Rice Export Marketing Study

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Executive Summary

Rice is a major agricultural crop in Pakistan. It is an important source of food, ranking second to wheat, and it is an important source of foreign exchange, ranking second as an export crop behind cotton. Currently, rice accounts for about 8 percent of the total Pakistan exports.

Over the past decade the area planted to rice and rice yields have been relatively stagnant. Thus, the volume of production has been relatively stagnant. Rice exports have also remained relatively stagnant, but due to price increases, the value of rice exports has increased.

Prior to 1987/88 the Rice Export Corporation of Pakistan (RECP), a government agent, had a monopoly on all rice exports. It undertook all operations connected with procurement, milling, cleaning, storage, packing, and arranging all exports of rice. Basically, two types of rice have been exported: the Basmati variety, a high quality, long-grained, aromatic variety; and IRRI, a medium long-grained, non-aromatic variety. Pakistan has enjoyed in past years a near monopoly position in the world market for Basmati rice since Pakistan was the sole producer. On average, Basmati rice has accounted for about 25 percent of the total volume of rice exports from Pakistan and about 50 percent of the total value of rice exports.

Recently, India, Thailand and the United States have begun to place a competitive Basmati on the market providing stiff competition for Pakistan. In addition, lower oil prices in the Middle East countries, the major market for Pakistan's Basmati, have made these markets more price conscious and have placed downward pressure on prices. This is evidenced by the recently negotiated price for Basmati exported to the Gulf countries which was set at US$ 590/mt for 1990, a decline from US$675/mt during 1989.

New exporters such as Vietnam, Burma and China are also entering the world market for rice varieties similar to the IRRI variety exported by Pakistan. This situation plus factors such as shortages of foreign exchange in developing countries, particularly African nations who comprise a major segment of Pakistan's market for IRRI; a general trend towards achieving a self-sufficiency in some traditional rice importing countries, such as the Republic of Korea and Indonesia; and a rise in prices of rice relative to other cereals, especially wheat, have combined to depress the market for the other varieties of rice, particularly IRRI, exported by Pakistan.

In an attempt to expand markets and increase exports of rice, Pakistan in 1987/88 began to allow the private sector, under certain restrictions, to export for the first time Basmati rice. This action, plus the changes in the overall Pakistan rice export situation were the motivating factors for initiating this study.

The overall objective of this study is to identify the weaknesses, restrictions or limitations in Pakistan's rice export marketing system and export policies, particularly those related to private sector exports, and to recommend donor and government initiatives to improve policies and strengthen rice exports.

Limitations

The following were found to be, or have the potential to be limitations or restrictions to the efficient and effective export marketing of rice, particularly as related to private sector exports:

1. Restricting private exporters to dealing with only Basmati rice limits their ability to offer "package" deals to potential buyers and creates an inflexible pricing situation that results in less opportunity to develop new customers.

2. Restricting private exporters from exporting other then 1-25 Kg. packages of rice limits their ability to supply bulk orders to buyers who may want to package and sell under their own label-it is quite common for wholesalers in the U.S. and E.C.C. to follow this practice.

3. Requiring private sector sales of Basmati rice to be priced no lower than the negotiated RECP/Gulf Corporation Council bulk price (minimum price restriction)places severe limitations on the private sector exporters' ability to compete effectively with increasingly stiff competition from private traders in India and Thailand. It also creates a trading environment whereby potential buyers will be continuously bargaining for this minimum price regardless of quality or other market factors, i.e., a minimum price tends to become the maximum price thus limiting profit potential.

4. Subjecting private sector rice exporters to inspection and quality control by RECP places limitations on the private sector in terms of being able to supply potential buyers in a timely manner due to excessive time requirements, due to government bureaucracy, to complete the inspection process. The private sector fully supports the need for quality control and inspection to ensure that quality rice enters the market, but this needs to be carried out in a timely manner. Further, it is against normal practice of the international trade system to have one exporter responsible for quality control of other exporters-this is the case with RECP in the role of quality inspector. Quality inspection should be entrusted to an independent agency to avoid problems of conflict of interest.

5. The existence of the price support program has potential for becoming a limiting factor to the private sector rice exporter if a close relationship with international prices is not maintained such that adequate operating margin exist between the rice procurement price and the export price on the international market. If the margin becomes very narrow the private exporters could incur losses while RECP can be reimbursed for any losses it incurs from the government treasury.

6. There appears to be some relatively significant operational problems in RECP resulting in high cost exportable rice, particularly when compared with prices charged by competitors such as India, Thailand and Vietnam. If these high

cost are passed on to the private sector when it purchases rice from RECP, the private sector may no longer be competitive in the world market.

7. There has been a near complete lack of market development effort by RECP as evidenced by the relatively stagnant volume of rice exports over the past few years and by the dangerously concentrated market, specially for Basmati. Further, there has been almost a total lack of market intelligence information and market research regarding potential customer tastes and performances, purchasing abilities, etc. This is a significant limitation to the private sector which is now beginning to consider entering the rice export business.

8. There is a shortage of appropriate storage facilities in Pakistan which results in considerable post harvest losses. Further, a majority of the rice milled in Pakistan is milled by shellers without modern facilities resulting in milled rice quality not up to standard specifications. A large portion of rice to be exported has to be procured from these shellers unless the exporter has his own mill. RECP procures much of its rice from these shellers and then regrades, recleans and polishes the rice in their mills in Karachi. This is very costly and results in high priced rice available from RECP to private exporters. Both, the lack of adequate storage and the lack of efficient, high quality rice milling capacity limit the ability of the private sector to provide high quality, reasonably priced rice to potential buyers.

Recommendations

The following recommendations are designed to assist in the improvement of Pakistan's export policies and its rice export marketing system particularly as the policies and the system affect the efficiency and effectiveness of the private sector rice exporters The recommendations of this study are:

1. Allow the private sector to determine specific markets and then service the demands in these markets. To facilitate this situation it is recommended that: 1) the private sector be allowed to export all varieties; and 2) the private sector be allowed to export any size package of rice.

2. Re-evaluate the minimum export price policy with the view to possible changes. The options for change include: 1) eliminate the minimum price system; 2) set the minimum price at some level below the GCC negotiated price such that the minimum price acts as a minimum foreign exchange deposit; 3)continue the policy as is, but allow justified variances; and 4) set the minimum prices such that they reflect true quality differences in the market place.

3. Include rice as an eligible commodity (milled rice is an value-added commodity) for such programs or schemes as tax exemptions, refinancing, duty free inputs, and credit guarantees.

4. Initiate a loan concession program with low interest rates to provide working capital for millers and exporters.

5. Assign the rice quality control and inspection responsibilities to an independent agency.

6. Initiate a low interest loan program and an import duty free status for the purchase of equipment and facilities required to update and to add overall capacity to Pakistan's rice milling and storage operations including rice cleaning and grading plants, quality control laboratory equipment, storage silos and fumigation facilities.

7. An extensive market intelligence system must be initiated so that international market information can be collected, analyzed and disseminated to exporters in the form of market intelligence.

8. A feasibility study should be undertaken to evaluate alternative uses of rice milling by-products, rice husks and rice bran.

9. Private exporters and millers should be given appropriate representation on the Rice Board.

10. Procurement targets for paddy and rice need to be set on a more realistic basis.

11. Specific official quality specifications for paddy need to be developed and implemented in the rice industry.

12. Seminars/workshops should be organized to provide information to potential rice exporters regarding market demands and requirements, legal requirements for importing into countries and rules and regulations regarding export from Pakistan.

CHAPTER - I

INTRODUCTION

Background

Agriculture is Pakistan's single largest sector and is the mainstay of the nation's economy. Currently, agriculture contributes over 26 percent of the nation's Gross Domestic Product (GDP); employs almost one-half of the nation's labor force; and accounts for almost two-third of Pakistan's export earnings. In addition, it has been estimated that when all elements of Pakistan's agribusiness industry are also considered, about one-half of the GDP is produced by the combined agriculture and agribusiness industry and up to two-thirds of the nation's employment and three-fourths of its exports are accounted for by this total industry. Obviously, the agricultural industry is the major driving force of the nation's economy.

Agriculture must also play a critical role in future economic development of Pakistan. In practice and in theory, if agriculture is to contribute in an optimal manner to the development process it must provide food supplies at reasonable prices to the nation's growing population; provide surplus labor for other developing industrial sectors and capital for new businesses; provide revenue to government to be used to provide goods and services to assist in the development process; and provide exports to generate foreign exchange to be used for imports required by other developing sectors of the economy.

Recognizing that agricultural exports may have considerable potential in fulfilling the role that agriculture can play in the overall economic development process in Pakistan, USAID initiated a study of restrictions on agricultural exports. The purpose of the study was to analyze the restrictions on, and potential benefits from, agricultural exports from Pakistan. The commodities included in the study, however, did not include rice, and rice is a major export commodity from Pakistan. Rice exports in general have been relatively stagnant over the past few years even though Pakistan enjoyed a near monopoly position in the world market for Basmati rice, an aromatic, high quality, long-grained variety grown primarily in the Punjab region of Pakistan. Further, the private sector was recently allowed to, with certain restrictions, become involved in the exporting of rice which heretofore was under monopoly of the Government.

In an effort to evaluate the future potential for rice exports from Pakistan in relation to the world rice market situation, and to investigate the implications of various policies and restraints implemented by the Pakistan Government on rice exports, particularly private sector exports, USAID commissioned this study, "Rice Export Marketing Study".

Objective of the Study

The overall objective of this "Rice Export Marketing Study" is to identify weaknesses in Pakistan's rice export marketing system and export policies and recommend donor and government initiatives to improve policies and strengthen rice exports. Also the study is to assess the position of Pakistan rice exports in relation to competition in the international market.

Scope of Work

The specific scope of work for this study includes:

a) Describe the current rice export marketing system in Pakistan and its strengths and weaknesses in relation to other competitors in the international market.

b) Identify government regulations, restrictions and policies relating to rice export with particular references to the role of the public and private sectors.

c) Identify specific export impediments caused by inadequate government and other marketing facilities.

d) Summarize and review pending policy recommendations relating to strengthening Pakistan's rice export marketing system.

e) Evaluate the policy recommendations identified in (d) and assess, in quantitative terms wherever possible, the likely impact of these recommendations on specific government objectives such as foreign exchange earnings, government revenues, maintenance of quality standards, etc.

f) Recommend donor and GOP initiatives to improve Pakistan's rice export policies and strengthen its export marketing system.

g) Recommend, if considered necessary, terms of reference for further studies within the country and abroad of support to Pakistan's rice export program.

Methodology of the Study

The approach followed (methodology) to secure input information for the conduct of this study includes the following elements:

1) A review was conducted of recent studies and government documents relating to rice export marketing - a listing of literature reviewed is attached as Annexure 1.

2) Interviews were conducted in Islamabad and Lahore with officials of the Ministry of Commerce and the Rice Export Corporation of Pakistan (RECP) and with private sector rice producers, rice millers, and rice exporters -- a listing of individuals interviewed is attached as Annexure 2.

3) Various statistical data required for the analysis of the rice industry were collected from the Ministries of Commerce and Food, Agriculture and Cooperatives, The Federal Bureau of Statistics, USAID, and the Economic Analysis Network/Economic Policy Analysis (EAN/EPA) Project.

Outline of Report

This report, "Rice Export Marketing Study" is comprised of three main sections:

I. THE PAKISTAN RICE SITUATION;

II. ASSESSMENT OF IMPEDIMENTS OR WEAKNESSES OF THE RICE EXPORT MARKETING SYSTEM; and

III. RECOMMENDED INITIATIVES TO STRENGTHEN THE RICE EXPORT MARKETING SYSTEM.

I. THE PAKISTAN RICE SITUATION:

This section reviews the trends in: 1) rice production in Pakistan, by variety, including area, volume, value and yields; 2) government price supports and procurement of rice; and 3) exports of rice by variety and by country of import including the significance of rice exports to total Pakistan exports and positions of Pakistan exports in the world rice market.

In addition, this section presents a brief overview of the components of the rice marketing system. This overview includes a brief description of the various functions performed by the marketing system in preparing and marketing rice in the export market.

II. ASSESSMENT OF IMPEDIMENTS OR WEAKNESSES OF THE RICE MARKETING SYSTEM IN PAKISTAN:

This section begins with an identification of the various government regulations, restrictions and policies which are currently enforced or are pending which affect the export of rice. These include the price support system, government procurement policy, private sector export policy, and direct marketing by the public sector. The various institutions involved with developing and implementing these policies are also briefly described.

This section also identifies and assesses impediments and weaknesses of the rice export marketing system including those related to the performance of the marketing system and the institutions in the system as well as those related to the formulation of policies and provision of services by the public sector.

III. RECOMMENDED INITIATIVES TO STRENGTHEN THE RICE EXPORT MARKETING SYSTEM IN PAKISTAN:

This section presents recommendations regarding Government and/or Donor Agency initiatives which can lead to improvement of rice export policies and a strengthening of the rise export marketing system.

CHAPTER II

THE PAKISTAN RICE SITUATION
Production, Markets and Exports

Production

Rice is an important agricultural crop throughout the world. It is harvested on about 146 million hectares (Table 1) and is the staple food for an estimated two billion people. World rice production in recent years has exceeded 460 million tonnes, rough rice basis (about 300 million tonnes of milled rice). FAO projects an estimated production of 509 million tonnes of paddy in 1989. China is the world's largest producer, accounting for about 43 percent of world production, followed by India which produces about 26 percent and Indonesia which produces about 10 percent of the world's production. The eight largest producers of rice (Table 1) account for over 80 percent of the world's production.

Although Pakistan ranks 14th among the leading rice producing countries and produces only about 1 percent of the world production of rice, rice is a major agricultural crop in the country. It is an important source of food for domestic consumption and of foreign currency exchange by export. Rice occupies second place, following wheat, in importance as a food crop and second place in importance as an export crop behind cotton. In 1988/89, 12 percent of land in agricultural crops in Pakistan was devoted to the production of rice and 13 percent of the nation's value added by agricultural crops was contributed by rice.

During the past decade, rice production in Pakistan has been relatively stagnant in terms of total area in rice production, yield, and consequently, total production (Table 2). During the period 1980/81 - 1988/89 an average of 1,980,000 hectares has been planted to rice, with the low of 1,863,000 hectares in 1985/86 to a high of 2,042,000 hectares in 1988/89. Total production of rice averaged 3,278,000 tonnes with the high of 3,486,000 tonnes in 1986/87 and a low of 2,919,000 tonnes in 1985/86.

The composition of rice production by variety during the 1980/81 - 1988/89 period has also remained relatively constant. Basmati rice, a high quality, long-grained, aromatic variety grown primarily in the Punjab region, has accounted for an annual average of 834,000 hectares with an average production of 978,800 tonnes (40 percent of the area and 30 percent of total production) (Table 3). The medium long-grained IRRI variety has accounted for an annual average of 924,000 hectares with an annual average production of 2,009,000 tonnes (46 percent of the area and 61 percent of total production). The yield of Basmati rice averaged 1175 Kg/Ha during the period while the IRRI yield averaged 2174 Kg/Ha. It does appear that because of the favorable price situation with Basmati rice, there has been an increase in the area being planted to Basmati over the past four years. However, because of the general decline in yield over the same period, total production has remained stagnant. A new variety of Basmati has been developed and is currently being adopted. This variety, Basmati 385, is projected to have potential for about a 30 percent increase in yield.

TABLE. 1

WORLD PADDY RICE PRODUCTION AND MAJOR PRODUCING COUNTRIES.

	1979-81			1986			1987			1988		
	Area Harv (000 Ha)	Yield (Kg/Ha)	Prod (000 MT)	Area Harv (000 Ha)	Yield (Kg/Ha)	Prod (000 MT)	Area Harv (000 Ha)	Yield (Kg/Ha)	Prod (000 MT)	Area Harv (000 Ha)	Yield (Kg/Ha)	Prod (000 MT)
World :	143747	2756	396218	144303	3246	468456	141092	3286	463679	145919	3346	483291
Country :												
China	34323	4244	145665	32798	5329	174790	32694	5413	176958	32500	5303	172333
Bangladesh	10310	1952	20125	10610	2178	23110	10322	2240	23120	10322	2240	23120
Brazil	5932	1438	8533	5585	1857	10374	5980	1742	10419	5943	1979	11761
Burma	4684	2698	12637	4666	3027	14126	4483	3042	13636	4776	2838	13553
Indonesia	9063	3263	29570	9988	3977	39727	9923	4039	40078	10090	4140	41769
India	40091	1860	74557	40341	2156	86986	38165	2189	83530	41000	2576	105600
Thailand	8953	1895	16967	9194	2052	18868	9083	1986	18042	10417	1998	20813
Viet Nam	5558	2098	11663	5689	2813	16003	5594	2700	15103	5600	2714	15200
Total	118914	2689	319717	118871	3230	383984	116244	3277	380886	120648	3350	404149
Pakistan	1981	2465	4884	2066	2531	5230	1963	2476	4861	1939	2360	4577
Top eight producing countries as a percent of total	83		81	82		82	82		82	83		83
Pakistan as a percent of total	1.4		1.2	1.4		1.1	1.4		1.0	1.3		0.9

Source : FAO Quarterly Bulletin Of Statistics.

TABLE. 2

PAKISTAN RICE PRODUCTION, AREA AND YIELD.

YEAR	Area (000 ha)				Production (000 Tonnes)				Yield (Kg/Ha)			
	Basmati	Irri	Other	Total	Basmati	Irri	Other	Total	Basmati	Irri	Other	Total
1980/81	823.7	841.1	268.3	1933.1	980.0	1796.6	346.6	3123.2	1190.0	2136.0	1292.0	1616
1981/82	844.0	872.8	259.2	1976.0	1054.9	2020.8	354.0	3429.7	1250.0	2315.0	1366.0	1736
1982/83	836.3	915.7	226.1	1978.1	1010.4	2123.6	310.7	3444.7	1208.0	2319.0	1374.0	1741
1983/84	825.2	941.3	232.0	1998.5	965.2	2069.9	304.4	3339.5	1170.0	2199.0	1312.0	1671
1984/85	779.1	974.1	245.3	1998.5	958.3	2038.7	318.2	3315.2	1230.0	2093.0	1297.0	1659
1985/86	759.0	902.3	201.9	1863.2	883.1	1784.6	251.2	2918.9	1164.0	1978.0	1244.0	1567
1986/87	803.7	1055.5	206.4	2065.6	916.9	2309.9	259.5	3486.3	1141.0	2188.0	1257.0	1688
1987/88	835.3	952.6	175.1	1963.0	943.2	2069.8	227.9	3240.9	1129.0	2173.0	1302.0	1651
1988/89	1003.8	862.8	175.1	2041.7	1097.4	1867.4	235.2	3200.0	1093.0	2164.0	1343.0	1567

Source : Agricultural Statistics Of Pakistan 1988/89.

Table. 3 BASMATI AND IRRI RICE PRODUCTION AS A PERCENT OF TOTAL RICE PRODUCTION, PAKISTAN

YEAR	Percentage of Total Rice Production			Percentage of Total Rice Area		
	Basmati	Irri	Others	Basmati	Irri	Others
1980/81	31	58	11	43	43	14
1981/82	31	59	10	43	44	13
1982/83	29	62	9	42	46	12
1983/84	29	62	9	41	47	12
1984/85	29	61	10	39	49	12
1985/86	30	61	9	41	48	11
1986/87	26	66	7	39	51	10
1987/88	29	64	7	42	48	10
1988/89	34	58	8	49	42	9

Source: Table. 2

Price

Although average price is difficult to determine due to differences in quality, time of marketing, location of markets, marketing channel followed, etc., Table 4 presents average annual wholesale prices to illustrate the relative relationship between prices for the Basmati and IRRI varieties. The average annual wholesale price for IRRI rice is currently about 42 percent of the price for Basmati. And, as can be seen in the Table, this relationship has been reduced from around 50-55 percent during the late 1970s. This has been primarily the result of increasing supplies and sluggish demand for the IRRI comparable quality varieties on the world market. Thus, prices of the IRRI varieties have declined, particularly since 1982/83.

Table 5 presents a comparison of prices at the various levels of the marketing system for Basmati rice. The first column presents the farm gate average price for paddy which has steadily increased from 2.24 Rs/Kg in 1984/85 to 3.51 Rs/Kg in 1988/89. The second column adjusts the paddy price to an equivalent rice price (by assuming a 65 percent rice yield from paddy) so that a comparison can be made to the wholesale and retail rice prices. It should be pointed out that the value of the two by-products from rice milling, husks and bran, must be included to make a complete evaluation of the comparison of the total value of rice at the retail level. The average annual wholesale price for Basmati rice as can be seen in column 3 of Table 5 has also steadily increased during the period from 5.88 Rs/Kg to 7.97 Rs/Kg. The same trend is seen for the average annual retail price, increasing from 6.68 Rs/Kg to 8.38 Rs/Kg. The farm share of the retail price, without consideration of the value of the two by-products is shown in the final column. This farm share has also been increasing over the past five years, from 51.6 percent in 1984/85 to 64.4 percent in 1988/89.

A key component of agricultural programs in Pakistan since 1980 has been the price support program. Price supports for rice have been established in an attempt to cover cost of production and to stabilize domestic prices against widely fluctuating international prices and thereby maintain incentives for increased crop production. The established support prices since 1975/76 are shown in Table 6 for the two main varieties of rice. These prices are for paddy and for FAQ and superior rice. A comparison of the support price for Basmati paddy in Table 6 with the average paddy harvest price for Basmati shown in Table 5 reveals that in each year since 1984/85 the price received at the farm gate for paddy has exceeded the support price.

It should also be noted that the support price has been consistently increased for both paddy and rice for both varieties over the 15 year period. The support price for Basmati paddy and rice however, has been increased at a higher rate than for the IRRI-6 variety. Over the 15 year period the support price for Basmati paddy has increased by 200 percent while the price for IRRI-6 paddy has been increased by only 124 percent. This differential in support price increases was the result of an attempt by government to encourage the increased production of Basmati rice, the higher priced premium rice in the world market place. Basmati is the rice for which Pakistan has enjoyed a market niche, resulting from a general lack of competition because Basmati rice was not under major production elsewhere. In fact, Pakistan has enjoyed a near monopoly in international trade of Basmati. This situation appears to be changing however, with production of Basmati rice now occuring in India, the United States and Thailand. This rice is beginning to enter the

Table. 4

AVERAGE ANNUAL WHOLESALE PRICE
(Rs./40 Kgs)

YEAR	PESHAWAR		LAHORE	
	Basmati	Irri	Basmati	Irri
1975	126.87	64.77	136.14	65.23
1976	148.44	80.59	147.58	64.78
1977	186.79	139.21	154.85	80.66
1978	197.97	111.95	167.19	68.17
1979	189.73	80.53	160.37	61.17
1980	217.31	107.92	171.25	74.67
1981	274.58	130.00	212.79	102.40
1982	302.71	138.44	212.75	97.75
1983	310.00	139.17	206.67	106.56
1984	307.92	134.76	231.28	117.95
1985	292.49	129.98	245.78	110.93
1986	291.74	120.56	252.03	114.89
1987	293.74	119.75	265.03	116.17
1988	301.92	127.75	273.75	124.69

Source: Agricultural Statistics Of Pakistan, 1988/89.

Table. 5 PADDY HARVEST PRICE, RICE WHOLESALE AND RETAIL PRICE, BASMATI

YEAR	Average Paddy Harvest Price (Rs./Kg)	Average Paddy Harvest Price Adjusted To Rice Equivalent Price [1] (Rs./Kg)	Average Rice Wholesale Price (Rs./Kg)	Average Rice Retail Price (Rs./Kg)	Farm Share Retail Price (%)
1984/85	2.24	3.45	5.88	6.68	51.6
1985/86	2.49	3.83	6.75	7.37	51.6
1986/87	2.66	4.09	7.10	7.74	52.8
1987/88	3.40	5.23	7.94	8.25	63.4
1988/89	3.51	5.40	7.97	8.38	63.4

Note:

[1] Assumes 65 percent rice yield from Paddy.

Source: Economic Survey 1988/89 and Economic Analysis Network (EAN/USAID).

TABLE. 6

PROCUREMENT/SUPPORT PRICES OF RICE, PAKISTAN.
(Rs per 40 kgs)

YEAR	Basmati Clean			Irri-6 Clean		
	Paddy	FAQ	Superior	Paddy	FAQ	Superior
1975/76	47.80	96.45	107.17	26.79	42.87	51.44
1976/77	55.73	108.80	120.00	32.15	57.87	64.30
1977/78	59.48	108.80	112.53	32.15	49.30	57.87
1978/79	64.30	117.89	128.60	32.15	52.5[illegible]	60.00
1979/80	64.30	117.89	128.60	32.15	52.51	60.00
1980/81	75.00	137.00	147.00	38.58	63.00	72.00
1981/82	85.00	150.00	156.00	43.00+	72.50	83.00
1982/83	88.00	154.00	154.00	49.00+	80.00	89.00
1983/84	90.00	160.00	160.00	51.00+	83.00	92.00
1984/85	90.00	160.00	160.00	51.00+	83.00	92.00
1985/86	93.00	166.00	174.00	53.00+	86.50	95.00
1986/87	102.00	204.00		53.00+	86.50	95.00
1987/88	130.00	250.00		55.00+	89.00	98.00
1988/89	135.00	258.00	268.00	60.00	100.00	111.00
1989/90	143.50	276.00	283.00	60.00	113.00	124.00

+ Extra Rs 4.00 are paid for superior quality.

Source : Agricultural Statistics Of Pakistan 1988-89.

marketplace. It is interesting to note that a significant portion of rice research in the United States is being devoted to the further development of aromatic rice.

The high degree of competition for the IRRI variety type rice (lower quality than Basmati) continues to be present in the world market. In fact, it has been reported that Vietnam has recently developed production of rice that is equivalent to IRRI-6, Sind 30-35 percent and 40-45 percent brokens with yields that exceed those achieved in the Philippines. Vietnam is selling this rice at prices as much as US$ 75 per tonne lower than 35 percent broken Thailand rice. It is further reported that world rice production has increased considerably this year and, in fact, there are now more sellers in the market than rice buyers.

Cost of Production

Data on cost of production for most agricultural crops in Pakistan are not readily available, and when available may not be too reliable. To a large degree this is because of the political sensitivity of the use of this data in setting support prices. The most recent cost of production data available for rice is unofficial data presented in "Pakistan Agricultural Situation" prepared by the Office of Agricultural Affairs of the American Embassy in Islamabad. The document is dated March 1, 1990.

The average cost of production for Basmati paddy in Punjab as identified in the Embassy report was Rs 114 per 40 Kgs. in 1988/89 compared with Rs 109 per 40 Kgs. in 1987/88. The cost of production for IRRI in Sind province averaged Rs 56 per 40 Kgs. in 1988/89 compared with Rs 53 per 40 Kgs. in 1987/88. The cost increases were primarily due to increased cost of fertilizers (particularly Diammonium Phosphate), irrigation, and labor (for nursery transplanting, harvesting and threshing). The cost of these items add to approximately 42 percent of the total cost of production of rice.

Profitability

Table 7 provides an estimate of minimum farm production level profits by relating the above costs of production to the paddy support prices given in Table 6. Thus, if a producer sold his Basmati paddy in 1988/89 for the support price (Rs 135/40 Kg) and had the average production cost (Rs 114/40 Kg), then his profit was Rs 21/40 Kg.

Using the average yields presented in Table 2, profit per hectare for Basmati paddy in 1987/88 (based upon receipt of the support price) is estimated at Rs 592.73 while in 1988/89 it is estimated at Rs 573.83 due to lower average yield. The profit per hectare for IRRI paddy is estimated at Rs 108.65 in 1987/88 and Rs 216.40 in 1988/89.

Market

In Pakistan the total production of all food grains except rice is consumed domestically. In the case of rice, a significant portion of total production is exported. This is a different situation than in most other Asian countries. About 90 percent of the world's rice crop is produced in Asia and, in general, rice is the preferred staple. Further, in Asian

TABLE. 7. COMPARISON OF PADDY COSTS OF PRODUCTION AND SUPPORT PRICES FOR PADDY

	Basmati Paddy (Rs./40 Kg)			Irri Paddy (Rs./40 Kg)		
	Support price	Cost of Production	Profit margin	Support price	Cost of Production	Profit margin
1987/88	130.0	109.0	21.0	55.0	53.0	2.0
1988/89	135.0	114.0	21.0	60.0	56.0	4.0

Source: Cost of production- U.S. Embassy
Support prices- Table 6

countries, other than Pakistan, rice is a subsistence crop and thus, a vast majority of the rice produced is consumed on-farm.

The availability of rice in Pakistan is shown in Table 8. The Table presents the amount of rice available for domestic consumption and, since 1987/88 when the private sector was first allowed to export rice, for private sector export. This availability was determined by subtracting on-farm consumption, payment-in-kind, and government procurements from total production. In 1988/89, for example, production of Basmati rice totaled 1,097,400 MT of which about 823,100 MT entered the market. The government procured 499,900 MT of this rice leaving 323,200 MT available for domestic consumption and for export by the private sector.

Exports

Rice exports in past years, have been a significant portion of Pakistan's total exports (Table 9). In 1978/79 rice exports accounted for 20 percent of all exports from Pakistan. This percentage has declined to the point that rice accounted for only 8.2 percent of all exports in 1987/88. However, this is still a significant portion to be accounted for by a single commodity. The decline in the percentage of total exports accounted for by rice was caused by a much more rapid increase in export of other products than was achieved by rice. The value of all exports during the period 1978/79 - 1987/88 increased by 363 percent, while the value of rice exports increased by only 89 percent.

When analyzing the rice export situation for Pakistan, one must begin with the world market. Table 10 presents the quantity of world exports of rice and the quantities of rice marketed by the largest exporting countries. As can be seen in the Table, world rice exports have remained relatively stagnant over the past few years. This compares to a relative increase in world production over this period (Table 1) which indicates that, in general, world production increases have oeen designed to meet increased domestic demands rather than to increase exports. It should also be pointed out that most of the increase in world production resulted from yield improvements not increased area devoted to production (Table 1). The average volume of rice exports in the world for the period 1981/82 - 1986/87 was 12,169,000 mt. This amounts to only 4 percent of world production. Thus, only a small portion of rice production is traded internationally.

Thailand is the world's largest rice exporting country, followed by the United States and Pakistan. The EEC and China place fourth and fifth.[1] These top five exporting countries account for over 80 percent of all rice exports and this percentage of market share has been increasing in recent years, primarily due to increased market share achieved by Thailand and China. Between 1981/82 and 1986/87, China increased its share of the world market from 4 percent to 8 percent while Thailand increased its share from 31 percent to

1) It has been stated in the March, 1990 issue of *"South"* magazine (pg. 36) that Veitnam became the third largest rice exporter in 1989, exporting more than 1.4 million tonnes.

TABLE 8

RICE AVAILABILITY (000,MT)

	1985/86		1986/87		1987/88		1988/89	
	BASMATI	IRRI	BASMATI	IRRI	BASMATI	IRRI	BASMATI	IRRI
Production	883.1	1784.6	916.9	2309.9	943.2	2069.8	1097.4	1867.4
Qty. Marketed [1]	662.8	1338.5	687.7	1732.4	707.4	1552.4	823.1	1400.6
Govt. Procurement	226.5	948.6	236.2	1049.0	220.3	614.1	499.9	578.7
Available for domestic consumption and private export	435.8	389.9	451.5	683.4	487.1	938.3	323.2	821.3

[1] Estimated at 75 % of production.

Source : Tables. 2 and 15

Table. 9 VALUE OF TOTAL EXPORTS AND RICE EXPORTS, PAKISTAN

YEAR	All EXPORTS (000 Rs)	Rice Exports (000 Rs)	Rice as a % of Total Exports
1978/79	16,925,015	3,380,006	20.0
1979/80	23,410,124	4,179,277	17.9
1980/81	29,279,489	5,601,626	19.1
1981/82	26,269,865	4,127,911	15.7
1982/03	34,441,703	3,682,552	10.7
1983/84	37,338,571	5,688,352	15.2
1984/85	37,979,415	3,339,742	8.8
1985/86	49,592,156	5,527,236	11.1
1986/87	63,354,879	5,139,180	8.1
1987/88	78,444,560	6,404,373	8.2

Source: Pakistan Statistical Yearbook, 1989.

TABLE.10 WORLD RICE EXPORTS AND MAJOR EXPORTING COUNTRIES. (000 MT)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
World:	12048.8	11503.9	12741.0	11211.3	12609.5	12539.9	
Country:							
China	468.8	580.0	1160.0	1006.2	949.5	1022.0	703.0
EEC	932.6	939.1	976.6	1196.8	1186.7	1155.1	748.5
Pakistan	951.0	904.8	1265.0	718.7	1316.0	1240.4	1210.4
Thailand	3782.8	3476.2	4615.7	4061.7	4523.6	4443.3	5027.6
U.S.A	2540.3	2384.8	2141.3	1940.0	2392.0	2471.5	2259.9
Top five exporting nations as a percent of total exports	72.0	72.0	79.7	79.6	82.2	82.4	
Pakistan as a percent of total	7.9	7.9	9.9	6.4	10.4	9.9	

Source: UNCTAD Commodity Yearbook, 1989 & FAO Quarterly Bulletin Of Statistics.

35 percent. Pakistan's share increased minimally from about 8 percent to 10 percent while the United States maintained a market share of about 20 percent.

Total exports of rice by Pakistan are presented in Table 11. On the average, Basmati rice has accounted for about one-quarter of the quantity of rice exported and about one-half of the value (Table 12). This, of course, is due to the premium nature of Basmati rice. Trendwise, the export quantity of Basmati rice has remained relatively stable but the value has increased due to increased prices received. There has been a slight increase in the quantity of other varieties exported resulting in an increase in value.

Pakistan's market for Basmati rice lies primarily in the Middle East (Table 13). For example, although Pakistan exported Basmati rice to 27 countries during 1987/88, 95 percent of all Basmati exports went to eight Middle East countries. This percentage has been relatively consistant over the past few years. Saudi Arabia has been the largest importer of Pakistani Basmati rice, accounting for between 40 and 50 percent of the volume of exports from Pakistan over the past few years. This situation changed drastically in 1988/89 when Saudi Arabia's share fell to 18 percent. This was partially due to Iran coming into the market for the first time since 1983/84 and a significant increase in purchases by Dubai. The absolute volume of imports of Basmati rice by Saudi Arabia fell by one-half the volume of the previous year.

The market for Pakistan varieties other than Basmati is much more diverse. For example, other variety rice was exported to a total of 43 countries in 1987/88 with only 48 percent going to the seven largest importers (Table 14). African nations have emerged as the major importers of this lower quality rice. Since 1975/76, African countries have imported 52 percent of other variety rice exported by Pakistan, Asian countries have accounted for 23 percent of the total and the Middle East for 10 percent.

The Rice Export Corporation of Pakistan Ltd. (RECP), was set up in 1974 as a private limited company under the Company Act of 1913, to undertake exports of rice. The entire capital of the Corporation was subscribed by the Government of Pakistan. The Corporation was designed to act as an agent of the government, having full monopoly on all rice exports. It was to undertake all operations connected with procurement, milling, cleaning, storage, packing, and arranging exports.

The annual volume of rice, by variety, procured by RECP since 1976/77 is shown in Table 15. As can be seen, procurement has varied somewhat from year to year with a high of 1,285,000 tonnes in 1986/87 to a low of 655,000 tonnes in 1975/76. As a percent of total production, government purchases of all varieties of rice has averaged about 34 percent annually since 1975/76 with a high of 40 percent in 1985/86 to a low of 26 percent in 1987/88 (Table 16). The procurement of Basmati rice has averaged about 31 percent of production annually over the period while procurement of other varieties has averaged about 40 percent.

If government purchases of rice are related to the actual amount of rice entering into the marketing system (the amount of rice remaining after deduction of the amount of rice kept by farmers for home consumption or used for payment-in-kind and the amount kept

Table. 11 QUANTITY AND VALUE OF RICE EXPORTS BY VARIETY, PAKISTAN.

YEAR	Quantity (000 Tonnes)			Value (Million Rs)		
	Basmati	Others	Total	Basmati	Others	Total
1982/83	237.7	667.1	904.8	1884.0	1798.0	3682.0
1983/84	406.0	859.0	1265.0	3287.0	2401.0	5688.0
1984/85	174.1	544.6	718.7	1648.3	1691.4	3339.7
1985/86	260.5	1055.5	1316.0	2801.7	2725.5	5527.2
1986/87	187.7	1052.7	1240.4	2285.8	2766.8	5052.6
1987/88	221.8	988.4	1210.2	2828.3	3576.1	6404.4
1988/89	228.0	626.3	854.3	3015.9	2950.7	5966.6

Source: Agricultural Statistics Of Pakistan 1988-89.

Table. 12 BASMATI RICE EXPORTS AS A PERCENT OF TOTAL RICE EXPORTS, PAKISTAN

YEAR	Basmati as a Percent of Total Quantity of Rice Exported	Basmati as a Percent of Total Value of Rice Exported
1982/83	26.3	51.2
1983/84	32.1	57.8
1984/85	24.2	49.4
1985/86	24.7	50.1
1986/87	15.1	45.2
1987/88	18.3	44.2
1988/89	26.7	50.5

Source Table. 11

TABLE. 13

RICE EXPORTS BY IMPORTING COUNTRY, BASMATI

BASMATI

Importing country	1983/84 QTY (MT)	1983/84 VALUE (000 Rs)	1984/85 QTY (MT)	1984/85 VALUE (000 Rs)	1985/86 QTY (MT)	1985/86 VALUE (000 Rs)	1986/87 QTY (MT)	1986/87 VALUE (000 Rs)	1987/88 QTY (MT)	1987/88 VALUE (000 Rs)	1988/89 QTY (MT)	1988/89 VALUE (000 Rs)
ABU DHABI	17,120	136,752	4,147	44,114	32,078	361,229	200	3,185	21,500	279,053	11,854	157,903
BAHREIN	15,180	122,972	10,162	107,460	10,208	123,584	10,973	142,236	16,023	200,418	188	2,461
DUBAI	23,040	202,904	31,604	293,608	22,275	267,416	15,738	212,250	19,221	255,470	68,069	915,459
IRAN	159,696	1,287,259	---	---	---	---	---	---	---	---	42,540	596,279
KUWAIT	48,420	388,631	19,466	167,216	29,441	319,750	23,057	275,223	44,540	567,221	22,467	303,274
QATAR	15,271	124,779	200	2,683	9,420	110,004	7,880	99,486	8,394	108,919	19,192	253,130
S. ARABIA	87,322	698,448	54,683	514,073	110,908	1,120,633	97,839	1,149,253	87,339	1,097,004	40,238	532,874
S.OF OMAN	33,234	267,772	49,026	467,821	38,733	407,976	22,611	279,074	13,600	170,124	5,498	73,587
OTHERS	6,646	57,404	4,772	51,365	7,472	91,145	9,356	125,064	11,208	150,113	17,910	180,949
TOTAL	405,929	3,286,921	174,060	1,648,340	260,535	2,801,737	187,654	2,285,771	221,825	2,828,322	227,956	3,015,916
Top eight importing countries as a percent of total	98.4	98.3	97.3	96.9	97.1	96.7	95.0	94.5	94.9	94.7	92.1	94.0

Source : Foreign Trade Statistics Of Pakistan, Exports April-June, 1985, 1987 & 1989.

ABLE. 14 RICE EXPORTS BY IMPORTING COUNTRY, OTHER RICE

OTHER RICE

Importing Country	1983/84 QTY (MT)	1983/84 VALUE (000 Rs)	1984/85 QTY (MT)	1984/85 VALUE (000 Rs)	1985/86 QTY (MT)	1985/86 VALUE (000 Rs)	1986/87 QTY (MT)	1986/87 VALUE (000 Rs)	1987/88 QTY (MT)	1987/88 VALUE (000 Rs)	1988/89 QTY (MT)	1988/89 VALUE (000 Rs)
FR.CTY ns	15,742	41,191	32,059	110,013	39,198	100,096	---	---	90,036	328,077	173,241	951,689
AMEROON	130,581	372,925	86,282	267,641	137,106	325,099	61,016	160,667	33,044	97,618	---	---
RAN	96,034	271,989	15,000	42,958	149,000	441,261	244,377	734,829	48,597	146,877	25,000	122,542
VY.COAST	165,525	435,689	7,134	23,994	112,185	256,048	103,421	242,617	48,251	141,078	17,849	67,211
ENEGAL	21,598	51,182	20,000	57,810	27,978	71,068	62,571	124,519	85,769	216,275	96,409	380,363
RI LANKA	2,055	5,722	100	342	96,681	246,261	75,319	187,453	138,764	515,468	75,947	394,541
URKEY	30,008	121,752	30,500	104,773	334	1,013	14,363	43,818	32,325	116,313	25,431	109,500
THERS	377,516	1,100,981	353,551	1,083,871	493,000	1,284,653	493,677	1,272,956	511,588	2,014,355	212,487	924,822
OTAL	859,059	2,401,431	544,626	1,691,402	1,055,482	2,725,499	1,052,744	2,766,859	988,374	3,576,061	626,364	2,950,668
p seven porting untries as percent total	56.1	54.2	35.1	35.9	53.3	52.9	53.1	54.0	48.2	43.7	66.1	68.7

urce : Foreign Trade Statistics Of Pakistan, Exports April-June, 1985, 1987 & 1989.

Table. 15 GOVERNMENT PROCUREMENT OF RICE BY VARIETY, PAKISTAN

Government Procurement
(000 Tonnes)

YEAR	Basmati	Irri-6	Others	Total
1976/77	201.4	429.9	23.3	654.6
1977/78	193.3	714.2	0.5	908.0
1978/79	390.8	838.0		1228.8
1979/80	382.4	754.4		1136.8
1980/81	320.1	704.6		1024.7
1981/82	388.2	706.3		1094.5
1982/83	337.5	889.6		1227.1
1983/84	264.6	883.2		1147.8
1984/85	264.8	937.9		1202.7
1985/86	226.5	948.6		1175.1
1986/87	236.2	1049.0		1285.2
1987/88	220.3	614.1		834.4
1988/89	499.9	578.7		1073.6

Source: Agricultural Statistics of Pakistan, 1988/89.

Table. 16 GOVERNMENT PROCUREMENT OF RICE AS PERCENT OF TOTAL PRODUCTION.

Government Procurement as Percent of Total Production

(Percent)

YEAR	Basmati	Irri	Total
1980/81	32.7	39.2	32.8
1981/82	36.8	35.0	31.9
1982/83	33.4	41.9	35.6
1983/84	27.4	42.7	34.4
1984/85	27.6	46.0	36.3
1985/86	25.6	53.2	40.3
1986/87	25.8	45.4	36.9
1987/88	23.3	29.7	25.7
1988/89	45.5	31.0	33.7

Source: Table. 15

for seed or wasted) it is found that government purchases of all varieties of rice averaged about 46 percent of the total amount of rice entering the marketing system (Table 17). When comparing government purchases by rice variety, it is found that an average of 41 percent of Basmati marketed was procured by the government and an average of 54 percent of the IRRI variety rice marketed was procured by government.

Stocks of rice, procured under the procurement price system, are held at the RECP storage facilities at Karachi until they are exported. Stocks are generally at their lowest at the beginning of November and then increase as rice is purchased after harvest until stocks reach their peak in April-June. Table 18 presents rice stock balances on 1 July for each year since 1976/77. In general, these stocks have been relatively high and show an increasing trend (even though production has been relatively stagnant). Levels of varieties other than Basmati have been exceptionally high since 1985/86 which reflects the increased world supplies on the market and the increasing difficulty encountered in exporting of these varieties.

As a summary of the export market situation facing Pakistan's rice industry the following can be stated:

1. The world rice market can be characterized as a thin market. It is a thin market in terms of the small volume of trade (less than 5 percent of the rice produced annually is traded internationally). Thus, a major variation in production in one or two of the major producing countries can have a significant impact on world demand and, consequently, on world rice prices.

2. The world rice market can be characterized as a heavily asymetrical market. It is a asymetrical market in that it is dominated by a few major exporting countries, i.e. Thailand, United States, Pakistan, China and the EEC (primarily Italy), and numerous importing countries. The number of importing countries has increased and become more dispersed over the past decade as consumption has increased in West African countries and the Middle East. Ten years ago, all of the top ten importing countries were located in Asia and accounted for about 60 percent of rice imports. This change in the geographical pattern of import demand has affected the qualities of rice traded. The increased demand from the Middle East created a premium market for higher quality rice (Pakistan's exports of Basmati rice) while the higher demand from African countries has been for lower cost rice with a high content of brokens.

3. The world rice market can be characterized as an imperfect market. The imperfect market is a result of the diverse number of qualities of rice in the market and the general lack of commonly used grades. Thus, there is no single "world market" price for rice. The price of rice depends upon the specific quality characteristics of rice. In addition, there is no central spot or futures market for rice except for the Thai Board of Trade cited prices which can differ by as much as 10 percent from the actual price at which rice is traded in the market.

In addition, rice of a comparable quality, from a different origin, may be sold at a discount or a premium to the Thai price (which is commonly cited as the "world price")

Table. 17 GOVERNMENT PROCUREMENT OF RICE AS PERCENT OF RICE MARKETED [1]

YEAR	Basmati	Irri	All Varieties Total
1980/81	43.6	52.3	43.8
1981/82	49.1	46.6	42.5
1982/83	44.5	55.5	47.5
1983/84	36.5	56.9	45.8
1984/85	36.8	61.3	48.4
1985/86	34.2	70.9	53.7
1986/87	34.3	60.6	49.1
1987/88	31.1	39.6	34.3
1988/89	60.7	41.3	44.9

Note:

[1] Rice marketed is estimated at 25 percent of production (about 6% of production is waste and seed and about 19% is kept on the farm for home consumption or is payment-in-kind).

Table. 18 RICE STOCKS BALANCE ON JULY 1
(000 Tonnes)

YEAR	Basmati	Other	Total
1976/77	311.4	439.1	750.5
1977/78	106.9	207.2	314.1
1978/79	48.4	393.3	441.7
1979/80	265.0	400.0	665.0
1980/81	317.6	376.4	694.0
1981/82	228.3	253.0	481.3
1982/83	340.7	255.3	596.0
1983/84	454.3	471.1	925.4
1984/85	198.5	461.0	659.5
1985/86	234.8	810.4	1045.2
1986/87	202.4	723.9	926.3
1987/88	270.2	744.1	1014.3
1988/89	452.5 *	387.0 *	839.5 *

Note:

* stock on April 1

Source: Economic Survey 1988/89.

depending upon local supply/demand factors and proximity to the ultimate destination. In the absence of an effective spot or futures market, rice is traded on a flat basis -- with the possibility of either large profits or losses incurred by international traders.

4. The world market for rice can be characterized as a market in which governments are the key actors. Given the political importance in developing countries (the major rice producers and consumers) of ensuring sufficient rice supplies for consumers and the often conflicting goal of providing for the welfare of farmers (rice producers) who account for a significant portion of the population, the internal rice trade and rice importing is either tightly controlled or conducted directly by the government. Support prices, government held stocks and controlled imports are common. Thus, an exporting country will likely have to resort to government to government arrangements. It is estimated that approximately 50 percent of all rice exports are carried out by governments most of which is under government to government arrangements (Pakistan's RECP arangements with the Gulf Corporation Council).

5. Pakistan faces increasing competition and a depressed international market for rice exports. India, Thailand and the United States are providing stiff competition for Pakistan's Basmati rice exports. In addition, due to lower oil prices, the major importers of Basmati rice (the gulf counries) have become more price conscious and are reluctant to pay higher pries. For example, the recently negotiated price for Basmati rice exported to Gulf countries during 1990 being set at US$ 590/MT, a decline of $US 85/MT from the US$ 675 price during 1989.

Also, because of such factors as shortages of foreign exchange in developing countries, particularly African nations, a general trend toward achieving self sufficiency in some of the traditional importing countries and a rise in prices of rice relative to other cereals, especially wheat, the market for other varieties of rice (IRRI) has become depressed. In addition, new exporters (Vietnam) are entering this market with relatively lower price levels.

6. The situation that eight countries have consistently purchased over 90 percent of the total Pakistani exports of Basmati rice is to be considered a dangerously high concentration of export outlets. The result of this concentration is that the market for Basmati rice is primarily determined by local demand conditions in these markets only. Add to this the fact that other suppliers are beginning to penetrate these markets may well mean serious problems with maintaining current levels of exports let alone any expansion potential. This potentially serious situation appears to be the result of a near complete lack of market development activities by RECP, the monopoly exporter of Pakistan rice until 1987/88.

The Rice Marketing System in Pakistan

In this section a brief overview of the rice marketing system currently in operation will be presented in order to understand the various specific key marketing activities underlying the preparation of rice for export market.

Paddy Procurement Operation.

The crop procurement programs for agricultural commodities were started during the early 1950's. The government agency responsible for official marketing of rice is the Rice Export Corporation of Pakistan (RECP).

The major change that has taken place during the past year has been that the Rice Export Corporation of Pakistan no longer uses the services of Provincial Food Departments (of Sindh and Punjab) for procurement of paddy. The Rice Export Corporation of Pakistan now procures paddy on its own.

Producers of paddy often prefer to sell their produce through market dealers which fetches them a better price rather than selling directly to the mills. The private millers/dealers purchase their paddy requirement through the local markets, instead of direct purchases from producers.

In practice paddy inspection and quality standards need to be strictly imposed. Although, paddy specifications do exist, they are in general ignored by the millers/dealers. Procurement is based upon visual examination of the paddy by the buyer. The procurement transactions taking place in the markets or at the rice mills are subjective while determining the quality and price of paddy.

Rice Procurement Operation

RECP: The Rice Export Corporation of Pakistan procurement operations start sometime in October/November of every year. The rice which is brought by the sellers for procurement is in lots of 240/250 bags at notified purchase centers of specific varieties on the basis of procurement targets fixed by the government.

The quality of rice is inspected visually on the basis of a prescribed sampling procedure by the RECP Inspector/Analyst. The basic specifications looked into are: ratio of head rice, brokens, red/undermilled, damaged/discolored, paddy/foreign matter, admixture of other varieties, etc.

The rice lot is only accepted if, the percentage is within the specified tolerance limits, or with certain deduction, if it does not fall within that tolerance limit. The lot is rejected if any of the refractions percentage exceeds the specified limit. These specification standards are invoked by RECP based on the export requirements and international trading laws.

The subsidiary units of RECP namely, Pakistan National Produce Co. Ltd. (PNPL) and Doaba Rice Mills Ltd. (DRML) are not allowed to sell any exportable rice in the open market, their entire output is supplied to RECP. The rice procurement targets are reviewed and adjusted constantly as and when the need arises.

The private traders procure rice primarily from RECP in exportable quantities, whereas a small number of private traders owning milling operations mill their own rice. The rice offered for export by private traders is subjected to quality inspection by RECP inspectors prior to shipment.

Milling, Storage and Fumigation Operations:

Milling: Rice milling is a seasonal industry depending upon the rice harvesting period, which extends from September to October. In the province of Sindh, milling takes place at about the end of October while in the Punjab province milling operations commence in November. The commercial milling period extends from November to June each year.

At present the private sector milling operations, consisting mainly of "SHELLER UNITS" predominate the rice milling with only a few modern mills in actual operation. The rice milling machinery presently functioning in the main commercial units (SHELLERS) is obsolete/outdated, thereby unable to mill rice of exportable quality and specification leading to blending and mixture of inferior quality rice with superior quality basmati rice. Rice testing equipment and laboratories are virtually absent at the milling site.

The two subsidiary milling units (PNPL and DRML) under the supervision of RECP, together mill about 60,000 tonnes of rice annually which is about 5 percent of the total quantity of rice procured by RECP. The two RECP subsidiaries control 8 of the 9 modern mills currently operating in Pakistan.

In general, the price structure offered to the millers by RECP for rice is unprofitable to the miller resulting in the miller retaining the better or superior quality rice for domestic sale and offering a lower quality rice to RECP.

Storage: The present state of paddy storage at the mills is far from adequate and requires prompt action to rectify the situation. The rice milling units use covered godowns but paddy is also stored outdoors in heaps covered by hemp bags or tarpaulin sheets.

Presently the number of steel silos attached with rice mills are practically non-existent, especially in the private sector. The storing of paddy outdoors leads to spoilage and losses which could be avoided.

The total built up storage capacity of RECP is not adequate and therefore private godowns are hired for rice storage. The absence of adequate facilities, both owned and hired, leads to stacking of large quantities in open spaces and piling of rice bags in godowns in a congested manner.

Fumigation: A critical aspect of store management is to prevent losses during storage from insect attack, rodents and birds.

Initially fumigation is done at the milling stage, once the rice is milled and just prior to inspection, fumigation is applied to the containers, packaging material, bags etc. The containers are sealed for 72 hours and are then opened for RECP's inspection and the approval certificate is awarded if the consignment is found to be free from insect infestation.

In RECP godowns, aluminum phosphide or methyl bromide are used as fumigants. Actellic and malathion is sprayed on floors, walls and doors of the entire godown or stocks under gas-proof covers (tarpaulin covers) by completely sealing all outlets with mud-plaster

or adhesive tape. The method of air-tightening of godown for fumigation leaves much to be desired.

Rice Transportation and Handling Operation

Transportation: Rice is transported to Karachi both by road and rail. Presently railway accounts for about 66.7 percent or two-thirds of the total shipment. The National Logistic Cell (NLC) and private transporters/truckers share the remaining in about equal proportions.

Rice is loaded at railheads or NLC designated centers in Punjab and Sindh where after inspection and weighment it is transported to Karachi. In the province of Sind, the majority of the rice is transported by private truckers.

Handling: The handling of rice within RECP's storage facilities are undertaken by handling agents appointed on contract. All handling is done manually by labor. Double bags are used for packing rice so as to prevent wastage of rice through leakages from holes made in the bag by the use of dog-hooks during handling (loading/unloading) and stocking. Many of RECP handling operations can be integrated and automised.

Cleaning, Grading, Packing and Re-milling Operations

Cleaning and grading plants: RECP's cleaning and grading facilities are located within their Qasim and Landhi godowns in Karachi. The plants are more than 15 to 30 years old and are unable to operate at full capacity to meet the milling requirements for exportable quality rice. The plants were installed initially to process only Basmati rice whereas due to foreign market requirements, RECP is required to process other varieties as well for which the available capacity is not adequate.

Packing plants: The automatic packing plant for filling rice in one kilo packs, is unable to meet the volume requirements of packaged rice due to its fixed capacity of ten million packets per annum. In addition to this, the sortex machine installed in the plant has proved to be of a low capacity and has failed to totally eliminate paddy, discolored grain and stones.

CHAPTER III

ASSESSMENT OF IMPEDIMENTS OR WEAKNESSES OF THE RICE MARKETING SYSTEM IN PAKISTAN

Government Policies Affecting Rice Exports

The government of Pakistan, on page 1 of the document "Trade Policy 1987-90, Vol II, Export Policy", sets forth the following objectives of export policy:

> "The broad objectives of the export policy of the government of Pakistan are: to increase the foreign exchange earnings; to improve the competitiveness of exports; to diversify export items and export markets; to improve the quality of exports; to simplify procedures and documentation required for exports; to expand and improve export infrastructure and to strengthen institutional arrangements for promotion of exports including support for Trade and Industry Chambers and Associations. Consistent with the need to ensure availability of essential items of daily use for domestic consumption, the central thrust of the export policy is to encourage creation of exportable surpluses and to expand exports of all goods, primary as well as manufactured with built-in preference for value addition".

The above statements present the general philosophy and broad objectives of export policy as perceived by the government of Pakistan and will set the stage for the following discussion of government policies affecting rice exports from Pakistan.

In general sense, government policies affecting rice exports can be classified into four categories:

1. **Export Taxes** designed to place a tax on exports for the purpose of raising revenue for the government. The specific application of export taxes may vary considerably. In the case of export taxes on rice, a different rate of tax may be applied to rice at different stages of processing, i.e paddy and milled rice; or a different tax rate may be applied to the different varieties exported, i.e. Basmati and IRRI; or a different tax rate may be applied to different qualities, i.e. high-quality and low-quality. All of the variations are evident somewhere in the world today.

2. **Non-Tariff Barriers** which include such tactics as application of quotas, requirement to secure an export license and government control over trade. These tactics are generally used by governments to regulate the flow of exports with a view to stabilizing domestic markets and market prices and/or achieving pre-set export targets.

3. **Export Refunds and Restitutions** which are given to the private sector to encourage exports, or more commonly, to assist the private sector in years of exceptionally low international prices.

4. **Miscellaneous** which include a variety of tools such as guaranteed export credits low interest export credits, government to government sales (contracts) and government provision of various services such as grading and standardization, information and market intelligence, marketing research, extension education and marketing credit. All of these activities are designed to increase exports.

In general, the first two categories of government policies above (export taxes and non-tariff barriers) are designed to regulate (control) the flow of exports. The later two categories are designed to be used to encourage exports when the private sector is involved with export (with the one exception of government to government sales). In practice, the latter two categories have only had potential application in Pakistan since 1987-88 when the private sector was first allowed to export rice.

Government policies in Pakistan relating to rice exports must be discussed during two distinct time periods, i.e. before 1987-88 when government had complete monopoly on rice exports and after 1987-88 when government began to allow the private sector to enter the rice export trade.

Government Policies Prior to 1987-88

Pakistan began to export rice in commerical quantities in 1958 with export arrangements made by the Pakistan Rice Board, the secretariat of which was located in the Export Promotion Bureau under the Ministry of Commerce. The internal arrangements of procurement, cleaning, storage and shipping was under the control of Director General of Food in the Ministry of Food. Thus, a dual public sector system of control of export existed. This dual system resulted in problems of coordination and inefficiencies, thus in 1974 the Rice Export Corporation of Pakistan (RECP) was set up to undertake the entire process of rice procurement, processing, handling and export.

Rice was procured by the RECP until 1985-86 under a "Monopoly Procurement Scheme" whereby compulsory procurement of rice at support price was required. Surplus rice producing areas were coroned off and all marketable surplus was taken by the government. The rice was purchased through appointed authorised rice dealers at procurement centers in the controlled areas at the official support price. It was soon determined, however, that compulsory procurement at the support price was acting as a disincentive for increasing rice production. This was because, although the support price was intended to be the minimum guaranteed price, in practice it became the maximum price the farmer could obtain. Thus, in 1985-86 the policy was revised such that rice was "voluntarily" procurred under the support price. Under this policy the procurement centers and the support prices still existed, but sales to these centers were voluntary.

Rice received by RECP was strictly for export. Supplying the domestic market was undertaken by the private sector under certain restrictions imposed by the government to ensure that RECP was able to secure adequate quantities of rice to meet export requirements and to maintain quality levels of the Basmati rice.

In procuring paddy, RECP was assisted by the Departments of Food in Punjab and Sind, which actually purchased the paddy on behalf of RECP, i.e. RECP did not procure paddy directly from growers, rather, the provincial food departments did the procurement.

In practice, the Food Departments in Punjab and Sind acted as agents of RECP to procure rice and dispatch the rice to RECP's storage facilities in Karachi. The food departments purchased rice at their procurement centers (205 in Punjab and 85 in Sind). Procurement was also accomplished by rice millers/rice dealers appointed by the Food Departments, or, in some cases by the Pakistan Agricultural Storage and Services Corporation Limited (PASSCO). These procurement were made at the procurement centers.

The rice tendered to each center was inspected by standard criterion established by RECP. When differences were observed in quality, for example excess foreign matter, an amount was deducted from the fixed procurement (support) price.

In addition to procuring rice and inspecting rice for quality, Food Departments had the responsibilities of monitoring purchases of paddy by authorised dealers and millers; supplying Food Department headquarters with statistics on quantities of rice purchased at the procurement centers; and undertaking necessary policy actions to ensure that the regulations were enforced.

A major change has been initiated during the past year in this procurement procedure. RECP no longer uses the Food Departments in Sind and Punjab to procure paddy. The RECP now procures on its own. It should be pointed out that previous studies identified a duplication of effort in procurement and inspection in that personnel from both RECP and the Food Departments were involved and that this duplication should be eliminated.

Support prices for paddy and rice are established each year by the Agricultural Prices Commission (APCom) in order to assure minimum price levels to growers. These prices are announced before sowing of the crops. This fixed price, which is the same throughout the country, is then applied in the government procurements after the announcement. A support price is announced for both paddy and rice and at different levels for Basmati and IRRI. The support prices announced for the 1989-90 season are as follows:

Basmati Clean		(Rs./40 Kg)	IRRI Clean		
Paddy	FAQ	Superior	Paddy	FAQ	Superior
143.50	276.00	283.00	60.00	113.00	124.00

As was mentioned previously, the RECP operated as an agent of the government . It received a commission on the quantity of rice exported and the costs incurred in the procurement and preparation of rice for export were charged directly to the government at cost as "incidentals".

The exact cost of operation of RECP is difficult (impossible) to determine. However, some estimates have been made by the United Consulting Group (Pvt) Limited of the profit secured by RECP. Table 19 presents two estimates by this company of profit (loss) by variety for the three years 1984/85, 1985/86 and 1986/87.

Although the two estimates by this company differ for the same years (due to different FOB cost estimates) the data does show that rather significant profit levels have been consistently achieved for Basmati rice and consistent losses have been incurred for the other varieties. Table 20 presents the profits (losses) collected by the government from RECP trading of rice. Although, again, not directly comparable to the United Consulting Group estimates, the total profits are relatively close to the total profits that result when the per tonne profits are applied to total tonnes marketed.

In short, significant revenues have been secured by government from the export of rice through the remittance of RECP profits to the government. In reality, these profits would be comparable to export taxes on the private sector if the private sector was exporting rice. It is significant to note in Table 20 that the government has collected a total of Rs. 8034 million over the 11 year period from trading rice. It is also significant to note that increasing losses have been incurred from exporting the lower quality rice during the past five years while the export of Basmati rice has resulted in profit. This would indicate that the relative price paid to producers of Basmati rice was low in relation to export price and as a consequence, Basmati producers actually subsidized exports of the lower quality (IRRI) rice. This situation could also explain the relatively stagnant level of production of Basmati rice over the period.

Government Policies after 1987/88

Beginning in 1987/88 the private sector has been allowed to export Basmati rice (the private sector is not allowed to export any other variety of rice). The initial special procedures applying to the private sector export of rice were as follows:

Export of Basmati rice by the private sector is allowed subject to the conditions that;

i) Basmati rice is exported in packets of 1-20 Kgs with brand names;

ii) The exporters are registered with the Superior Rice Dealers Association, Punjab;

iii) The brand names will be registered with the Registrar, Trade Marks, Government of Pakistan;

iv) The exporters may obtain rice either from the Rice Export Corporation of Pakistan (RECP) at the rate the corporation is exporting in bulk, or may use their own stocks after depositing the difference in price between the bulk export of rice by RECP and the government fixed procurement price; and

v) Such exporters shall be subject to RECP's inspection and quality control procedures.

TABLE. 19

COMPARISON OF PROFIT ESTIMATES OF RECP

(Rs./Tonne)

	1984/85		1985/86		1986/87	
	Basmati	Others	Basmati	Others	Basmati	Others
Average Export Price	9634	3027	11130	2567	12429	2723
Average FOB Cost	6246	3467	5809	3566	6487	3452
Profit (Loss)	3388	(440)	5321	(999)	5992	(729)

Source: Table on page 421, " Marketing Margins Of Selected Crops In The Context Of Farming Systems And Ecological Zones", Vol.1, January 1990.

Average Export Price	9634	3027	11130	2567	12429	2723
Average FOB Cost	6740	3650	5990	3590	6240	3450
Profit (Loss)	2894	(623)	5140	(1023)	6189	(727)

Source: Table 11.12 page 304, " Rice Export Operations Study", United Consulting Group (Pvt) Limited, Vol. 1, September 1989.

TABLE. 20 PROFITS/ LOSSES FROM PUBLIC SECTOR EXPORTS OF RICE

(Rs million)

	Basmati		Other
1976/77	105		-48
1977/78	258		144
1978/79	681		392
1979/80	1000		289
1980/81	1171		707
1981/82	744		510
1982/83	735		-68
1983/84	1078		-502
1984/85	558		-152
1985/86	1250		-907
1986/87	1080		-991
	8660		-626

Source: Table. 29.12, page 534," Report Of The National Commission On Agriculture", March 1988.

In addition, a Rs. 5,000/mt export tax was imposed on the export of Basmati rice. These initial regulations essentially qualify as non-tariff barriers to the private sector in the export of rice. These barriers, plus the export tax were soon recognized as effective in almost totally restricting private sector rice exports (only 3600 tonnes were exported by the private sector during 1987/88). Consequently, the following alterations have occurred in the initial regulations:

1. The export tax of Rs. 5,000/mt was reduced to Rs. 4,000 in 1988/89 and abolished in 1989/90.

2. Private rice exporters are no longer required to deposit with RECP the differential in price between the bulk export of rice by RECP and the government procurement price. They are now required to sell as a minimum price at RECP export bulk price plus an additional $ 50/mt (U.S.) for 1-2 Kg packages, and an additional $ 25/mt (U.S.) for 3-25 Kg packages. The bulk price is the price negotiated by RECP with the Gulf Corporation Council. This negotiated price for 1990 is $590 (US) per metric tonne. This is $85 less than the 1989 negotiated price of $675/mt. The lower price is a result of a declining price trend in the international market. Thus, the private exporter is restricted in pricing Basmati rice to a minimum price of $ 640/mt for rice in packages of 1-2 Kg and a minimum of $ 615/mt for rice packed in 3-25 Kg packages.

3. Private exporters must have a license to export which is obtained by registering with the Chief Controller of Exports and Imports. The cost is minimal.

4. Rice exporters are no longer required to register with the Superior Rice Dealers Association, Punjab.

5. Private sector Basmati rice exports continue to be subjected to RECP's inspection and quality control procedures.

Government Institutions Involved with Development and Implementation of Rice Export Policy.

The various government institutions involved in determining and enforcing policy relating to rice exports are adequately described in numerous publications cited in the "Literature Reviewed" Annexure I of this report. However, it is felt that a brief description is needed at this point of the report of the major institutions involved with policies directly relating to rice exports.

The Agricultural Prices Commission

The Agricultural Prices Commission (APCom) was established in 1981 and is under the Ministry of Food, Agriculture and Cooperatives. APCom advises the government on price policies for major agricultural commodities (including rice) and for agricultural inputs such as fertilizer, pesticides and seeds. It plays an important role in formulating agricultural policy and in fixing support prices. In determining support prices, its policy is to consider production costs with a view to providing incentives to producers to raise productivity;

ensure rational use of inputs, land and water; and develop production and cropping patterns in line with national requirements. In addition, the APCom may suggest appropriate non-price measures to back-up these price policies. The APCom utilizes Standing Committees composed of official and non-official experts and selected progressive farmers from all provinces for consultation on matters relating to price policy. There is a Standing Committee operating for rice.

Pakistan Agricultural Storage and Services Corporation Limited

The Pakistan Agricultural Storage and Services Corporation Limited (PASSCO) was established in 1973 for the purpose of stabilizing prices of selected commodities (including paddy) by making direct purchases from growers and releasing stocks in the market when prices become unduly high. In other words, the role of PASSCO is to ensure that producers receive the official support price for these selected commodities. As a result, PASSCO acts as buyer of last resort and does not purchase paddy when market prices are above the support price. Since market prices have, in general, been above the support price for rice during the past few years, PASSCO's purchases of rice have been minimal.

The Rice Export Corporation of Pakistan (RECP)

The RECP is given the following functions to perform:

1. to carry on the business of export of rice from Pakistan including all operations connected with procurement, milling, cleaning, storage, packaging and sales for export;

2. to take all measures necessary for promotion of exports of rice from Pakistan, including internal and external publicity, sending of sales missions to foreign countries and inviting foreign purchase missions to visit Pakistan.

3. to collect and maintain adequate market intelligence in respect of rice; and

4. to construct, build, purchase or acquire by lease, etc., godowns, grading centers, cleaning plants, show-rooms and business centers, required for the corporation business.

RECP's sale of Basmati rice to the Gulf countries accounts for about three-fourths of the RECP's Basmati exports. The sale is on the basis of a agreement in regard to price and quantity with the Gulf Corporation Council. Other varieties are sold by RECP in a variety of ways including floating of tenders, on fixed prices without tenders, direct negotiations and on government to government contractual agreements. Of these methods of sale, sales through government to government negotiations are the most important (almost one-half of total sales by RECP are made in this manner) and the second most important channel is sales through inviting tenders.

Assessment of Rice Export Policies and the Rice Marketing System in Pakistan

This section of the report is primarily based upon the review of literature cited in Annexure-1 and interviews with the Rice Export Corporation of Pakistan (RECP), the Ministry of Commerce, and private sector rice producers, millers and exporters listed in Annexure-2. Further, this section is sub-divided into an assessment of government policies and an assessment of the rice marketing system. This assessment is designed to identify and evaluate the policies and marketing system in relation to their effect on the private sector as limitations or constraints to marketing operations.

Assessment of Rice Export Policies:

This assessment of rice export policies will be limited to current policies, i.e., an assessment of policies which no longer exist is not considered meaningful activity. It is assumed that the abolishment of a policy by government is a result of a determination by government that it was no longer needed, or that it did not accomplish what it was intended to, or the cost was greater than the benefits, or that it was an inappropriate policy in relation to national goals. For example, the recent abolishment of the export tax on Basmati rice exported by the private sector was recognition that the tax was creating a situation not favorable to exporting rice (as evidenced by the lack of exports from the private sector).

Thus, in terms of current policies affecting rice exports, the assessment will concentrate on the policies associated with the granting to the private sector the opportunity to export Basmati rice. These policies are as follows:

1. The regulation imposed to allow only the export of Basmati rice by the private sector. The only reason given for this limitation was that the market for Basmati rice needed to be developed further and it was felt that the private sector might be more successful than RECP in developing that market. This was based on the relatively poor performance in market development by RECP in the past. For whatever reason, this limitation imposes restrictions on the ability of the private sector to optimally enter the rice export business. For example, exporters expressed that they had opportunities to develop new markets for Basmati rice if they could offer a "package deal" consisting of both Basmati and IRRI variety rice. This allowed larger shipments (less per unit cost) and allowed the buyers to develop a relationship with one supplier for all their rice needs. The ability to supply both varieties facilitates more flexibility in pricing and the ability to provide a "full line" of rice to potential buyers.

2. The regulation imposed to restrict the private sector from exporting other than 1-25 Kg packages. The reason for this restriction was not determined. There appears to be no logic to this limitation other than the government may desire to restrict bulk shipment (not packaged and no brand name) to RECP to eliminate possible potential problems with quality standards of rice shipped in bulk. This, however, should not be a problem since all shipments must be inspected by RECP before it is allowed for export. Again, the private sector should have the ability to supply whatever the market wants. At present, exporters are shipping in 90 kg containers

by using four 22.5 Kg containers packed in the 90 Kg container. It is understood that RECP packs only in 1 Kg packages and the rest of their exports are bulk in 45 Kg or 90 Kg bags or containers. The point is that "marketing", in order to be effective, must supply what the consumer wants. If a wholesaler in New York wants to import bulk, high quality Basmati rice and package under his label, then the private sector should be able to supply this market.

3. The regulation of minimum price. The reason stated for this restriction is to protect the Government of Pakistan from the private sector under-invoicing sales. The purpose of preventing under-invoicing is to ensure all foreign exchange gained from the sale of a product is reported and placed in Pakistani banks and to ensure that actual sales are reported so that proper taxing occurs on the profit generated from the sale. Another possible reason could be to protect the level of RECP sales by preventing the private sector from undercutting government prices (perhaps because the private sector is more efficient and thus its cost is less) and effectively competing for sales.

The minimum price system is definitely a limitation on the private sector rice exporters. The ability to reduce price to gain additional sales or to be able to price different qualities at different price levels is adversely affected. Of most importance is the need for private exporters (and RECP) to meet, if at all possible, competition. Thailand, for example , has developed aromatic rice quite similar to Pakistan's Basmati, at least Thailand is claiming it is the same. Thailand is selling this rice at almost one half the price of Pakistan Basmati. At present India also appears to be effectively competing with Pakistan in the Basmati export market in the Gulf countries. The Indian Basmati is considered by buyers as comparable to Pakistani Basmati. It has been reported that Indian traders have been offering Basmati at lower prices than Pakistan, even as much as $ 50 (U.S.) per metric tonne. In addition, Indian traders are offering sales on credit and have initiated aggressive promotional campaigns. It should be noted here that private exporters in Pakistan have begun to initiate promotional activities. One exporter, for example, has entered a joint advertising campaign with another firm marketing cooking oil. The promotion involves the granting of a free 1/2 Kg packet of Basmati rice with the purchase of the cooking oil. In addition, a number of exporters have initiated TV advertising for their product. These promotional efforts have been directed to the Middle East market.

It should also be pointed out that exporters can go around this minimum price limitation in order to gain these potential sales. For example, an official price of $ 590/mt can be listed on the Letters of Credit while the actual price paid could be $ 540/mt. To arrive at this situation, the exporter simply needs to send $ 50/mt to the potential buyer who will then forward the Letter of Credit for the full $ 590/mt price. This system, however, is obviously cumbersome,and perhaps even risky at times and does take additional time to close a sale. In practice, the private sector should not have to "go around" the rules.

Another constraint due to the minimum price system is that potential buyers will continuously attempt to purchase at (or at least bargain for) the minimum price, i.e. the minimum price tends to become "The" price or the maximum price. The problem with this situation is that there are obviously different qualities of rice and, in fact, different varieties of Basmati rice (370, 385, 198, 6129 or Kernal Basmati, etc.), all of which have different potential price levels. Exporters state that the problem of potential buyers demanding that the sale be made at the minimum price is really a short run problem until buyers are educated to the quality differences, particularly the differences between the quality of rice sold by RECP and qualities offered by the private sector and the quality differences due to varieties. When this recognition occurs, the minimum price will really no longer have a meaning in the trade in relation to the value of the product unless a minimum price is established for each level and type of quality.

4. Regulation that requires private exporters to register with the Chief Controller of Exports and Imports. This regulation does not appear to be a limitation to the private sector other than the time element required to obtain the export license. Exporters state that they would prefer not to have to deal with the government bureaucracy but realize that at times it is necessary to do so and they can live with that.

5. The Regulation that private sector Basmati rice exports be subjected to RECP's inspection and quality control procedures. The reason stated for the imposition of this regulation is the need to ensure that quality standards are adhered to by all exporters of Basmati rice. The need to ensure that quality standards are met is critical to future growth and development of markets for Basmati rice. One "bad" shipment can adversely affect the reputation of not only the supplier but also all Basmati rice from Pakistan. Exporters realize this and express the need for quality control is appropriate.

Even though exporters agree to the need for quality control, being subjected to RECP's inspection and quality control procedures places limitations on the private exporter. First, there have been cases already of excessive time required to complete the request for (the exporter must give two weeks notice to RECP for inspection) and conduct of the inspection process by RECP. In some cases this is an extreme limitation in terms of the private sector fulfilling an order that needs to be completed in a short period of time. And, there will be numerous occasions, as the private exporter is attempting to develop and establish new customers, that orders will be requested for immediate delivery. In order to establish an ability to perform acceptably, the private exporter needs to be able to supply the product in the time specified.

Another potential problem (limitation) could arise as a result of the inspection function being assigned to RECP, this is related to the fact that RECP is itself engaged in export operations. It is essentially against normal (acceptable) practice of the international trade system that one exporter (in this case RECP) is responsible for quality control of other exporters. In a worse case scenario, if there

exists an extremely weak market, (i.e. very little demand), it is conceivable that RECP could reject shipments of a private exporter in order to secure orders for their own stocks. Further, there is opportunity for RECP to allow low quality rice to be exported by itself (for example, if low quality was all that was available for export or the cost of providing top quality was excessive). It has been suggested in some of the literature that this problem (i.e. low quality shipments by RECP) has been in evidence and that it may be a reason for some decline in demand. It is the norm to entrust quality inspection to an independent agency to avoid the above mentioned potential problems.

6. The Agricultural Price Support Policy. The reasoning behind the price support policy in Pakistan has been primarily, to provide economic incentives to farmers so that production will be increased. In essence, support prices act as a minimum floor price while market forces establish the actual market price. If market forces fail to bring forth a price greater than the support price, farmers are able to sell their product to the designated price support implementing agency - - In Pakistan the designated implementing agency for rice is the Rice Export Corporation of Pakistan.

Support prices are established on an annual basis for both rice and paddy and are established after consideration of cost of production, international competitiveness of rice and the likely inflationary impact on consumer rice prices. The support price for Basmati paddy over the past 14 years (1975/76-1989/90) has been increased 12 times for a total increase of 200 percent, or an average annual increase of 14.3 percent (Table 6). Basmati FAQ rice support price has, over the same period, been increased 11 times for a total increase of 186 percent, or an average annual increase of 13.2 percent. Thus, Basmati paddy prices have increased at a higher rate than rice prices. Because of this, millers have complained that the difference between paddy and rice support prices have not provided adequate margin for their operations. This complaint can also be evidenced by the increase in the farmer share of the retail price (Table 5). Thus,if this is true, a private exporter operating his own milling operation may be faced with a limitation. This limitation would also be evident if support prices do not bear a relatively close relationship with international prices. That is, if the support price increases such that the margin between it and the export price is inadequate to cover export preparation and implementation, private sector exports will cease to exist in the long run. The RECP, on the other hand, can be reimbursed for these losses from the government treasury, or as currently the case, RECP covers losses from exporting IRRI from the profits generated from the export of Basmati.

Assessment of the Rice Marketing System.

The following assessment of the rice marketing system in Pakistan will focus on those elements of the system which appear to be contraints to the efficient and effective functioning of an export marketing system for rice, with special emphasis on further development of the private sector role in the system. The major elements are as follows:

1. All rice, up until 1987/88, was exported under government monoply. Since 1987/88 the private sector has been allowed to export Basmati rice. To date, exports by the private sector have been minimal, and as a consequence, the great majority of rice exports are still exported by the government (RECP). Thus, the RECP is a critical element of the export rice system in Pakistan. A recent study conducted by the United Consulting Group (pvt) Limited, "Rice Export Operations Study" revealed a number of problem areas in RECP's operations, including:

   a) " A critical shortcomming noticed was the neglect of the marketing intelligence function which has not been adequately placed in the organization structure" (pg. 3).

   b) "RECP has been carrying forward huge stocks each year" (pg. 7).

   c) "The present system and procedure of inventory management and control leave much room for improvement" (pg. 8).

   d) A number of shortcomings in the control and management of handling operations have been observed. These include inadequate control over operations to bridge the gap between sales, purchases and milling operations, inadequate control and accountability of handling costs, inadequate stock control over exportable rice and absence of checks on the quality of rice issued against work orders". (pg. 8)

   e) "The analysis shows that the handling costs can be reduced by 50 percent through proper management of the handling activities and effective control". (pg. 9)

   f) "On the basis of analysis of the survey data, FOB unit costs for the private sector appear to be 7 percent lower for Basmati rice and 13 percent lower for IRRI rice as compared to those of the public sector units". (pg. 12)

   g) "The subsidiary milling units have been incurring losses which accumulated to Rs. 377.946 million by 1985. The losses increased by Rs. 38.185 million and by Rs. 32.973 million in the next two years". (pg. 15)

   h) "The RECP's 14 cleaning and grading plants show inefficient operations due to old machinery, non-availability of spare parts and absence of maintenance schedules". (pg. 15)

The above statements are not uncommon in relation to government (public sector) corporations. There are many and varied reasons why many public agencies perform in such a manner. Among these reasons are: lack of performance incentives; automatic coverage of losses by the public treasury; appointment of management personnel without consideration of expertise required for the position or expertise held by the appointment, i.e. appointment may occur for political reasons; and inability of the agency or corporation to gain additional funding to upgrade equipment and facilities due to a tight financial condition of the government in general.

For what ever reasons, it does appear that RECP is relatively inefficient which results in high cost operations that, in turn, places rice exports in a continuously cost increasing situation. This situation obviously makes it more difficult to compete on the world market. This situation is especially critical for rice as it appears new suppliers of rice, both Basmati from India and Thailand and IRRI type rice from Thailand, USA, China and more recently Vietnam are supplying rice at lower prices, on occasion as much as 50 percent lower then Pakistan equivalent rice. Improved marketing efficiency in Pakistan is a must if it is to continue to function in the rice export market.

2. Rice export by RECP appears to have stagnated over recent years, i.e. export of both Basmati and IRRI in 1988/89 are at about the same quantity level as in 1982/83. Further, the current market outlet for Basmati rice is dangerously concentrated in a small number of countries (over 90 percent of Basmati exports by RECP go to only eight countries). Thus, the market for Basmati rice is primarily determined by local demand conditions in these markets. If something happens to the local demand in any one of these countries it could have a significant impact on total Basmati exports from RECP. Further, stiff competition is penetrating these markets which may well result in serious problems with maintaining current levels of exports let alone any expansion potential. If the impact of these conditions is a decline in exports, the cost of storage for increased stocks and/or price concessions that may be necessary to create new customers or to increase sales to other traditional customers will further negatively affect the cost of operations of RECP.

The cause of this situation appears to be the near complete lack of effort by RECP to develop additional markets for Basmati over the years. There appears to have been a rather complacent attitude regarding the need to devote resources to market development. However, if Pakistan is to remain a factor in the international rice market, efforts must be devoted to the development of new markets and/or expansion of traditional markets.

3. It appears that the Indian Basmati is the major competition to Pakistan Basmati rice. No one really knows the extent of the total market for Basmati rice as there are no statistical data which breaks down the world market into varieties. Thus, it is impossible to know whether or not Pakistan is loosing market share. However, exporters interviewed during this study indicated that the Basmati world market was growing as evidenced by their personal experiences and the experiences related to them by Indian exporters. Since Pakistan's exports of Basmati have remained relatively stagnant for the last few years and if what the exporters reported is true, then it can be concluded that Pakistan is loosing market share.

4. In order to carry out, effectively, market development activities there is a critical need for market intelligence, i.e. information such as type of and level of international demand by type of rice and by country; current levels and trends of type of rice exported and volume of exports, destination of these exports and price levels of these exports by competing exporting countries; trade barriers, duties, tariffs, etc. that must be coped with when dealing with new markets; and cost of production and cost of preparation for export by type of rice and by country of export origin. This type of information does not currently exist in Pakistan. Pakistan must develop a system to regularly collect, systematically evaluate

and adequately disseminate to the private sector information relating to the world rice market.

Further Pakistan does not at the present time conduct or sponsor market research into determining consumer tastes and preferences in regard to type and quality of rice actually demanded. It very much appears that Pakistan (RECP since it had monopoly over exports) has followed the philosophy that it produces the best rice in the world and that everyone should want it, or, stated another way, the consumer can take it or leave it.

To expand and further develop the export market for rice will require innovation and an approach to market development not heretofore attempted in Pakistan. It will require marketing participants equipped with appropriate levels of marketing expertise, i.e. the ability to conduct research, evaluate the results of this research and then develop a product to meet the demand identified by the research.

5. Rice milling is a seasonal industry beginning about the end of October following the rice harvest period of September through October. The milling season usually extends for about 7 months to June. Most paddy is procured by the mills from growers or traders during the 3 months of November, December and January. Thus, storage capacity is required for paddy at the rice mills. Much of the existing storage consists of piling the paddy out-of-doors and covering with hemp bags or tarpaulin sheets. Considerable loss occurs with this type of storage in many years due to rains, insects, rodents, birds, pilferage etc. Paddy can be dried properly and maintained in a dry state, free from pests in covered storage (silos) equipped with temperature monitoring and aeration systems such that loss will be minimized.

There is a further need to upgrade existing (and to add additional) rice milling facilities for producing export quality rice. At present only about 5 percent of the total milling capacity in Pakistan is in the 9 modern mills (8 of which are controlled by RECP). Thus, a large portion of rice destined for export must be procured from sheller units. However, the quality rice milled by shellers is not up to standard specifications. Hence, RECP must regrade, reclean and polish rice at their facilities in Karachi before export. This, of course adds to the overall processing cost. Private sector exporters must either operate their own mill or procure rice from RECP in order to have exportable quality. However, private exporters have expressed great concern over the inadequate supply of exportable quality Basmati rice available from the RECP. Additional private sector rice milling capacity would provide appropriate competition for RECP mills as well as provide the additional quality rice required for export by the private sector.

6. The Ministry of Commerce establishes annual export targets each year for both Basmati and IRRI rice varieties. In past years, because RECP was the sole exporter, these targets were essentially established for RECP. These targets are established on the basis of past experience and general international trends. Currently, these targets do not appear to serve any particular purpose because: 1) there is really no way to project private sector rice exports which now become part of the country's total exports; and 2) the actual export performance over the years has lagged behind the targets for both quantity and value which indicates that there have been no penalties imposed if targets are not met nor have there

been awards given if targets were achieved - - Thus, as a management tool, these targets have not been effective.

7. There appears to be some disagreement as to the various qualities and consequently potential demand levels for the different Fine varieties (Basmati rice) produced in Pakistan. For example, the "Report of the National Commission on Agriculture" states that, a new variety, Basmati 385 has recently been introduced that promises the long awaited breakthrough in Basmati production. It is shorter, has a 30 percent higher yield potential, is fairly resistant to stem-borer and can be harvested 10-15 days earlier than Basmati 370. But most important of all, this variety has retained the aroma, long grain and all other qualities of Basmati 370.

However, exporters claim that customers have complained that Basmati 385 is not the same quality as Basmati rice they have imported in the past. Millers have complained that Basmati 385 is considerably more chalky than other Basmati varieties and that it has a high degree of brokens. (It has, however, been speculated that since Basmati 385 was introduced at the same time as the rice combine was put into use, that the high level of brokens may have resulted from the harvest of Basmati 385 by the combine). Traders have complained that the cooking qualities of Basmati 385 are not as good as Basmati 370.

Further, exporters claim that Basmati 198 is much closer in quality to Basmati 370 than is Basmati 385. But, yields of Basmati 198 are about equivalent to Basmati 370 while yields from Basmati 385 are about 30 percent greater.

The exporters surveyed in this study claim that current demand is primarily for Basmati 370, 198 and 6129. Basmati 6129 (Kernal) is considered a premium rice and has been recently sold for U.S. $ 950/mt by exporters. The problem with Basmati 6129 is that yield levels are less than Basmati 370.

The claims of exporters regarding their evaluation of consumers demands in the export market for Basmati 385 appear to be supported by the increased level of Basmati stocks held by RECP (RECP procures primarily Basmati 385).

It would appear that this confusion or disagreement regarding the future of Basmati 385, (i.e. the government promoting the production of Basmati 385 by increasing support prices and promoting increased yields and private sector exporters as well as some millers and some traders suggesting that consumer demand is not developing as rapidly as expected for this variety) is the result of a common problem the world over in agriculture. This problem is that emphasis is placed on increasing production without adequate attention placed on whether or not the increased production is the type and quality of product demanded by consumers.

CHAPTER IV

RECOMMENDATIONS

The recommendations presented below are intended to create an appropriate environment that will lead to an improvement of Pakistan's export policies relating to rice and to a strengthening of the rice export marketing system particularly as the system and export policies affect the efficiency and effectiveness of the private sector as a participant in the system. The recommendations are based upon a review of the current rice export marketing system including an evaluation of the trends in rice production, prices, exports, and procurements as well as Pakistan's position in the international market for rice. These evaluations were made by rice variety when possible. Also forming a background and basis for these recommendations was an identification and assessment of the various government regulations, restrictions and policies which have or may have impact (in terms of impediments) on the performance of private sector exporters in the overall rice export marketing system.

The recommendations of this study are classified into two categories; those relating to government export policies; and those relating to the export marketing system.

Recommendations Relating to Government Export Policies

1. There is a critical need to further encourage the private sector to play an increasing role in the export of rice. To be most effective in bringing about increased rice exports, the private sector needs to be in a position to determine specific markets and then be allowed to supply what is demanded, where it is demanded and when it is demanded. In order to fully facilitate this ability in the private sector to effectively carry out its mission, the following recommendations should be followed:

   a) The private sector should be allowed to export all varieties of rice produced in Pakistan, and not be restricted to the export of Basmati. This will allow the private sector to take advantage of "package" deals and to be more flexible in their sales negotiations.

   b) The private sector should be allowed to export any size package, i.e. the restriction that the private sector can only export 1-25 Kg. packages should be eliminated. Again, lifting this restriction will allow the private sector exporter to supply the various demands of the customer.

2. Directly related to facilitating the private sector's ability to effectively carry out the export marketing of rice is the need to re-evaluate the minimum price restriction currently in effect. Any re-evaluation must consider the potential problems of return of foreign exchange against potential increases of sales if the private exporter has more flexibility. Among the possible alternatives available are:

a) Eliminate the minimum price system. This will allow maximum flexibility in pricing strategies by the private sector. This policy would not prevent under invoicing, if the prevention of under invoicing is the purpose of the minimum price.

b) Set the minimum price at some level below the negotiated GCC price and use this minimum price as the minimum foreign exchange deposit required from each sale. This would ensure a minimum level of foreign exchange deposits and would allow some degree of flexibility in private sector price negotiation.

c) Continue the minimum price concept as currently applied, but allow variances on a case by case basis. That is, if the exporter has a legitimate price offer which is below the minimum price and which he could economically accept, then he would request a variance. This would ensure legitimate sales at lower prices, and ensure foreign exchange deposits, but would require additional administrative costs and may involve too much time to obtain approval in relation to the timing of the sale.

d) Recognize the need to have different price levels for different quality levels and design a minimum price system that will fully consider all of the factors that influences price. This option would also require higher administrative costs relating first to the development of the various quality levels and their associated price levels, and then relating to the administration and monitoring of the system.

3. The Government of Pakistan needs to re-evaluate its policy of exclusion of milled rice from the list of commodities eligible for the various incentives provided to the export sector such as, tax exemption on export earnings, export refinance scheme, duty free import of machinery for export oriented crops, rebates and export credit guarantee scheme. In the past RECP had a monopoly on rice exports and thus it was inappropriate for the government agency to qualify for incentives. However, now that the private sector can enter rice exporting it would seem appropriate to consider an incentive system, at least for the first 3-5 years while the private exporter is trying to develop his markets. Further, milled rice is a really a value-added product. Milling rice in Pakistan creates employment and income which would not be created if paddy were exported. It should be pointed out that the export of paddy is occurring from India to the United Kingdom. Since paddy is considered a raw product, there is no duty, but milled rice, since it is considered a manufactured product, does have an assigned duty.

4. It is recommended that a loan concession program be considered for the rice exporters and/or millers. There is a significant need for working capital by millers and exporters. Millers must carry the storage of paddy for up to 7 months and exporters must cover rice storage and the cost of rice until paid by the importer. A program could be initiated that would provide loans for up to 50 percent (for example) of the total value of rice in storage or being exported as indicated in the

exporters promissory notes or warehouse receipts. Interest rate should be kept in the 5-8 percent range and credit extended for no more than 6 months.

5. There is no question regarding the need for quality control inspection for all rice exports -- it is a must. There is need, however, to re-evaluate the current policy that all inspections of the rice exported by the private sector by conducted by RECP. This policy is not in conformance with the norms of international trade. It is recommended that the inspection function be assigned to an independent agency. One such agency might be the Department of Agriculture, Livestock, Marketing and Grading under the Ministry of Food, Agriculture and Cooperatives. This department already has the responsibility of grading many agricultural products for export (however at present wheat, rice and pulses are not included)

Recommendations Relating to the Export Marketing System:

1. There is a critical need to upgrade and modernize the existing, and construct additional, rice milling and storage facilities. It is recommended that the Government of Pakistan initiate a low interest loan program for the purchase of capital goods and USAID provide technical assistance for designing and implementing the use of the needed equipment (rice cleaning and grading plants, conveying and handling systems, color sorters and other testing and laboratory equipment for quality control, rice storage silos and fumigation technology and equipment). It is also recommended that this type of equipment be allowed to be imported duty free.

2. It is recommended that an extensive market intelligence program be initiated. USAID could provide the technical assistance needed to develop this program. This program should include both the development of market information (prices, supply, demand, stocks, production and marketing costs, etc.) and the provision of marketing intelligence which involves analyzing the market information. A successful rice exporting industry in Pakistan requires adequate, accurate and timely information about the international trade situation which has been soundly analyzed and interpreted.

An adequate system of market information and intelligence must have the following characteristics;

a) The information must be collected, assembled, and analyzed so that resulting intelligence meets the needs of the users. This requires input from the users in the design of the system.

b) The information collected must include the significant factors which affect the market situation. In addition to prices, at all levels in the system, these factors would include price variations due to quality differences, available and projected supplies, market location, and services provided. This requires

a determination of factors affecting price and a planned, organized procedure for securing this information.

c) Data collection must produce accurate and reliable information. This requires identification of both appropriate sources of data and practical sampling methodologies.

d) Analyses and interpretations of collected information must either be provided to users, or users must have ability to analyze the data themselves. This will require either an agency to perform analyses or a program to provide analysis training.

e) The information or intelligence generated must reach users in an understandable form when they need it. This requires the determination of reliable channels of communications as well as appropriate format, style, content, and language.

3. It is recommended that a feasibility study be undertaken to evaluate alternative uses of the two by-products from rice milling, i.e. rice husks which comprise 20-22 percent of the weight of paddy, and rice bran which comprise 8-9 percent of the weight of paddy. This would be particularly important if new milling facilities are constructed such that the volume of husks or bran from a single mill would be adequate for an enterprise such as producing edible oil for rice bran. At present, this is not feasible because of the cost of assembly of the bran for a processing plant. However, if edible oil could be produced it could be used as import substitution for soyabean oil and palm oil (at present, 80-90 percent of Pakistan's edible oil requirements are imported). Better use of these two by-products could, if feasible, reduce overall milling costs, create new employment opportunities in rural areas, and reduce the need for foreign exchange now required to import edible oils.

4. It is recommended that the composition of the Rice Board be re-evaluated with the view to ensuring proper representation of private sector exporters. Placement of private sector exporters on the Board would be a clear indication of the dedication of the Government of Pakistan to fully accepting the private sector in the rice export industry. It would be important to have representation of various aspects of the private sector. For example, a good addition to the Board might be Safa Rice Mill Ltd. in Lahore which is a relatively small new mill which will commence operation this year and it specializes in parboiling rice. This type of addition would broaden the perspective of the Board as it would represent different types of problems and needs.

5. The system of fixing procurement targets (paddy rice) should be re-evaluated and buffer quantities need to be determined on the basis of potential exports and domestic requirements, projected production and price trends and stocks already on hand. This will result in a more meaningful target price in terms of providing for national needs.

6. Specific official specifications for paddy in addition to those outlined for rice should be announced at the time of setting-up of minimum support prices. At the present time specifications are only set for rice. It is necessary to set specifications for paddy so that farmers will know exactly what they will be paid for specific qualities at harvest. This should improve the overall quality of paddy available to the milling industry.

7. It is recommended that a series of seminars, conferences and/or business development seminars be initiated for potential (and existing if they wish) exporters of rice to inform them of market demands and requirements, how they enter the export industry, and the rules and regulations they must follow to export from Pakistan and to ensure their product is acceptable to the importing countries.

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Annexure II

LIST OF PERSONS/ORGANIZATIONS INTERVIEWED FOR THIS REPORT

1. Syed Faisal Hassan, (Farmer/Exporter) Lahore.
2. M.S.I. Ghauri, Joint Secretary (Rice), Ministry of Commerce, Government of Pakistan, Islamabad.
3. Dr. Manuel M. Manuel, Chief Technical Adviser, AMIS, Food and Agriculture Organization, Islamabad.
4. Robin Tilsworth-Rude, Agriculture Attache, UNited States Department of Agriculture, Islamabad.
5. Ahsan Tayyab, Agribusiness Specialist, USAID, Islamabad.
6. K. A. Siddiqi, Consultant, EAN Project, Ministry of Food and Agriculture, Government of Pakistan, Islamabad.
7. Altamash Khurram, Propritor, PESTICON, Lahore.
8. Zohair Khan, Manger, Super Inspection, Rice Export Corporation of Pakistan, Lahore.
9. Jameel, Managing Director, Maerchant International Exporters, Lahore.
10. Iqbal, Manager, Production and Exports, Orient Oxident, Lahore.
11. Javed Aslam Agha, Chief Executive, Safa Rice Mills, Limited, Lahore.
12. Mazher Vakil Malik, Director, Safa Rice Mills Limited, Lahore.