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Grain and Feed Annual

Grain and Feed Annual 2013

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Report Highlights:
MY 2013/14 wheat production is forecast at 24.0 million tons, up three percent from last year, however, four percent less than MY2011/12 record production of 25 million tons. MY 2013/2014 wheat exports are forecast to reach 900,000 tons, up slightly from MY 2012/2013 levels, but lower than MY 2011/2012 exports due to lower production and beginning stocks. MY 2013/14 rice production is forecast at 6.2 million tons, three percent higher than last year's crop. Rice exports in MY 2013/14 will remain unchanged from last year at 3.2 million tons.

Executive Summary:

MY 2013/14 wheat production is forecast at 24.0 million tons, up three percent from last year, however, four percent less than MY2011/12's record production of 25 million tons. Area harvested is almost at par with last year at an estimated 8.7 million hectares. The Government of Pakistan (GOP) raised the procurement price for the current year's crop from Rs1050 per 40 kg ($292/ton) to Rs1200 per 40 Kg ($312/ton). MY 2013/2014 wheat exports are estimated at 900,000 tons, assuming a favorable harvest and higher international prices. In MY 2012/13, trade sources report that, apart from customary shipments to Afghanistan, there have not been any significant exports of Pakistani wheat since January 2013. Consequently, Pakistan's MY 2012/2013 wheat exports are adjusted downwards to 800,000 tons.

MY 2013/14 rice production is forecast at 6.2 million tons, three percent higher than last year's crop. Rice exports in MY 2013/14 will remain unchanged from MY 2012/13 at 3.2 million tons as competition from third-countries will remain high. MY 2012/2013 rice production is lowered 13 percent to 6.0 million tons, due to greater-than-expected flood damage in Sindh and Baluchistan. In MY 2012/13 exports are lowered 15 percent from 3.8 to 3.2 million tons due to the decrease in basmati production, strong competition from white rice exporting countries, and distortions in the export chain due to electricity and gas shortages. MY 2011/12 production is adjusted downwards to 6.2 million tons.

Commodities:

Wheat

Production:

Wheat is the main Pakistani dietary staple and the GOP considers it the key strategic commodity as 80 percent of farmers–45 percent of the total population– depend on it for their livelihood, as a result, it's the basis of the country's food security. Consequently, the GOP's agricultural policy is heavily centered on wheat through price support programs and export interventions. In MY2013/14 wheat production is forecast at 24.0 million tons, up three percent from last year, but four percent less than MY 2011/12 record production of 25 million tons. The increase in production is due to greater availability and use of irrigation water, improved production inputs, and favorable weather conditions.

The Government of Pakistan (GOP) raised the procurement price 14 percent for the current year's crop from Rs.1050 per 40 kg ($292/ton) to Rs.1200 per 40 Kg ($312/ton), although farmers' organizations maintain that the increase is not sufficient, it has, nonetheless, reversed the declining trend of the last three years as an additional 5,000 hectares will be cultivated from last year's total area of 8.66 million hectares. Wheat production area by province is shown in Table 1.

Table 1: Wheat Area by Province

Province	Area (Million Hectares)	Percentage of Total Area
Punjab	6.535	76
Sindh	1.059	12
KPK	0.730	8
Baluchistan	0.340	4
Total	8.665	100

Total fertilizer use during Rabi 2012-13 was about 1.2 million tons, almost the same level compared to 2011-2012 crop use. In product terms, urea utilization was 1.5 million tons which decreased by 10.0 per cent while DAP utilization was recorded at 559,000 tons, an increase of almost 16 per cent over last season.

Weather conditions during the MY 2013/14 Rabi season–winter crop–were conducive for good crop production. Temperatures during December and January remained lower-than-average, and major wheat growing areas received significant rainfall in December 2012, critical for good seed germination. The wet spell extended well into January and February with extensive rains across Sindh and Punjab, compensating for the 10 percent lower-than-normal reservoir levels needed to supplement the crop throughout its growing season.

Pakistan continues to face water related challenges, which, if not addressed, will become the single most influential factor affecting wheat production. Antiquated farming methods, reduced water availability, dam silting , and an increasing population in the catchment areas of Chenab, Jhelum and Indus rivers have reduced the per capita water availability from 5,000 cubic meters in 1951 to less than 1,000 cubic liters in 2010. The situation is accentuated as 85 percent of Pakistan's wheat production is dependent upon irrigated water, which raises food security issues. In late 2011, the GOP, in an effort to address both food security and climate change issues, created the Ministry of National Food Security and Research and the Ministry of Climate Change.

Consumption:

In MY 2013/14, consumption, despite higher prices, will increase marginally by 100,000 tons from MY 2012/13 consumption of 23.4 million tons. Out of the total demand of 23.5 million tons, only 1.7 percent will be used in the feed industry, and the remaining 98.3 percent will be used for planting and human consumption.

Pakistan has been a food surplus country in terms of cereal production, with wheat flour supplying 72 percent of daily caloric intake and a per capita wheat consumption of around 124kg/year, one of the highest in the world. Nonetheless, a recent report by the Sustainable Development Policy Institute (SDPI) found that more than half of Pakistani households are food insecure. The Federally Administered Tribal Areas (FATA) have the highest percentage of food insecure population at 67.7 percent, followed by Baluchistan at 61.2 percent (in Dera Bugti it is as high as 81.2 per cent) Khyber Pakhtunkhwa at 56.2 per cent, Sindh at 44.3 percent and Punjab at 38.5 percent. Efforts by the Pakistani government and international organizations are underway to increase food access and affordability to food insecure households.

In MY 2012/13, wheat and flour prices remained stable through September, but despite sufficient stocks, prices steadily rose in tandem with world prices. The Government's decision to raise the procurement price of wheat for the MY 2013/2014 crop by 14 percent, along with delays in wheat releases to flour millers in September/October 2012, and an increase in milling and transportation costs also contributed to the increase in flour prices. Retail prices of wheat and wheat flour were 10 percent and 11.5 percent higher in December 2012, from those of December 2011. Prices of both wheat and wheat flour remained highest in Karachi at Rs32.13/kg and Rs38.63/kg, respectively, while the lowest price of wheat was recorded in Multan (Central Punjab) at Rs29.25/kg and that of wheat flour in Lahore at Rs.33/kg. With no viable alternatives, Pakistan consumers absorbed the increase in prices, so consumption patterns remained constant.

The wheat milling industry in Pakistan is privately owned. There are about 1,000 commercial flour mills, which meet the consumption needs of about 40 percent of the population, with the balance milled in rural areas where it is produced but never enters the cash market. Commercial flour mills are neither optimally located to their wheat supplying areas, nor are they of a sufficient size to take advantage of economies of scale. Their ability to reposition and expand is constrained by an inefficient wheat quota allocation and subsidy system operated by the government. Principal milled products include "midda" –72 percent extraction flour used for loafs – and "atta" –82 percent extraction flour used for flat breads.
In urban areas and among affluent consumers, consumer preference is shifting from higher whole grain to lower extraction flour and traditional flat bread to western-style, loaf bread. Traditional home-ground flour is also losing favor to commercially milled flour. Specialized products like cereals suited to the changing life styles in the urban areas are also gaining demand.

Trade:

MY 2013/2014 wheat exports are estimated at 900,000 tons, an increase of 12.5 percent from the revised MY 2012/2013 exports of 800,000 tons (Table 2). The estimated increase in exports is the result of an expected good crop, relatively plentiful stocks, and a trade-enabling environment, and a favorable global outlook.

In MY 2012/2013, Pakistan attained a favorable export momentum during the first half of the marketing year as rising prices made Pakistani wheat competitive in the international market. However, the momentum waned during the latter part of the marketing year due to domestic price increases, falling international prices, weakening demand from its trading partners, and quality issues. Trade sources report that, apart from Afghanistan, significant quantities of wheat have not been exported since January 2013.

Throughout the, press reports cited government sources about the pending Pakistani wheat barter deal with. Pakistani traders, skeptical from the beginning, stated repeatedly that it will not happen as Iran has major concerns with the quality of Pakistani wheat added to a lack of agreement on specific modalities and terms of exchange.

Table 2: Pakistan's MY2012/2013 Wheat Exports by Destination

Country	**Quantity in Tons**
Afghanistan	500,000

Sri Lanka	200,000
Gulf (UAE, Qatar, Oman)	40,000
East Africa (Kenya, Sudan, Yemen	30,000
Bangladesh	30,000
Total	800,000

Stocks:

In MY 2013/14, ending stocks are estimated to decrease by 200,000 tons to 3.2 million tons as Pakistan will need to draw down its stocks to meet the expected rise in exports. Wheat is procured and maintained through provincial food departments and the federal agency known as the Pakistan Agricultural Storage and Services Corporation (PASSCO). In 2012, the GOP procured 5.7 million tons of wheat from the local harvest. It has yet to announce the procurement target for this year's crop. The GOP has come under pressure from international and domestic sectors to end its wheat procurement operation and let the markets and the private sector handle the efficient allocation of resources in what is considered a political and rent seeking activity. The government remains steadfast citing national and food security concerns. On February 28, current stocks were reported at 4 million tons. The breakdown of current stock levels by province/agency is: PASSCO 1.98 million tons; Punjab 1.45 million tons; Sindh 300,000 tons; KPK 170,000 tons; and Baluchistan 100,000 tons.

Policy:

The Government of Pakistan's wheat policy is aimed at increasing wheat productivity, supporting farmers' incomes, and providing food security through research, subsidies and price controls.
In spite of these established objectives, the Ministry of National Food Security and Research (NFSR), created in November 2011, has not been able to formulate a coordinated sustained agricultural policy, as productivity and income gains have stagnated, and price volatility remains pervasive. Additionally, key policy guidance committees and forums like the Federal Committee on Agriculture (FCA), dissolved after devolution, and have not been reconstituted. In light of this, the NFSR has drafted a National Food Security and Nutrition Policy, which would create a National Food Security Authority that would, in theory, address the aforementioned issues in a holistic approach. The authority would include members of 22 different ministries and agencies. With the disbandment of the FCA, no standardized process is in place to make recommendations on production, and procurement targets. Currently, the recommendations occur on an ad-hoc basis under the NFSR. Although the NFSR recommended against an increase in the procurement price, in November of 2012, the Government of Pakistan raised the support price for the upcoming wheat crop to Rs1,200 per 40 kilograms ($312/ton), up 14 percent over the previous price of Rs1050 per 40kg ($292/ton). Although the GOP justified the move as a way to help farmers offset rising input costs, the decision met widespread criticism, accusing the ruling party of using government resources to appease its rural based constituency to gain support in the upcoming elections.

To finance the procured wheat, storage, and distribution system it relies on commercial banks, adding to the public debt in what is referenced as the "circular debt". The circular debt occurs when the government is unable to recover its costs when it sells procured wheat to wheat millers. The government must bear this shortfall, which is usually done through the issuance of debt. However, the government is unable to pay off its debts resulting in the need to refinance or "circulate" its debt, which increases each time a new procurement program

is implemented. Almost twenty banks are engaged in commodity financing, with the top five banks holding a sizable share of 92 percent.

Production, Supply and Demand Data Statistics:

Wheat Pakistan	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8,900	8,900	8,660	8,660		8,665
Beginning Stocks	3,256	3,100	4,256	4,100		3,400
Production	25,000	25,000	23,300	23,300		24,000
MY Imports	200	200	200	200		200
TY Imports	200	200	200	200		200
TY Imp. from U.S.	11	0	0	0		0
Total Supply	28,456	28,300	27,756	27,600		27,600
MY Exports	1,100	1,100	1,000	800		900
TY Exports	300	300	1,000	800		900
Feed and Residual	400	400	400	400		400
FSI Consumption	22,700	22,700	22,800	23,000		23,100
Total Consumption	23,100	23,100	23,200	23,400		23,500
Ending Stocks	4,256	4,100	3,556	3,400		3,200
Total Distribution	28,456	28,300	27,756	27,600		27,600
Yield	2.8	2.8	2.7	2.7		2.78
TS=TD	0	0	0	0		0

Commodities:

Rice, Milled

Production:

Pakistan is a leading producer and exporter of Basmati and IRRI rice (white rice). It is mostly grown in Sindh and Punjab with Basmati grown in Punjab and IRRI is grown in both Punjab and Sindh. About 11 percent of Pakistan's total agricultural area is rice, the third largest crop after wheat and cotton.

MY 2013/14 production is forecast at 6.2 million tons, a three percent increase from MY 2012/13 as production normalizes from the floods of MY 2012/2013, which adversely affected output.

MY 2012/2013 rice production is lowered 13 percent from 6.8 to 6.0 million tons, which is three percent less than last year's production. Initial reports from the field were indicating a bumper harvest, but damage caused by localized floods, in September 2012, in the far-off districts of Sindh and Baluchistan was more severe than

initially reported. This is the third year in a row that Pakistan's rice crop has been adversely affected by flooding. MY 2011/12 production is adjusted downwards to 6.2 million tons, in accordance with the latest government production data and industry estimates.

Rice in Pakistan is a monsoon crop but the introduction of hybrid varieties in recent years has influenced the timing of sowing and transplanting. Hybrid varieties are sown as early as March and April instead of June and July. However, sowing timing is heavily influenced by the extent and spread of monsoon rains, and the availability of underground and irrigated water. Irrigation water is mostly sourced from the runoff of the Himalayan glacier melt into the Indus river basin, so temperatures during the months of May and June are critical in determining the season's water availability. The introduction of the newer varieties has also altered cropping patterns, as farmers gradually shifted away from basmati rice opting for non-basmati hybrid varieties due to better yields and a shorter growing cycle allowing for earlier planting of wheat. Basmati planted area has declined about 27 percent over the last three years.

Rice Growing areas of Pakistan are broadly classified into following four zones;

Zone I	Northern high mountainous areas of KPK (Swat and Khagan) with sub-humid climate, average rainfall of 750-1000mm
Zone II	Lies between the Ravi and Chenab rivers in the central Punjab. Sub-humid, sub-tropical climate with average rainfall of 400-700mm. This is the famous premium zone and Basmati rice is exclusively produced in thiszone along the Kallar tract consisting of Sailkot, Sheikhupura, Narowal, Gujranwala, Hafizabad and Lahore Districts
Zone III	West bank of Indus river in upper Sindh and Balochistan. Larkana, Jacobabad (Sindh), Nasirabad and Jaffarabad (Balochistan). High temperature and sub tropical climate with average rainfall of 100mm make it best suited for medium long rice.
Zone IV	Indus delta basin in Lower Sindh (Badin and Thatta Districts). Its climate is arid tropical and is suited for coarse varieties.

Consumption:

Unlike other Southeast and South Asian countries, rice is not considered a staple food crop 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 consumed by more affluent consumers due to the price differential with IRRI rice. In 2012, domestic rice prices, especially basmati rice, displayed an upward trend, as retail prices of irri-6 and basmati rice have increased by 5.6 and 19 percent, respectively, from 2011. The sharp increase in the price of Basmati rice is attributed to a decline in its production. According to trade sources an estimated 200,000 tons of 40-100 percent broken rice is used in poultry and animal feed annually.

Trade:

In MY 2012/13, rice exports are lowered 15 percent from 3.8 to 3.2 million tons, due to the decrease in basmati production, and electricity and gas shortages that reduced milling capacity. Rice exports in MY 2013/14 are also projected at 3.2 million tons, as electricity and gas shortages are expected to continue and competition from exporting countries will remain high.

Pakistani rice is facing difficulties in the global market due to decreased basmati production, lack of research, high cost of inputs, and increasing competition with Indian and Southeast Asian rice. Additionally, according to the Rice Exporters Association of Pakistan (REAP), the massive electricity load-shedding and gas shortages have compounded these difficulties, affecting the entire export chain, as power load shedding reduced milling capacity, while gas shortages have hindered the drying process. Geopolitics are also affecting exports, according to REAP, Iranian sanctions have forced Pakistani banks to stop opening letters of credit for transactions with Iran. Amid this gloomy scenario, there are also some recent positive developments as China started importing non-basmati rice to the tune of $30 million in January 2013. Additionally, Tanzania, Kenya, and Sri Lanka are emerging as rapidly growing markets.

Pakistan's major Basmati rice export markets are Iran, Iraq, Malaysia, U.A.E, and U.K, while major non – basmati markets include Afghanistan, China, Indonesia, Kenya and Malaysia. Pakistan's competing countries for non basmati rice include Thailand, India, Vietnam and Burma. In case of Basmati rice, its sole competitor is India.

Rice is a major Pakistani export to the United States. Out of $119 million in Pakistani agricultural exports to the United States in 2012, rice exports comprised $18 million (15 percent of the total) registering an increase of 18 percent over the preceding year. As a result of effective measures taken by REAP, Khapra beetle detections from Pakistani rice consignments, which were a significant problem last year, have been reduced, significantly safeguarding a key export market.

Stocks:

MY 2013/14, ending stocks are forecast at 1.2 million tons, a 33 percent increase from MY 2012/13 due to the prospects of a good harvest and a very competitive trading environment, which will constrain sales of IRRI rice in the international market. Stocks for MY 2012/2013 are estimated at 0.9 million tons.

Policy:

Rice trade in Pakistan is carried out by the private sector with little or no intervention from the government. Pakistan's rice traders responded well to market liberalization and have become a major player in world rice trading. They made huge investments in state-of-the-art processing machinery to improve quality . These

initiatives resulted in a significant boost in rice exports over the last decade, but exports are losing momentum to more competitive countries such as Vietnam and Thailand. Lack of investment in research and development has resulted in Pakistan's inability to increase productivity in tandem with its major competitors.

Production, Supply and Demand Data Statistics:

Rice, Milled Pakistan	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Nov 2011		Market Year Begin: Nov 2012		Market Year Begin: Nov 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,750	2,750	2,700	2,400		2,700
Beginning Stocks	500	500	1,000	700		900
Milled Production	6,500	6,200	6,800	6,000		6,200
Rough Production	9,751	9,300	10,201	9,000		9,300
Milling Rate (.9999)	6,666	6,666	6,666	6,666		6,666
MY Imports	60	0	50	0		0
TY Imports	50	0	50	0		0
TY Imp. from U.S.	0	0	0	0		0
Total Supply	7,060	6,700	7,850	6,700		7,100
MY Exports	3,500	3,500	3,800	3,200		3,200
TY Exports	3,500	3,500	3,800	3,200		3,200
Consumption and Residual	2,560	2,500	2,650	2,600		2,700
Ending Stocks	1,000	700	1,400	900		1,200
Total Distribution	7,060	6,700	7,850	6,700		7,100
Yield (Rough)	3.54	3.38	3.77	3.75		3.44
TS=TD	0	0	0	0		0

Attachment	Attachment Link
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