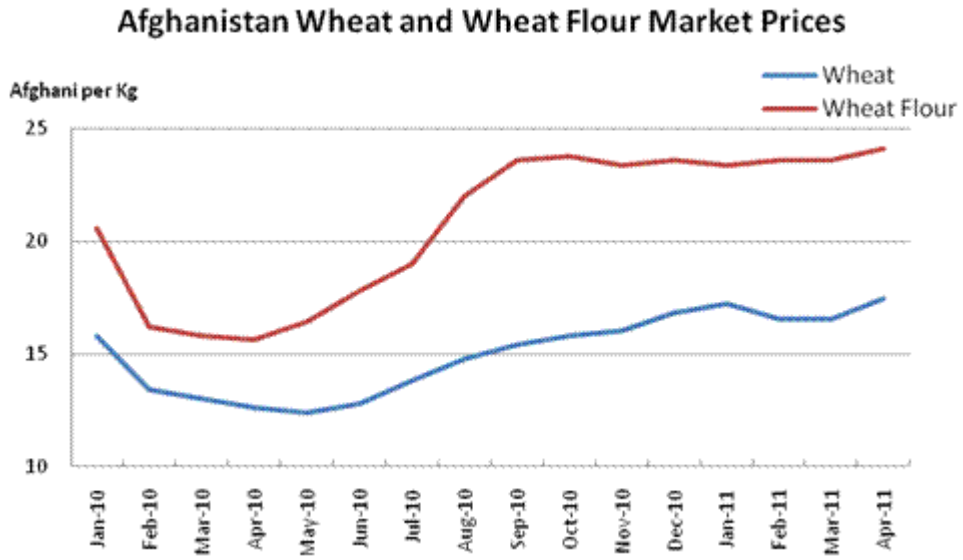
Pakistan Regains Dominant Role in Market

Afghanistan has an intricate network of grain and flour traders that are very adept at filling flour deficits with imports. On average commercial imports and foreign food assistance of wheat and flour, contribute between 35 to 65 percent of total wheat/flour consumption annually, depending on domestic production. Afghan borders are very porous making it very difficult to obtain reliable customs data for agricultural products but based on per capita wheat consumption and depending on domestic production, imports are estimated to range between 1.7 to 3.5 million tons annually. Post's MY 11/12 estimate for wheat imports is 3.5 million tons, 36 percent higher than last year offsetting the decline in production.

Pakistan and Kazakhstan will continue to be the main exporters in the Afghan market in MY 11/12. Kazakhstan was the prime exporter of wheat and flour (in wheat equivalent) during Pakistan's wheat export ban, exporting an estimated 1.4 million tons of wheat and wheat flour in MY 09/10 to Afghanistan. Kazakh exports to Afghanistan have slowed during MY 10/11 likely reaching 700,000 tons due to a short Kazak crop in 2010. The Pakistani Government lifted an export ban on wheat and flour to Afghanistan in December 2010 (the ban was in effect since 2007) and Pakistan regained the status as number one exporter to the Afghan market during MY 10/11 and will likely continue to be so in MY 11/12. Despite last year's floods in Pakistan, traders estimate that Pakistani millers will have an estimated 2-3 million tons available for export which is available with a milling subsidy. Pakistani exports traditionally come to Afghanistan shortly after the harvest ends (June) and continue 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. Post also estimates that Iran is playing a more important role in the Afghan market during MY 10/11 and this importance will continue in MY 11/12. It should be noted that Afghan traders report that regional wheat availability is much improved from the previous year and will supply the Afghan deficit without much disturbance in the market.

Flour / Wheat Prices Trend Upward Before Harvest

According to a price survey in Afghanistan's five major cities conducted by the World Food Program, average wheat and flour prices in Afghanistan's main markets were 17 Afghani/kilogram (kg) and 24 Afghani/kg respectively during April 2011. Afghan wheat and flour prices trended upward, increasing 25 percent between April and September 2010 before stabilizing. Since September, flour prices remained stable until April 2011 while wheat grain prices continued a slow climb to current levels. Wheat and flour prices experienced an uptick in April 2011, increasing 3-5 percent, as farmers and traders signal they expect the decline in domestic production. Afghan wheat and flour prices are strongly correlated to Pakistani flour prices and will likely stabilize after the recent uptick as surplus supplies in Pakistan and the improved regional availability of wheat and flour temper price increases. The price differential between remote areas of Afghanistan and major cities remains concerning. Prices in rural areas tend to be substantially higher depending on the local availability of flour. It is important to note that external policy measures, such as export bans in neighboring countries, will have a bullish impact on wheat and flour prices over the next six months to a year.



Source: WFP – VAM Market Price Bulletins

Stocks

Afghanistan is wheat deficit country and does not have a functioning strategic wheat reserve. After the record harvest in 2009 the Ministry of Agriculture, Irrigation, and Livestock purchased an estimated 70,000 tons from wheat surplus provinces. This wheat is stored in Pul-e-Khumri, Baghlan and Herat

City, Herat. MAIL has negotiated the sale of 12,000 tons of this reserve to the World Food Program (WFP) for use as prepositioned supplies in remote districts in Afghanistan. An additional sale of 8,000 tons to WFP from MAIL was negotiated in the Spring. Recent local purchases by WFP are an important development and will aid in reducing post-harvest loss and stabilize prices in rural areas.

Policy

Responding to concerns in the Afghan parliament about food security and wheat prices the Government of Afghanistan has a plan to develop a strategic grain reserve of up to 500,000 tons of wheat. The project is still in the development stage and substantial storage infrastructure and technical training in storage management are needed before a reserve could be successfully implemented but many international donors are interested in contributing funds to the activity once it is properly developed.

Wheat Milling Industry

Over the last 30 years the Afghan wheat milling industry has degraded to the point that it is now regionally uncompetitive. The quality of flour processed entirely from Afghan wheat does not bake well and most mills and consumers blend Afghan flour with imported flour to prepare bread. Additionally, the domestic milling industry faces Afghan consumers that prefer imported flour over domestic flour.

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 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 used 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 1-3 tons wheat per day and normally operate on an in-kind basis meaning farmers compensate the miller with a portion of the flour milled.

Rice

Rice Area, Production Expand

Post estimates rice production in MY 11/12 to be 350,000 tons from a harvested area of 200,000 hectares up slightly from MY 10/11 due to the increase in the planted rice area in the northern Afghanistan. Major rice growing provinces areas 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.

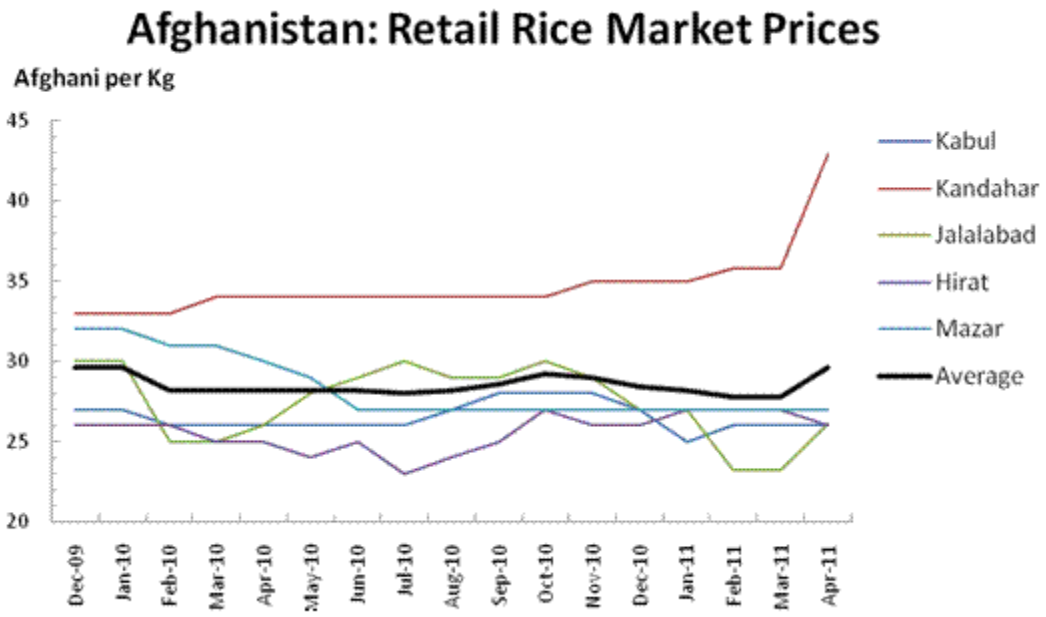
Consumption and Imports

Rice makes up an important supplementary component of Afghans' diets. Per capita rice consumption is 18 kilograms per year and Post estimates MY 11/12 annual rice consumption at 600,000 tons. To keep pace with growing demand, rice imports are forecast at 250,000 tons in MY 11/12. 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.

Consumption will continue to increase in future years as rising incomes and increasing urbanization in Afghanistan's major cities increase per capita consumption. 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

In contrast to wheat, rice prices have not risen over the last six months in the major cities in Afghanistan. With the exception of Kandahar, rice prices have tracked close to each other in the major cities. The average market price of rice was 28 Afghani/kg in April 2011, remaining stable throughout the last year in four of the five cities surveyed (exception is Kandahar). Traders report that rice prices track world prices very closely and future price movements in Afghanistan will likely follow that trend.



Source: WFP – VAM Market Price Bulletins

Table 1: Wheat Production Supply and Distribution

Wheat Afghanistan	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Harvested (1000 HA)	2,500	2,500	2,300	2,300	2,100	2,100
Beginning Stocks (1000 MT)	0	0	0	70	70	0
Production (1000 MT)	4,250	4,250	3,700	3,700	2,500	2,500
MY Imports (1000 MT)	2,500	1,820	2,300	2,250	3,000	3,525
TY Imports (1000 MT)	2,500	1,820	2,300	2,250	3,000	3,525
TY Imp. from U.S. (1000 MT)	30	30	0	0	0	0
Total Supply (1000 MT)	6,750	6,070	6,000	6,020	5,570	6,025
MY Exports (1000 MT)	0	0	0	0	0	0
TY Exports (1000 MT)	0	0	0	0	0	0
Feed and Residual (1000 MT)	0	637	0	555	350	375
FSI Consumption (1000 MT)	6,750	5,363	6,000	5,465	5,150	5,650
Total Consumption (1000 MT)	6,750	6,000	6,000	6,020	5,500	6,025
Ending Stocks (1000 MT)	0	70	0	0	70	0
Total Distribution (1000 MT)	6,750	6,070	6,000	6,020	5,570	6,025
Yield (MT/HA)	2.	1.7	2.	1.6	1.2	1.2
TS=TD		0		0		0
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Table 2: Rice Production Supply and Distribution

Rice, Milled Afghanistan	2009/2010 Market Year Begin: Jan 2009		2010/2011 Market Year Begin: Jan 2010		2011/2012 Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	190	190	190	190	200	200
Beginning Stocks (1000 MT)	0	0	0	0		0
Milled Production (1000 MT)	335	335	275	275	350	350
Rough Production (1000 MT)	500	500	410	410	522	522
Milling Rate (.9999) (1000 MT)	6,700	6,700	6,700	6,700	6,700	6,700
MY Imports (1000 MT)	265	235	300	305	250	250
TY Imports (1000 MT)	265	235	300	305	250	250
TY Imp. from U.S. (1000 MT)	0		0	0		0
Total Supply (1000 MT)	600	570	575	580	600	600
MY Exports (1000 MT)	0		0	0		0
TY Exports (1000 MT)	0		0	0		0
Consumption and Residual (1000 MT)	600	570	575	580	600	600
Ending Stocks (1000 MT)	0		0	0		0
Total Distribution (1000 MT)	600	570	575	580	600	600
Yield (Rough) (MT/HA)	3.	2.6316	2.	2.1579	2.61	2.61
TS=TD		0		0		0
AGR Number						
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