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Grain and Feed Annual

Grain and Feed Annual 2014

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Report Highlights:
MY 2014/15 wheat production is forecast at 24.5 million tons; marginally up from last year's production. MY 2014/2015 wheat exports are expected to remain stable at 700,000 tons, assuming a favorable harvest. In MY 2013/14, Pakistan exported around 700,000 tons of wheat, the major portion of it, 600,000 tons, going to Afghanistan. MY 2014/15 rice production is forecast at 6.7 million tons, slightly higher than MY 2013/14. Pakistan is coming out of a sluggish rice export period and in MY 2013/14, rice exports are projected to be record 3.9 million tons up eight percent from MY 2012/13 revised exports of 3.6 million tons.

Executive Summary:

MY 2014/15 wheat production is forecast at 24.5 million tons; marginally up from last year's production due to better availability of inputs such as water and fertilizer. The area harvested is estimated at 8.8 million hectares, an increase of two percent from last year due to relatively better economic viability and favorable weather conditions. Despite calls from the ag sector for higher prices, the Government of Pakistan (GOP) maintained the procurement price for the current year's crop at Rs1200 per 40 Kg ($312/ton).

MY 2014/2015 wheat exports are expected to remain stable at 700,000 tons, assuming a favorable harvest. In MY 2013/14, trade sources report that Pakistan exported around 700,000 tons of wheat, with the major portion, 600,000 tons, going to Afghanistan. Pakistan's MY 2013/2014 wheat imports are estimated at around 500,000 tons. All the wheat imports during the current marketing year were made during September to December and Pakistan has not imported wheat since January 2013. All wheat imports during MY 2013/2014 were sourced from black sea region at an average price of $285/MT. During MY 2014/2015 Pakistan is not expected to import significant wheat apart from some high quality wheat to be used in the specialized products like pasta and noodles.

MY 2014/15 rice production is forecast at 6.7 million tons about 1.5 percent higher than My 2013/14, as production is expected to increase after three years of successive floods. MY 2013/2014 rice production is also revised up to 6.6 million tons from the earlier estimates of 6.4 million tons in accordance with the latest government production data and industry estimates. The rise in production is mainly due to increase in area and beneficial after effects of floods. Pakistan is coming out of a sluggish rice export period and in MY 2013/14, rice exports are projected to be record 3.9 million tons up eight percent from MY 2012/13 revised exports of 3.6 million tons. The main reason is increase in production as Pakistan rice sector is recovering from the losses of three successive floods period and decrease in the energy crisis. Rice exports in MY 2014/15 are also projected at 3.9 million tons as the rice exporters are upbeat to maintain the momentum.

Commodities:

Wheat

Production:

Wheat is of paramount importance in Pakistan, with 80 percent of farmers growing it on an area of around 9 million hectares (close to 40 percent of the country's total cultivated land). This crop alone contributed about 10 percent of value added in agriculture and 2.2 percent of the country's gross domestic product (GDP) in 2013. In MY2014/15 wheat production is forecast at 24.5 million tons, marginally up from last year's production of 24.0 million tons. The increase in production is due to timely planting, greater availability and use of irrigation water, improved production inputs, and favorable weather conditions.

The Government of Pakistan (GOP) maintained the procurement price for the current year's crop at the last year's level, Rs.1200 per 40 Kg ($312/ton), in spite of farmers' organizations demand for an increase. The upward trend in the wheat planting area witnessed last year is sustained and planting area

increased by two percent during this year due to relatively better economic viability and favorable weather conditions. Wheat production area by province is shown in Table 1.

Table 1: Wheat Area by Province MY2014/15

Province	Area (Million Hectares)	Percentage of Total Area
Punjab	6.592	75
Sindh	1.122	13
KPK	0.749	8
Baluchistan	0.365	4
Total	8.828	100

Cumulative fertilizer nutrient offtake during Rabi 2013-14 (agricultural crops sown in winter and harvested in the spring, i.e. October-January) was 1785 thousand tons, increasing by 20 per cent compared with same timeframe of last Rabi season. Weather conditions during the MY 2014/15 Rabi season–winter crop–were conducive for good crop production. Temperatures during December and January remained lower-than-average; however, major wheat growing areas did not received significant rainfall till February. The lower precipitation was compensated with relatively better supplies of irrigation water provided by one of the world's largest networks of canals and sub canals.

Stored water for irrigation is held mainly in two large reservoirs, Tarbela and Mangla, for use during the summer and during the Rabi/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 seasonal monsoon rains.

This year the supplies of irrigation water were better than last year, but in the larger perspective, Pakistan is likely to face water related challenges. These water challenges, 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. Chronic shortfalls in water available for irrigation are expected to impose an increasingly larger constraint on Pakistan's agricultural advancement.

In Sindh Province, the shortage of water is more severe than Punjab. Ground water in most areas is alkaline and not fit for tube well irrigation, 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 good condition. With the bulk of the Punjab crop entering the grain-formation stage, moderate temperatures, and sunlight during rest of crop growing season will be critical for the success of this year's output. The condition of highland crop, which comprises 10 percent of total production, is reported to be affected by the low rainfall during December and January.

The MY 2013/14 crop output forecast of the Ministry of National Food Security and Research is (MNFSR) is 25 MMT, largely based on an expected harvest of 19 MMT in Punjab.

Consumption:

Wheat flour currently contributes 72 percent of Pakistan's daily caloric intake with per capita wheat consumption of around 124kg/year, one of the highest in the world. As incomes increase and a stronger middle class emerges, consumers will likely shift towards more dairy, meat and other higher-value food products in their diet. While per capita wheat consumption may decline in the long term, reflecting increasing consumer incomes and changing food preferences, overall wheat consumption will continue to increase to meet food demand from the country's rapidly growing population. In MY 2013/14, consumption, despite higher prices, will increase by 200,000 tons from MY 2012/13 consumption of 23.4 million tons. Out of the total demand of 24.1 million tons, only 2.4 percent will be used in the feed industry, and the remaining 97.6 percent will be used for planting and human consumption.

According to the recent National Nutrition Survey, around 60 per cent of Pakistan's total population is facing food insecurity, and in these households, almost 50 per cent of the women and children were malnourished. The current problem of food insecurity in Pakistan is more of access to food in poor households, rather than of national production. A key factor in this lack of access is that staple cereal prices have been raising significantly in Pakistan. During MY 2013/14, wheat and flour prices maintained an upward trend throughout the marketing year. The Government's decision to raise the procurement price for the last year's crop (MY 2013/2014) had a roll on effect on prices throughout the marketing year. Significant increase in the power costs consequently raising milling costs and an increase in transportation costs also contributed to the increase in flour prices. As a result, retail prices of wheat and wheat flour were 29 percent and 23 percent higher in December 2013, from those of December 2012. During December 2013, prices of both wheat and wheat flour remained highest in Karachi at Rs38.38/kg and Rs45.00/kg, respectively, while the lowest price of wheat was recorded in Multan (Central Punjab) at Rs36.75/kg and that of wheat flour in Lahore at Rs.40/kg. With no viable alternatives, Pakistan consumers absorbed the increase in prices, so consumption patterns remained constant.

Food insecurity is persistent throughout southern Punjab, Sindh and in the conflict hit Federally Administered Tribal Area (FATA) as well as some parts of Khyber Pakthunkwa (KPK) and Baluchistan. The Tharparkar district in Sindh is facing a famine-like situation and there are reports of around hundred deaths, mainly children, due to malnutrition. About 175,000 families have been affected and there are also reports of families migrating from the area. Tharparkar did not received rain during the current Rabi season, except a little drizzle in the beginning of the current season. Tharparkar is hit by drought every two or three years, causing severe shortage of food, resulting in malnutrition, diseases and death.

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 who's production used for family consumption and 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 700,000 tons with Afghanistan being the main market. Pakistan's wheat flour exports to Afghanistan during MY 2013/2014 are estimated at 600,000 tons with the remainder being exported to regional markets in the Gulf (UAE, Qatar, Oman). Given the present trend, Pakistan's MY 2014/15 wheat flour exports to Afghanistan are forecast to be stable at around 600,000 tons. Afghanistan has been the main wheat export market for Pakistan for many years mainly due to easy accessibility and traditional trade linkages between the two countries.

Pakistan's MY 2013/2014 wheat imports are estimated at around 500,000 tons. All the wheat imports during the current marketing year were made during September to December and Pakistan has not imported wheat since January 2013 as government started releasing sufficient quantity of wheat to the millers from the government stocks. All wheat imports during MY 2013/2014 were sourced from black sea region at an average price of $285/MT. Most of the imported wheat is used in the Karachi region. There have been concerns on the quality of imported wheat and it is usually mixed with the local wheat by the milling industry. Pakistan's MY 2014/2015 wheat imports will depend on the ultimate size of wheat crop though some high quality wheat will still be imported even if the size of the crop is good to cater the need of industry for specialized products like pasta and noodles.

Stocks:
In MY 2013/14, ending stocks are estimated at 2.4 million tons. Wheat is procured and maintained through provincial food departments and the federal agency known as the Pakistan Agricultural Storage and Services Corporation (PASSCO). In 2013, the GOP procured around 6 million tons of wheat from the local harvest. For 2014/2015 government has announced a procurement target of eight million tons at an estimated cost of 2.3 billion dollars. Punjab will be required to purchase 4.5 million tons, followed by 1.6 million tons by Pakistan Agricultural Storage and Services Corporation (PASSCO) and 1.3 million tons by Sindh. Khyber Pakhtunkhwa and Baluchistan will procure 450,000 tons and 150,000 tons, respectively.

Over the past three years, the public sector wheat procurement has on an average remained at around six million tons per annum. The GOP has come under pressure from international and domestic sectors to end its wheat procurement operations 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.

Policy:
Wheat is the main Pakistani dietary staple and the GOP considers it the key strategic commodity. 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. 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.

Farmers in Pakistan retain about one-third of their wheat production for seed and household food consumption. The government is the main buyer of farmers' wheat, with actual volumes of government procurement often reaching 25 to 30 percent of total production, driven by both food security and market intervention objectives. While food security is an important concern in Pakistan, there is little doubt that high volumes of State wheat procurement leave little room for private sector trade and investment in the postharvest supply chain.

The private sector dominates wheat production, transportation and milling, but has a somewhat limited role in wheat trade. Pakistan's private sector is interested in investing in grain transportation, storage and marketing, but is unlikely to engage unless the government's role is rationalized and the private sector is left free to make rational investment decisions aimed at improving efficiency of the sector.

The Ministry of National Food Security and Research (MFSR), 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 dissolved after devolution have not been reconstituted.

To finance the procured wheat, storage, and distribution system, the government 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	**2012/2013**		**2013/2014**		**2014/2015**	
	Market Year Begin: May 2012		**Market Year Begin: May 2013**		**Market Year Begin: May 2014**	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	8,660	8,660	8,665	8636		8,828
Beginning Stocks	4,020	4,100	2,622	2,750		2,450
Production	23,300	23,300	24,000	24,000		24,500

MY Imports	52	50	800	500		300
TY Imports	20	20	800	500		300
TY Imp. from U.S.	19	20	0	0		0
Total Supply	27,372	27,450	27,422	27,250		27,250
MY Exports	850	800	600	700		700
TY Exports	850	800	600	700		700
Feed and Residual	600	600	600	600		700
FSI Consumption	23,300	23,300	23,400	23,500		23,600
Total Consumption	23,900	23,900	24,000	24,100		24,300
Ending Stocks	2,622	2,750	2,822	2,450		2,250
Total Distribution	27,372	27,450	27,422	27,250		27,250
Yield	2.69	2.69	2.77	2.77		2.77
TS=TD						
Comments						

Commodities:
Rice, Milled

Production:
Rice is Pakistan's third largest crop in terms of area sown, after wheat and cotton. About 11 percent of Pakistan's total agricultural area is rice. Pakistan is a leading producer and exporter of Basmati and IRRI rice (white rice). Rice production comprises 40 percent of Basmati type and 60 percent of coarse types. Rice ranks as second amongst the staple food grain crop in Pakistan and it is a major source of foreign exchange earnings. Pakistan grows a high quality of rice to fulfill the domestic demand and also for exports. Rice accounts for 2.7 percent of the value added in agriculture and 0.6 percent of GDP. Pakistan has two major rice-producing provinces, namely Punjab and Sindh. Both provinces account for more than 88 percent of total rice production. Punjab, due to its agro-climatic and soil conditions, is producing 100 percent of the Basmati rice in the country. The "Kalar" bowl of the world area, famous for producing Basmati rice is located between the Ravi and Chenab rivers in Punjab. IRRI is grown in both Punjab and Sindh.

MY 2014/15 rice production is forecast at 6.7 million tons, about 1.5 percent higher than MY 2013/14, as production is expected to increase after three years of successive floods. MY 2013/2014 rice production is also revised up to 6.6 million tons from the earlier estimates of 6.4 million tons in accordance with the latest government production data and industry estimates. The rise in production is mainly due to increase in area and deposition of nutrient rich top layer of soil after floods.

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 was showing a declining trend in recent years but reports from the field suggest that this trend has reversed in the last two 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 2013, domestic rice prices, especially basmati rice, displayed an upward trend, as retail prices of irri-6 and basmati rice have increased by 10 and 8.9 percent, respectively, from 2012. The increase in the domestic price of rice is attributed to increase in exports. According to trade sources an estimated 200,000 tons of 40-100 percent broken rice is used in poultry and animal feed annually.

Trade:

Pakistan is coming out of sluggish rice export period and in MY 2013/14, rice exports are projected to be record 3.9 million tons up eight percent from MY 2012/13 revised exports of 3.6 million tons. The main reason is increase in production as the Pakistan rice sector is recovering from the losses of three successive floods period and decrease in the energy crisis. It may be noted that massive electricity load-shedding and gas shortages had affected the entire export chain compounding the production losses. Though Pakistan still faces an energy shortage with load shedding to cope with excessive electrical demand, the situation has been steadily improving since the present government came into place last summer. Rice exports in MY 2014/15 are also projected at 3.9 million tons as the rice exporters remain upbeat about maintaining the export momentum.

In another development, Pakistan is appears likely to grant non-discriminatory market access (NDMA) or Most Favored Nation (MFN) status to India boosting the trade between two neighboring countries. India has already awarded the MFN status to Pakistan in 1996. Rice farmer groups in Pakistan, including the Farmers' Association of Pakistan and Rice Millers Association, are opposing the

government's decision to grant non-discriminatory market access (NDMA) or Most Favored Nation (MFN) status to India. According to the NDMA/MFN provision, Pakistan will not impose duties on agricultural imports from India. However, farmer groups say that the government should impose import tariffs on agricultural commodities including rice as Pakistan's rice farmers will be adversely affected by the potential imports of Indian rice. The ag associations argued that Indian rice farmers have an advantage over the Pakistani farmers as the Indian government provides electricity to farmers at low prices, and also provides subsidies on diesel and agricultural loans at low interest rates. Pakistan farmer groups want the government to reverse its decision and have warned to stage a sit-in at the Indo-Pak Wagah Border for an indefinite period beginning March 31, 2014. Farmer groups say that they are not averse to trade with India but they would oppose any move to grant NDMA/MFN status to India until the government assures farmers in Pakistan of safeguarding the agriculture sector from unfair competition. However, some rice exporters in Pakistan say that MFN status to India will provide an opportunity to re-export India rice

Pakistan's major Basmati rice export markets are Iran, Iraq, Malaysia, U.A.E, and U.K and the United States, 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 $207 million in Pakistani agricultural exports to the United States in 2013, rice exports comprised $33 million (16 percent of the total) registering an increase of 72 percent over the preceding year. Khapra beetle detections from Pakistani rice consignments, which declined last year, have started to resurface again and some Pakistani rice consignments have been rejected by USDA due to presence of Khapra beetle.

Stocks:
MY 2014/15, ending stocks are forecast at 700,000 tons, a 16 percent increase from MY 2013/14 due to the prospects of a good harvest. Stocks for MY 2012/2013 are estimated at 500,000 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 barring debacles during flood years. 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**	**2012/2013**	**2013/2014**	**2014/2015**
	Market Year **Begin: Nov 2012**	**Market Year** **Begin: Nov 2013**	**Market Year** **Begin: Nov 2014**

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,400	2,400	2,700	2,755		2,760
Beginning Stocks	550	700	400	500		600
Milled Production	5,800	5,800	6,400	6,600		6,700
Rough Production	8,701	8,700	9,601	9,900		10,050
Milling Rate (.9999)	6,666	6,666	6,666	6,666		6,666
MY Imports	45	0	0	0		0
TY Imports	30	0	0	0		0
TY Imp. from U.S.	0	0	0	0		0
Total Supply	6,395	6,500	6,800	7,100		7,300
MY Exports	3,500	3,600	3,400	3,900		3,900
TY Exports	3,500	3,600	3,400	3,900		3,900
Consumption and Residual	2,495	2,400	2,600	2,600		2,700
Ending Stocks	400	500	800	600		700
Total Distribution	6,395	6,500	6,800	7,100		7,300
Yield (Rough)	3.63	3.63	3.56	3.59		3.64
TS=TD						