



# Pakistan Wheat Subsector and Afghan Food Security

A special report by the Famine Early Warning  
Systems Network (FEWS NET)

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## DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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*FEWS NET extends its thanks to the participants of the one-day workshop in Kabul (February 27, 2007) who gave valuable recommendations, which are being made part of this report.*

*The report was prepared under the overall supervision of Dr. Patricia Bonnard, FEWS NET Senior Markets and Trade Advisor/Washington, DC; Mr. Fazal Karim Najimi, FEWS NET National Representative/Kabul; and Dr. Kenneth E. Neils, Markets Advisor.*

*“The pathways from economic and social policies to improved food security and nutrition for the poor often are understood the mechanism of food aid. But the thrust of the food security problem lies that how households increase their incomes, acquire food, improve health, or cope with insecurity are important concerns that need to be examined in order to devise policies to help eradicate poverty.”*

*FEWS NET*

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AJK	Azad Jammu Kashmir
APCOM	Agriculture Price Commission
ATTA	Afghan Trade and Transit Agreement
CIDA	Canadian International Development Agency
CIMMYT	International Center for Research on Maize and Wheat
FAO	Food and Agricultural Organization
FATA	Federally Administered Tribal Areas
FCA	Federal Committee on Agriculture
FEWS NET	Famine Early Warning Systems Network
FFGI	Food and Feed Grains Institute
FSCD	Federal Seed Certification Department
FSM	Food Security Management Project
GIAI	Grain Industry Alliance International
GMC	Grain Management Cell
GOP	Government of Pakistan
ICARDA	International Center for Agricultural Research in Dry Area
IFDC	International Fertilizer Development Center
KSU	Kansas State University
MAAH	Ministry of Agriculture and Animal Husbandry
MAIL	Ministry of Agriculture, Irrigation, and Livestock
MI	Micronutrient Initiative
MINFAL	Ministry of Food Agriculture and Livestock
MIS	Market Information Systems
MoA	Ministry of Agriculture
MoC	Ministry of Commerce
MRRD	Ministry of Rural Rehabilitation and Development
MT	Metric Ton
NDVI	Normalized Difference Vegetation Index
NGO	Non-governmental Organization
NRI	Natural Resources Institute
NRVA	National Rural Vulnerability Assessment
NWFP	North West Frontier Province
PARC	Pakistan Agricultural Research Council
PASSCO	Pakistan Agricultural Storage and Services Corporation
PFD	Provincial Food Departments
PFMA	Pakistan Feed Manufacturers Association
PFMA	Pakistan Flour Mills Association
PMD	Pakistan Metrological Department
PRC	Provincial Reserve Center
RAMP	Rebuilding Agricultural Markets Program
SOW	Scope of Work
STD'T	Storage Technology Development and Transfer Project
SUPARCO	Pakistan Space and Upper Atmosphere Research Commission
USAID	United States Agency for International Development
WFP	World Food Program

Map 1: Pakistan and Central Asian Neighbors



Map 2: Survey Locations



## EXECUTIVE SUMMARY

The Famine Early Warning Systems Network (FEWS NET) designed the Regional Wheat Markets and Afghan Food Security Initiative in an effort to enhance the knowledge of regional wheat markets, Afghan wheat supplies and Afghan food security, and thereby enhance FEWS NET's ability to provide useful food security and early warning analysis and reporting. The initiative is comprised of a set of separate but complementary market and trade assessment activities and surveys, implemented in a staged approach.

The “Pakistan Wheat Subsector and Afghan Food Security” study is one component of this initiative. The objective of the study was to review the existing knowledge on Pakistan's wheat subsector and gain a clear understanding of how Pakistan wheat policy and markets affect wheat markets and food security in Afghanistan. The results of the study are expected to help improve food security analysis, early warning and the estimation of food needs in Afghanistan.

The study used a rapid informal survey approach to collect information from a pre-selected cross-section of stakeholders (including officials from government departments, private sector organizations, wheat traders, and flour millers) in major wheat markets and cities in Pakistan. The first task was to review existing literature on Pakistan's wheat subsector (Annex 3). The next task was to identify a cross-section of public and private stakeholders<sup>1</sup> to be interviewed from three major provinces in Pakistan's Punjab, NWFP and Balochistan provinces (Annex 2). The data were collected using a detailed checklist containing questions that could be used to generate knowledge about the structure, conduct and the performance of the wheat subsector and its potential impact on Afghanistan wheat supply and food security (Annex 4). In addition, secondary data were collected from government organizations, NGOs, research organizations and private sector institutions in Punjab, NWFP, and Balochistan provinces.

The consultant, in collaboration with FEWS NET/Afghanistan, organized a one-day workshop in Kabul on February 27, 2007 where results of the study were presented and discussed. Comments and recommendations from the participants have been incorporated into the report.

Wheat is Pakistan's most important agricultural commodity and represents 13.7 percent of the total value added of the agricultural sector and three percent of the gross domestic product (GDP). Since the start of the ‘Green Revolution’<sup>2</sup> in Pakistan and the government's push for self-sufficiency, wheat production has steadily risen, and with continued support through the government's “grow more wheat” campaign, production is expected to increase from the present production level of 22 million tons to 30 million tons by 2015.

The Government of Pakistan (GOP) exerts significant direct influence over the wheat subsector and is indirectly involved in the production, marketing, storing, processing and distribution of wheat, largely through various tax mechanisms and subsidy schemes at different levels of the wheat subsector. In recent years, the GOP has been encouraging expansion of private sector wheat markets, and one of the ways has been to provide credit from government bank facilities for wheat procurement, handling, and storage to private seed companies and flour mills. In addition, the Asian Development Bank's (ADB's) Agribusiness Project in Pakistan is providing assistance to the government to deregulate wheat markets and restructure the operations of Provincial Food Departments<sup>3</sup> (PFDs)

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<sup>1</sup>Interviews were conducted in Lahore, Sahiwal, Khanewal, Chichawatni, Multan, Bahawalpur, and Rahim Yar Khan districts of Punjab Province; Islamabad, Peshawar, Haripur, and Swabi districts of Northwest Frontier Province; and Quetta of Balochistan Province.

<sup>2</sup>The Green Revolution can be divided into several periods: 1) the early 1960s to about 1972 when there was a dramatic growth in productivity, 2) 1973 into the 1980s when there was less dramatic growth, and 3) declines in productivity starting in the 1980s and extending into the 1990s.

<sup>3</sup> Provincial Food Departments have been operating since the independence. They are responsible for the regulation of procurement, storage, and distribution of wheat to the flour mills and deficit locations.

There has been rapid growth of private, modern flour mills in Pakistan, especially along the Pakistan-Afghanistan border. Currently, there are 600 registered flour mills in Punjab, 275 in NWFP, 325 in Sindh and 65 in Balochistan Province. However, less than half of these flour mills are operational while the rest are completely shut down. Flour mills in central and south Punjab and in Islamabad are fully operational because surplus wheat is readily available and the mills are able to operate at profitable levels.

The Pakistani flour-milling industry represents stiff competition for the Afghan flour-milling industry. The flour milling capacity in Afghanistan is very limited. There are about nine or ten medium-sized (industrial-scale) commercial mills in the entire country (Kunduz 1, Hirat 1, Kabul 3, and Mazar-i-Sharif 3) with a milling capacity ranging from about 80-500 MT/day. In Hirat and Kunduz, commercial mills have had some difficulties getting the quality and quantity of wheat that is needed. Nonetheless, these mills are operating profitably supplying regional markets while not competing very well in markets closer to Pakistan. In addition to the industrial-scale mills, there are approximately 300-400 *Asiabs*,<sup>4</sup> (water driven or diesel-powered small mills) which operate in each Afghan province with a milling capacity of one to three metric tons per day and an extraction rate of about 100 percent.

The private millers and traders of Pakistan work closely with Afghan traders in supplying Afghanistan with about 80 percent of its flour imports. Afghan traders are actively involved in the importation of Pakistani wheat because:

- Pakistan and Afghanistan share a 1,600 kilometer-long border, have relatively efficient trade routes connecting the two countries and have had a long history (since 1960) of trading flour and other food items from Pakistan.
- There are significant supplies of wheat flour regularly available from Pakistan.
- Credit is available for Afghan traders buying flour from the Pakistani mills.
- Afghan consumers like Pakistani wheat flour for making Afghan *naan* and other baked products.
- Pakistan has been accommodating over three million Afghan refugees for the past two decades and the refugees' food (flour) needs are being met by Pakistan through international humanitarian programs.
- Pakistan has a whole series of wheat policies and programs that have a range of significant implications on trade with and Afghan food security (see section 9 and the extensive list presented in table 8).

Pakistan wheat policies would have less impact on Afghan food security if post-harvest grain losses in Afghanistan are minimized by adopting effective post-harvest management techniques. According to Afghan government sources, post harvest cereal losses (mostly wheat) in the post harvest operations i.e. threshing, handling, transportation, storage and in the milling processes is high and accumulatively 15 percent.<sup>5</sup> About an additional 75,000-100,000 tons of cereals would be available for human consumption if the post harvest losses were reduced by three percentage points. There has been no formal study to date in Afghanistan to determine the actual percentage of grain losses, but it is clear that post-harvest losses need to be reduced with improved post-harvest handling and storage methods.

The following are observations and recommendations identified by the Pakistan wheat survey and/or based on one-day workshop in Kabul

- Food security (at the national level) does not necessarily require national self-sufficiency in wheat or other food staples as long as the country has access to international markets.
- Diversification into production of high valued crops may be the most effective means of increasing food security, by generating foreign exchange and raising the incomes and purchasing power of the rural poor.

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<sup>4</sup> *Asiabs* is the word used for water mills in the local language (Dari), but now it is commonly used to refer to all kinds of small mills driven by water, diesel or electricity.

<sup>5</sup> Ministry of Agriculture Afghanistan Master Plan page 182, under section 2.1.2, post-harvest losses

- The Government of Afghanistan may recognize the need for developing and implementing policies towards maintaining operational food security schemes that include an efficient marketing, storage, and distribution system and monitoring the demand and supply situation in the country.
- The capability of the private sector to respond to food insecurity and help stabilize prices during the periods of scarcity depends significantly on their ability to compete and perform efficiently in international (regional) markets. Therefore, the Afghan government must improve market infrastructure and lower import taxes and other duties.
- More than 80 percent of all wheat flour in Afghanistan is imported from Pakistan. Therefore, Pakistan wheat policies have a significant affect on the fulfillment of Afghan food requirements and need to be monitored by the Afghan government with FEWS NET assistance in establishing affective linkages with various organizations in Pakistan.
- FEWS NET could include a regular section in its monthly food security update on Pakistan wheat markets relevant to Afghan food security, wheat trade, and prices.
- Given that Pakistan and Afghanistan share a 1,600-kilometer border, it is important that both countries effectively implement the Afghan Transit Trader Agreement (ATTA) to boost official trade.
- Given estimated post-harvest grain losses above 15 percent as reported by the Ministry of Agriculture's Master Plan (Page 182 under section 2.1.2), which seem unrealistically high, there is a need to carry out an independent study to more precisely determine the extent of losses and suggest preventive measures.
- Pakistan wheat policies have implications on both national and household food security in Afghanistan. Consistent and abundant supply of wheat and wheat flour from Pakistan keeps the prices stabilized and at affordable level in Afghanistan markets.
- Pakistan has started a national program of flour fortification. The export of fortified flour to Afghanistan would serve to improve the micronutrient content of diets for those Afghans who would have access to fortified flour.
- The establishment of Village-Based Seed Enterprises (VBSE)<sup>6</sup> is a good initiative created by RAMP and FAO that is continuing. Such enterprises will help increase agricultural productivity.
- Afghanistan should accelerate its privatization of the public sector silo program (started in collaboration with Emerging Markets Group) to encourage private investments in grain handling, storage, and processing.
- There is a growing need to establish and effectively implement practical grain quality standards that are shared by the two countries. The existing Fair Average Quality standards do not help the sellers and buyers because standards are based on arbitrary, subjective tests.
- An information network on food security and early warning working in collaboration with neighboring countries can bridge information gaps and can support the objective reporting of information on agricultural statistics for the purpose of facilitating decision making by policy makers.

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<sup>6</sup> Village Based Seed Enterprises were developed by the Rebuilding Afghan Markets Program (RAMP) (Chemonics/USAID) in Afghanistan (2003-2006) in collaboration with International Center for Research in the Dry Areas (ICARDA), which proved to be very useful for the farmers through the improvement in production of quality seed.

- Given the significance of Pakistan wheat flour in Afghanistan, and the implications on Pakistan wheat markets (table 9), it is suggested to have a FEWS NET agro-informatics resource in Pakistan for data collection, analysis, and reporting purposes.
- Pakistan's wheat policies have numerous negative impacts on Afghan food security: a summary of significant impacts are listed in table 9.
- Information on Pakistan's wheat subsector should be collected, analyzed, interpreted, and disseminated according to a suggested format (see section 11.3), and forwarded to FEWS NET Afghanistan to be incorporated into the regular FEWS NET bulletins in an effort to make the information more accessible to Afghan policy makers and others involved in the national food security management, programming, and early warning.

# 1. INTRODUCTION

Wheat is the major food grain for both Afghanistan and Pakistan. Annual per capita wheat consumption is about 160 kg and 120 kg in Afghanistan and Pakistan, respectively. In both countries, most wheat is consumed in the form of bread. But where the two countries are similar in terms of consumption preferences, they are very different in terms of wheat production and marketing systems.

Since the Green Revolution, Pakistan has achieved remarkable progress in the wheat subsector. Through the efforts of the Pakistan Agricultural Research Council (PARC), and with assistance from the International Center for Research on Maize and Wheat, Pakistan became the first developing country in Asia to achieve self-sufficiency in wheat production.

The agriculture and natural resources sectors in Afghanistan were severely damaged as a consequence of twenty-three years of war and conflict, and four years of severe drought (1998-2002). According to UN estimates, agricultural production was reduced to less than 50 percent of pre-conflict levels; livestock was reduced by over 40 percent for settled populations, and it is estimated that the nomads (*Kuchis*) lost 60-70 percent of their animals. Thousands of tons of wheat have been imported to meet the food needs of the country's increasing population. In recent years, the quantity of wheat imports is reported to have reached crisis levels from the perception of those attempting to rebuild the Afghan wheat subsector. Wheat imports amounted to 1.12 million tons in 1998, 2.2 million tons in 2001, and 2.3 million tons in 2002. In addition, a large number of people throughout the country depend on emergency food aid from external sources, and the return of a large number of refugees and IDPs has exacerbated the situation.

The Afghanistan food security situation has always been seen in the context of the wheat situation in Pakistan. Although wheat flows into Afghanistan from the north and east through Kazakhstan and Iran, Pakistan is clearly a major supplier of wheat to Afghanistan. Pakistan has been providing wheat to Afghanistan since 1960. The movement of wheat has continued over the years as formal and informal trade between the two countries. Trade continues in one way or another despite provincial and inter-district bans imposed by the Government of Pakistan (GOP). However, more recently and at the time of the survey, traders reported that unofficial trade has drastically decreased due to better surveillance of the border by Pakistani and Afghan authorities.

Food security in Afghanistan is dependent on the availability of wheat from own production and to a significant extent from regional trade with neighboring countries. Although domestic production makes an important contribution, it is increasingly recognized that the wheat supply in Afghanistan is determined to a great extent on wheat production and trade within the broader Central Asia region, especially on production from Pakistan and Kazakhstan, and to a lesser extent on Iran.<sup>7</sup> However, limited information on regional wheat markets and trade flows constrains the depth of market and food security analysis. There is a need for critical market information to support the design of appropriate policy and program responses in Afghanistan.

## OBJECTIVE OF THE STUDY

FEWS NET recently began a Regional Wheat Markets and Afghan Food Security Initiative in an effort to reduce the existing information gaps and strengthen the understanding of regional wheat markets and food security in Afghanistan, and thereby enhance FEWS NET's ability to provide useful food security and early warning analysis. The initiative is comprised of a set of separate but complementary market and trade assessment activities, implemented in a staged approach.

Afghanistan is reliant on wheat flour imports from Pakistan, which makes up a significant portion of the supply in Afghanistan, especially in certain parts of the country. Because of this, it was felt that study that could provide greater knowledge of the wheat subsector in Pakistan and its relation to Afghanistan's wheat supply would make a critical contribution to understanding Afghan food security. The results of the study are

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<sup>7</sup> See FEWS NET "The Contribution of Regional Markets to Afghan Wheat Supplies."

expected to improve food security analysis, early warning and the estimation of food needs in Afghanistan. The scope of work for this study is provided in Annex 1.

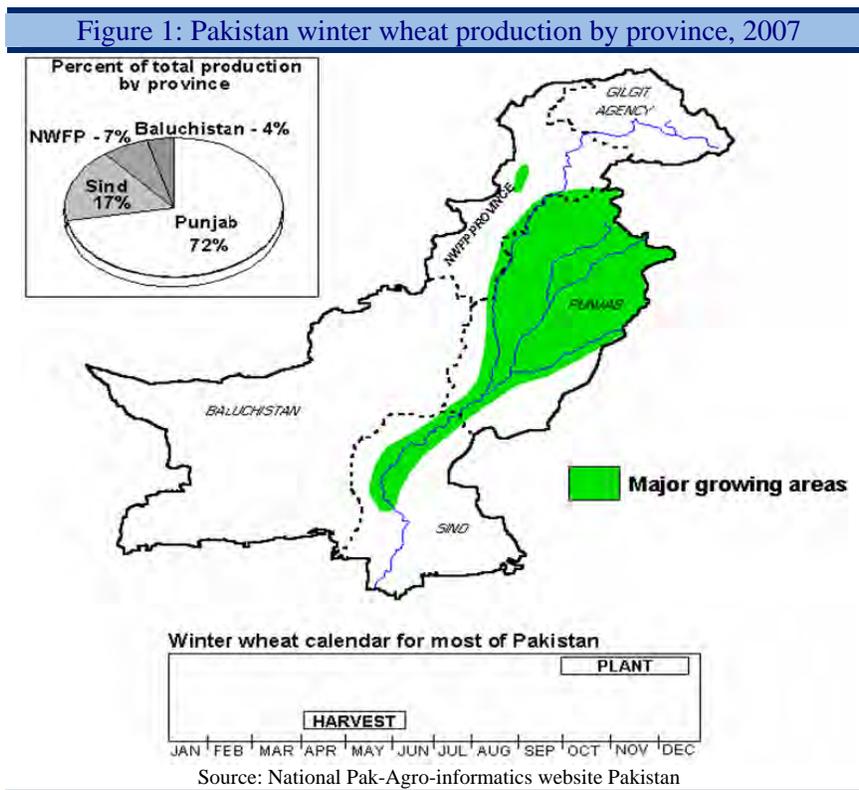
## 2. WHEAT PRODUCTION

### 2.1 PAKISTAN WHEAT PRODUCTION

Wheat is Pakistan's most important agricultural commodity and represents 13.7 percent of the total value added of the agricultural sector and three percent to the gross domestic product (GDP). Its share of total crop area is 37 percent.

Pakistan has a total cropped area under wheat of 8.45 million hectares that is divided among four provinces; Punjab's 6.48 million hectares; Sindh's 0.93 million hectares; NWFP's 0.72 million hectares, and Balochistan's 0.31 million hectares. Out of the total annual wheat production of around 22 million MT, Punjab has the biggest share with 18 million MT followed by Sindh with 2.5 million MT, NWFP with 1.1 million MT, and Balochistan with 637,000 MT. Punjab is the breadbasket of the country, and has a 100-year old canal network system for its agriculture. Figure 1 illustrates how total wheat production is distributed across the major wheat producing areas: with 72 percent of the total, Punjab is clearly the primary producer.

Wheat production increased by 528 percent from 1948 to 2000, while the increase in area planted was 114 percent. Significant improvements are attributed to the Green Revolution Era and the government's push for self-sufficiency in production. Wheat production remained steady over the last 3-4 years. Pakistan wheat production (over 21 million tons) has been fairly stable over the last three years, primarily due to the Government of Pakistan's (GOP) campaign to 'grow more wheat.' Pakistan intends to raise its wheat output to 30 million tons by 2015.



In addition, Pakistan wheat markets are heavily influenced by GOP interventions. The government procures around 70 percent of the marketable surplus through federal storage organizations and provincial food departments. The GOP maintains a strategic wheat reserve and supplies wheat to deficit provinces. The Agricultural Prices Commission (APCOM) announces minimum support prices for farmers every year before the harvest. The respective Provincial Food Departments in consultation with flour mills announce consumer prices for wheat flour.

There are three key elements of Pakistan's wheat development strategy:

1. expansion of cultivated and irrigated area;
2. introduction of high-yielding varieties; and
3. intensification of agricultural input use, especially chemical fertilizers and irrigation water.

The GOP's involvement in wheat production and distribution is, to a large part, inherited from its colonial past. Wheat market policies are guided by GOP objectives to support production and consumption policy

targets. Procurement policies focus on ensuring a support price to farmers and a targeted quantity of wheat to be procured by the government. The main objective of the wheat distribution policy is to provide low priced wheat and flour to the general population.

The GOP's laws, regulations, or trade policies related to wheat markets have aimed to achieve the following:

- regularly procure about 60 percent of the total marketable surplus at support prices;
- provide farmers with subsidized agricultural inputs;
- provide consumers with subsidized flour through a variety of schemes;
- achieve procurement targets for the purpose of maintaining "strategic reserves" through imposition of restrictions on commercial marketing;
- impose tariff barriers for the purpose of revenue generation;
- impose the non-tariff barriers for the purpose of ensuring quality control on imports;
- enforce Afghan Transit Trade Agreement (ATTA),<sup>8</sup> although not yet fully enforced;
- encourage investments in new flour mills through a wheat quota incentive system;
- enforce Fair Average Quality (FAQ)<sup>9</sup> wheat buying and selling standards using grain testing labs and equipment;
- maintain a no loss policy for grain storage;
- gradually liberalize the Pakistan wheat marketing system;
- encourage the expansion of wheat production to 30 million MT by 2015;
- launch a national program on flour fortification; and
- work in collaboration with South Asian Association for Regional Cooperation (SAARC) to establish a food bank for member countries.

This series of policies creates an environment characterized by many distortions that translate into significant incentives for intensive and extensive wheat production, marketing, and trade. Pakistan wheat policies are guided by an objective of maintaining national food security and providing farmers a minimum guaranteed support price at each harvest. The GOP implements its wheat marketing and distribution systems through Federal and Provincial Food Departments. The government's strategy regarding maintaining food reserves mainly depends on the following three measures:

- reduce the uncertainty and price risk in wheat farming and maintain food security in the country: the government announces its support price policy every year well before the wheat sowing period enabling the growers to produce more buffer stocks for reserves;
- ensure timely provision of improved and high yielding seeds and other agriculture inputs to sustain the upward trend and self sufficiency in wheat production; and
- persuade growers to adopt modern practices for cultivation of crops by extending appropriate facilities to the growers and making significant policy changes to facilitate private sector wheat operations.

As a consequence of this policy agenda, wheat flour exports to Afghanistan are expected to increase in 2007 because the private sector has procured wheat aggressively this harvest season and government departments are worried about meeting their wheat procurement targets. A more complete list of policies and impacts on Afghan food security are contained on table 9.

According to estimates, Pakistan will reap a record wheat crop in 2007. Government sources firmly believe that wheat output will exceed the official 2007 target of 22.5 million tons. The estimated yield is high as a result of favorable weather conditions, increased use of fertilizer following a reduction in fertilizer prices, and

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<sup>8</sup>In the 1960s, Pakistan and Afghanistan entered into an Afghan Transit Trade Agreement (ATTA) that allowed goods bound for landlocked Afghanistan to go through Pakistan free of duty.

<sup>9</sup> Fair Average Quality standards (FAQ) refers to buying and selling standards for wheat in Pakistan.

the government's decision to increase the wheat producer support price from Rps 10,370/ton (US\$173/ton) to Rps 10,630/ton (US\$177/ton). The GOP has offered these incentives to the farmers in order to:

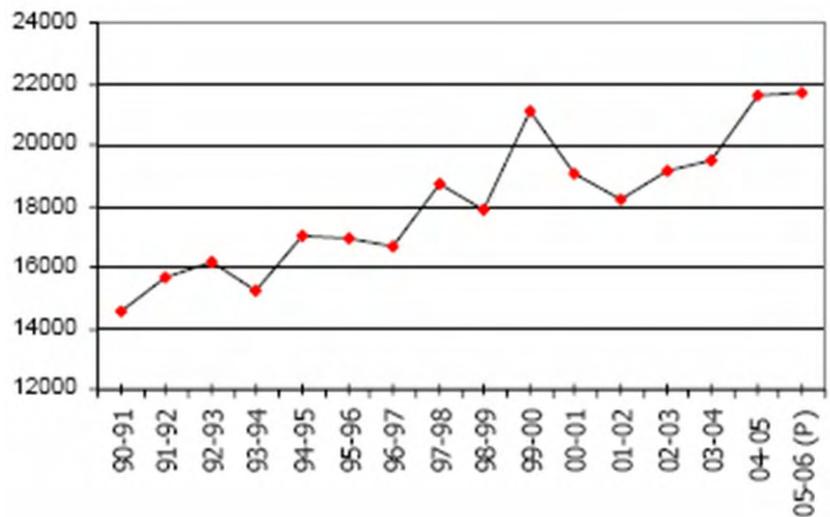
- raise wheat output to 30 million tons by 2015;
- stimulate growth in agriculture to 4.5 percent in an effort to achieve this year's targeted GDP growth rate of seven percent; and
- maintain sufficient buffer stocks for achieving national food security.

Pakistan will begin the next wheat harvest (2007) with a carryover stock of over 1.5 million tons. These stocks will be exported to Afghanistan, Turkey, the Middle East, and other international destinations. Both carryover and buffer stocks are likely to incur post-harvest losses and may decline in quality due to prolonged storage, as observed at various storage locations in the country during the survey.

The Pakistan post-harvest wheat sector faces many challenges, including the need for grain grades and standards, grain quality testing laboratory facilities, mechanized storage and handling facilities, liberalized markets with no inter-provincial restrictions on the movement of wheat, and close coordination with the private sector on the import of wheat.

Pakistan's agricultural sector suffered a severe setback during the 2000/01 season and wheat production dropped from 21 to 19 million MT due to an unprecedented drought and a resultant shortage of irrigation water. However, per the Economic Survey of Pakistan, total grain production has been relatively consistent at over 20 million metric tons during the last three years.

Figure 2: Pakistan wheat production

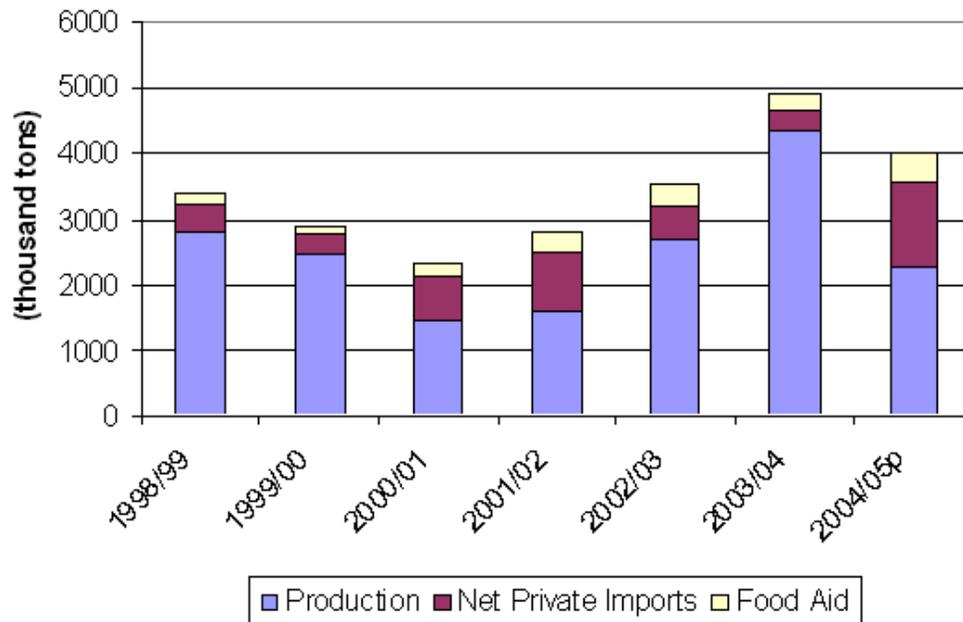


Source: Economic Survey of Pakistan MINFAL 2005-2006

## 2.2 AFGHANISTAN WHEAT PRODUCTION

In 1978, Afghanistan was self sufficient in food, meeting the requirements of its population of 14 million people. But nearly two decades of civil unrest virtually destroyed the agricultural marketing and storage infrastructure. Nevertheless, after several consecutive years of drought, Afghanistan was able to register a substantial recovery for the 2003/04 season due to significant rainfall. Under average wheat growing conditions, irrigated wheat constitutes about 70 percent of total wheat production. The remainder is produced under rain-fed conditions. In the past eight years, overall wheat yields have ranged from 0.9 to 1.9 MT per hectare.

Figure 3: Afghanistan wheat production and imports, 1998/1999-2004/2005



Source: Wheat markets, food aid and food security in Afghanistan, Paul A. Dorosh/Philippe Chabot

Economic growth can be generated through boosting agriculture production and building food markets and storage infrastructure. Afghanistan is capable of rebuilding the country's shattered economy and achieving food self-sufficiency. However, it will require a collaborative effort on the part of Afghanistan and international donors like the UN and USAID. To date, their contributions have been significant.

As figure 3 illustrates, Afghanistan wheat production in 2000/01 was 1.47 million MT, which steadily grew to 4.4 million MT in 2003/04, a year with a particularly good harvest. Harvests in the succeeding years were not good due to severe drought conditions. However, 37 percent of the total availability was compensated for through food aid and commercial imports. Per capita cereal consumption is estimated at 160 kg per year.

### 3. PAKISTAN WHEAT BALANCE

The GOP uses a food balance sheet as part of its planning process, and logically, wheat production and consumption are key elements. The national wheat requirements are estimated using per capita wheat consumption and the size of the population.

Wheat production rose from 9 million MT to 20 million MT from 2004 to 2006. Around 10 percent of the total production is held by the farmers and seed companies for sowing in the subsequent years. Due to wheat shortfalls in the past, the Government of Pakistan has been importing wheat to meet the country's requirements. In addition, Pakistan allowed importation of wheat to the flour mills in Sindh Province, even when Pakistan was surplus in wheat in 2004/05.

According to the wheat balance sheet (table 1), Pakistan wheat production increased to 21 million tons in 2001/02, and Pakistan exported 172,000 metric tons of wheat. Estimates of import requirements for 2005/06 overshoot actual needs, and government wheat stocks for 2005/06 are now being exported through the private sector.

**Table 1: Pakistan wheat balance (in 000 MTs)**

Item	Years				
	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Carryover	702	3,552	3,683	992	161
Production	21,079	19,024	18,227	19,183	19,450
Production (AJK Nas)	152	152	152	152	236
Imports	0	0	184	108	1,368
Exports	172	1,036	1,704	192	0
Shortage	3,552	3,683	992	161	358
Total Availability	18,209	18,009	19,550	20,082	20,857
Seed, feed, loss (10%)	2,123	1,918	1,838	1,934	1,969
Available for Human Consumption	16,086	16,091	17,712	18,148	18,888
Per Capita Availability	111	108	117	117	120
Population	144.98	148.71	150.88	154.91	157.75

Source: Economic Survey of Pakistan, Ministry of Finance (2005-2006)

## 4. WHEAT MARKET CHANNELS

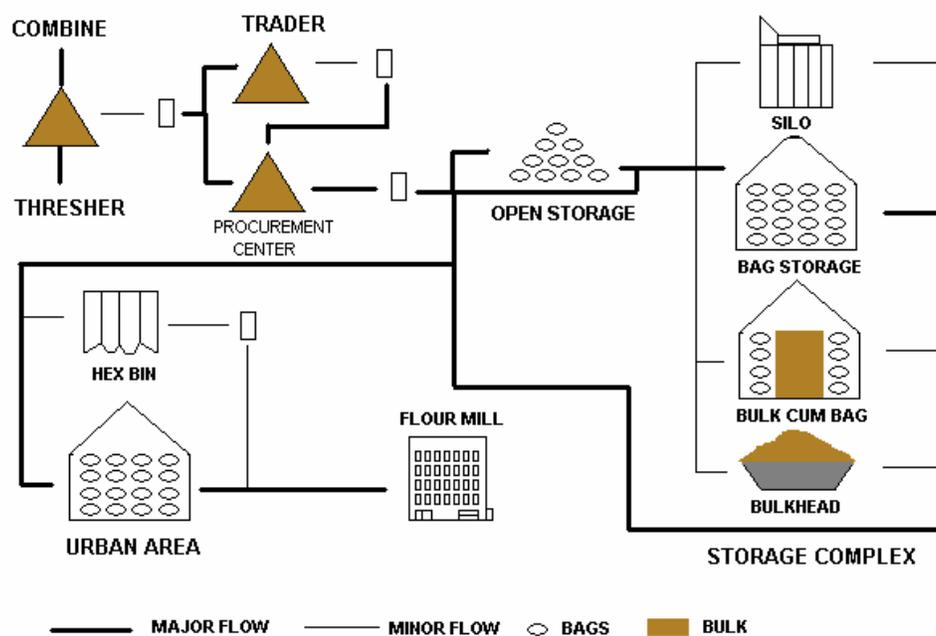
### 4.1 PAKISTAN WHEAT MARKET CHANNELS

Pakistan's wheat market system evolved through development of infrastructure for storage, milling, and distribution. As is the case with the production of wheat, the government intervenes significantly in wheat markets. The two major interventions are:

- setting procurement and release prices; and
- purchasing up to 70 percent of the marketable surplus.

In addition, the government subsidizes the costs of storage and distribution. Due to extensive government interventions, private sector investments in wheat importation, storage, and handling have been discouraged in the past.

Figure 4: Wheat flow from farm to the flour mill



#### Post-Harvest Grain Channels

##### Storage & Milling Points for Primary Data Collection

Source: "Case for bulk grain handling in Pakistan" RC Maxon Storage Technology Development and Transfer Project, USAID 1992

### 4.1.1 Public Sector

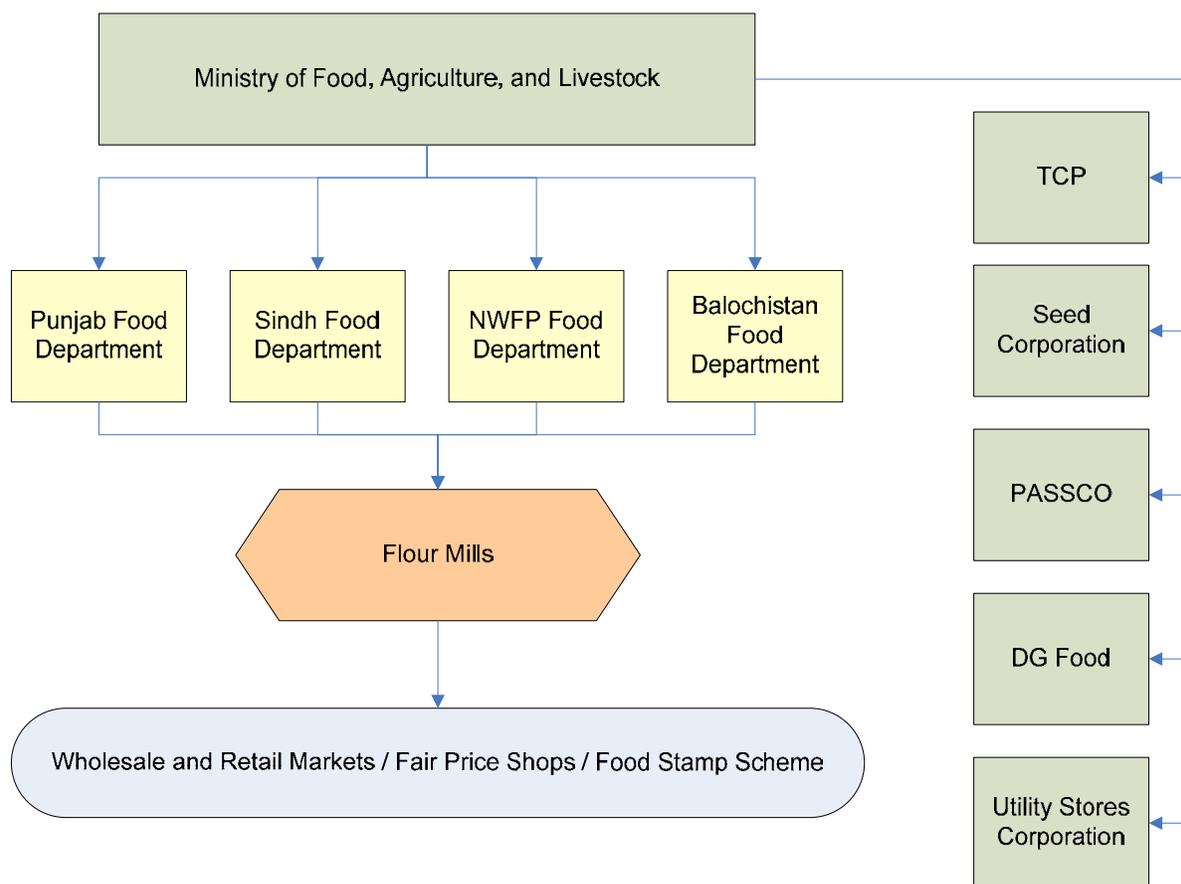
**4.1.1.1 Ministry of Food Agriculture and Livestock (MINFAL).** MINFAL decides from which locations Federal and Provincial Food Departments can procure wheat during harvest and establishes procurement centers each year before the harvest. MINFAL is further involved in the distribution of wheat from surplus to the deficit provinces because provinces in deficit buy wheat from either the federal storage organization, PASSCO, or the Punjab Food Department (typically a surplus province) according to MINFAL allocation specifications. Surplus PFDs add on storage and incidental costs, which MINFAL must approve. Thus storage and handling costs are administered rather than determined through a competitive process.

**4.1.1.2 Trading Corporation of Pakistan (TCP).** TCP is responsible for the import and export of agriculture and consumer goods under the specific directions of the federal government. TCP has recently invited tenders from the private sector to export of 0.5 million tons of wheat from public reserve stocks. This is an attempt by the government to get rid of surplus wheat stocks from 2005/06 and 2006/07. A common practice is to sell the old stocks to Afghanistan since there is no quality control. This practice can negatively affect both consumers and producers in Afghanistan. It affects consumers from a food quality and food safety point of view. Producers are affected when the government of Pakistan significantly decreases the wheat price for old stock in order to rid itself of the old stock, thus expanding supplies and reducing the market price

**4.1.1.3 Provincial Food Departments (PFDs).** The PFDs are responsible for all aspects of food grain marketing including purchases, storage, sales, transfer, milling, etc. under the Foodstuff (Control) Act of 1958. PFDs also ensure attractive support prices for farmers. PFDs supply wheat to the mills on a quota basis to ensure adequate supplies and stable prices of *atta* (local name for non-refined wheat flour) throughout the year. The Food Department in Punjab Province, the major wheat-producing province, supplies wheat to the deficit province as directed by MINFAL.

**4.1.1.4 Seed Corporations.** The Federal and Provincial Seed Corporations, one corporation in each of the four provinces, purchase wheat seed from the certified farmers and store the seed until it is distributed to the growers just before planting. These corporations purchase, store, and distribute around 10 percent of the total marketable surplus together with private sector seed companies.

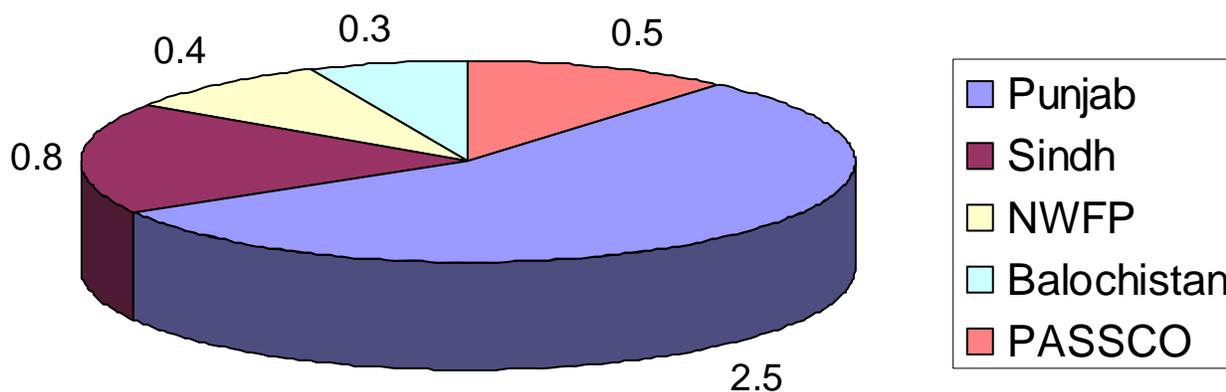
Figure 5: Public sector organizations in wheat market



**4.1.1.5 Public Sector Storage Capacity.** The GOP has about 4.5 million MT of grain storage capacity including bag warehouses. There are six different types of public sector grain storage facilities in Pakistan: permanent storage houses (69 percent), hexagonal bins (6.9 percent), bini-shells (14.4 percent), concrete silos (6 percent), open bulk heads (3.7 percent), and temporary storage (bulk bag storage plus temporary outdoor storage on plinths covered with tarpaulin or polyethylene (capacity of 1,000-2,000 MT).

Afghan traders do not buy from these (government) facilities. Only international donors (FAO, USAID, WFP, etc) buy wheat from these facilities for distribution as food aid to Afghanistan. Afghan traders do buy from the flour mills (all in the private sector).

**Figure 6: Public sector storage capacity by province and PASSCO in million MTs (total is 4.5 million MTs)**



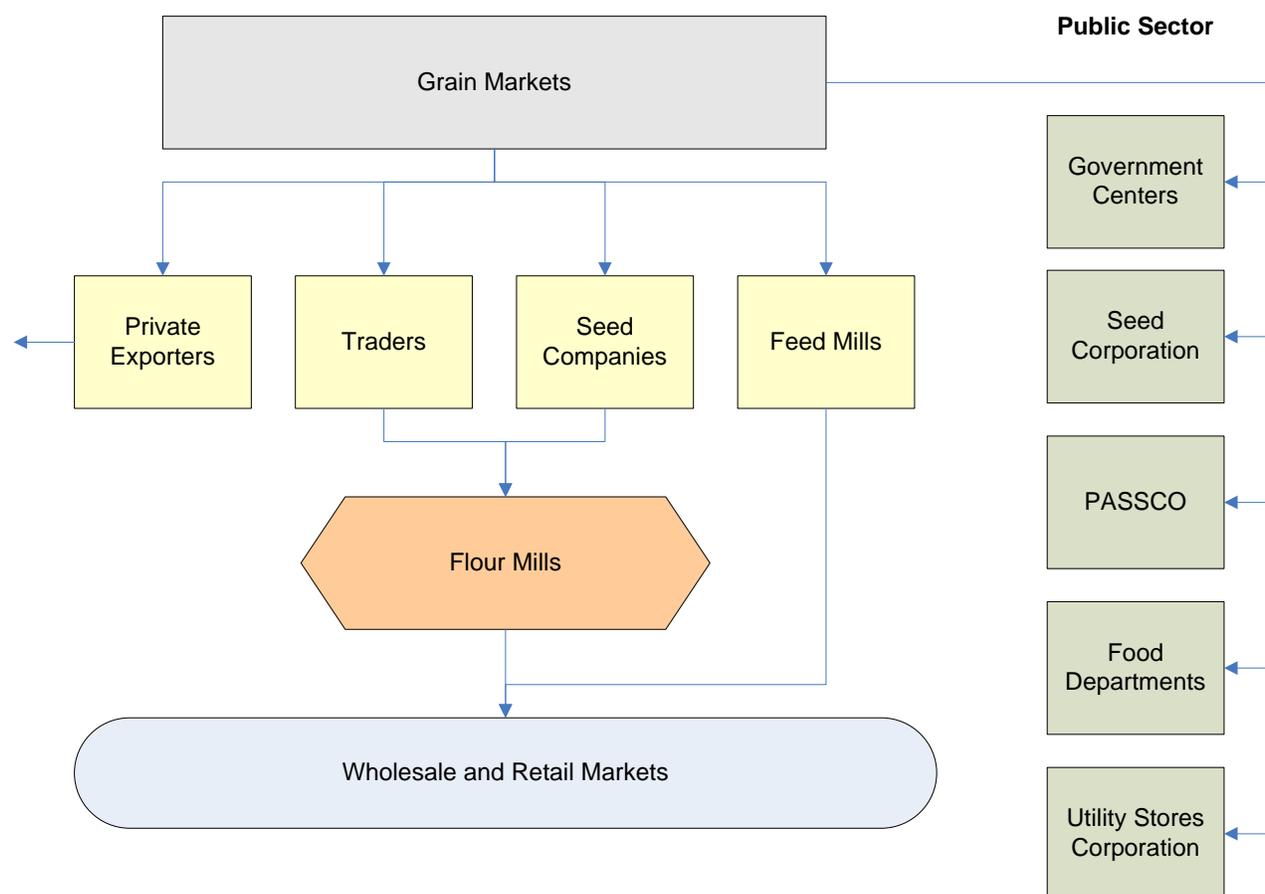
Source: Ministry of Agriculture and Animal Husbandry, Pakistan

**4.1.1.6 Renovation of grain storage.** Since 1986, considerable technical assistance was provided by international donors for the design, construction, and mechanization of Pakistani grain storage systems. The most successful project was that of the Food and Feed Grains Institute (FFGI) of Kansas State University. FFGI implemented the USAID-funded Grain Storage Technology Development and Transfer Project (part of USAID’s Food Security Management and Agriculture Sector Support Program in Pakistan from 1988 to 1993. Around 3,000 Pakistani grain storage and mill managers were trained and GOP storage facilities were rehabilitated. Much of the progressive storage and handling practices of the procurement agencies and the private wheat industry observable in Pakistan today are a direct result of this USAID-funded project.

## 4.1.2 Private Sector

**4.1.2.1 Farmers.** Pakistani farmers use mostly traditional storage for grain. The private sector, primarily wheat traders and flour millers, have less than 1 million metric tons of grain storage capacity. The private sector purchases up to 2 million MT of wheat from the farmers each year. Millers need to hold sufficient grain for 30 to 60 days of milling. The wheat delivered from the farm at harvest to the village market or to a government department is kept in sheds, houses, large steel bins, concrete silos, or in the holding bins of a flour mill

Figure 7: Private sector wheat marketing channel



**4.1.2.2 Traders.** Traders play an important role in the Afghanistan wheat sub-sector by purchasing and collecting wheat from the farmer at farm gate prices above or below the GOP's support price (depending on the wheat quality); storing the wheat; and selling wheat to either the flour mills or to the public sector wheat procurement agency.

**4.1.2.3 Seed Companies.** More than 560 private seed companies have been registered and established under the supervision of the Federal Seed Certification Department (FSCD). Private seed companies supply certified wheat seed to the farmers. Out of 166,541 MT of wheat seed distributed during the 2005/06 crop year, private seed companies distributed 126,633 MT or about 76 percent of the total.

**4.1.2.4 Feed Mills.** There are more than 25 commercial feed mills and 550 small feed mill units in the country. Total production of poultry feed by the feed mills is around 5 million MT annually. Feed mills are fully equipped with grain silo systems. Feed millers generally do not prefer to use wheat as a major feed ingredient. However, when the price of wheat in the market is lower than the maize price, as it was at the time of the survey (wheat was at \$177/MT and maize at \$199/MT at that time) feed millers use more wheat in their poultry feed.

**4.1.2.5 Flour Mills.** In Pakistan, the flour-milling industry is privately operated. Flour mills procure wheat from the open market and from government agencies and produce wheat flour for local as well as for export markets (mostly in Afghanistan). Flour mills obtain most of their wheat from the Provincial Food Departments (PFDs) based on a fixed quota that is a function of the mill's milling capacity. PFDs issue wheat to the mills at a fixed release price that takes into consideration storage and other incidental costs. The GOP does not issue wheat to the mills during the time of the wheat harvest (June/July), when wheat is available in

abundance in the markets. During the current crop year (2006/07), the GOP has fixed the release price at \$180/mt.

This study discovered exceptional growth of flour mills in Pakistan (especially provinces neighboring Afghanistan) due to the incentives of the wheat quota system available to new and existing millers. The high growth of flour mills in Pakistan provinces has possibly discouraged investment in flour mills in Afghanistan, especially those mills situated close to the border. There is over capacity in the milling industry and a large number of mills operate only when they are able to purchase subsidized wheat stocks from the government stocks. The quota system and expected business opportunities with Afghanistan are the main reason for expansion of the milling industry in the country.

**Table 3: Registered flour mills in Pakistan**

Province	Registered Mills	Milling capacity per ton/day	Operational	Remarks
Punjab	600	120	350	Punjab is a surplus wheat-producing province. And supplies wheat to the deficit provinces (Balochistan, NWFP and Sindh). Average wheat quota for a mill is 0.5 metric tons.
Balochistan	65	100	12	Balochistan gets wheat from Punjab as per allocation approved by MINFAL. Average quota for the mill is 10 ton/day (half quota as compared to the sanctioned quantity).
NWFP & northern area	275	120	65	NWFP gets wheat from Punjab as per allocation approved by MINFAL. Average quota for the mill is 0.8 ton/day.
Sindh	325	120	250	Sindh Province meets its wheat requirements from Punjab and through imports.

Note: The grinding capacity of mills varies in all the provinces. Milling capacity of one medium to large mill is 100-150 MT/day. Afghan traders like Pakistan fine flour (with 16 percent) bran extraction. Large quantity is exported from the Punjab Province especially south and central Punjab.

## 4.2 AFGHANISTAN WHEAT MARKET CHANNELS

### 4.2.1 Public Sector

Before and during the war years, government silos and mills with large-scale storage and milling capacity were operated by the public sector. However, damage to the silos and mills during the war, coupled with a bankrupt government, resulted in little or no use of the facilities. Currently, there are two government flour mills in Kabul and Mazar-i-Sharif with 80 to 200 MT/day milling capacity, respectively. Only the Kabul mill is operating. The Kabul Silo, constructed by the Russians in 1957, has a 50,000 MT of storage capacity. Presently there are about 35 full time employees at the mill. There is one bakery at the Kabul silo complex that produces 20 MT of bread every day. Generally speaking, the government plays a very small role in the wheat market system in Afghanistan and has not established any countervailing policies or programs to those of Pakistan. This makes Afghan producers vulnerable to price shocks stemming from agricultural policies in neighboring countries such Pakistan.

Table 4: Storage and milling capacities in Afghanistan (public sector)

Complex	Storage Capacity	Operational/ Non Operational	Milling Capacity (MT)/day	Operational/Non Operational
Herat	20,000	Partly operational	10	Non operational
Kandahar	20,000	Non operational	60	Non operational
Balkh (Mazar)	40,000	Non operational	60	Non operational
Pule Khumri	40,000	Non operational	60	Non operational
Kabul	50,000	Partly operational	80	Partly operational

Source: GIAI/IFDC wheat market and milling industry survey, 2006

#### 4.2.2 Private Sector

**4.2.2.1. Farmers.** Farmers sell about 43 percent of the wheat crop at or around harvest time. About 57 percent of the wheat is stored by farmers until a later date and sold to traders and commercial mills. Wheat, the staple food crop in Afghanistan, is consumed at a per capita annual rate of approximately 160 kg, one of the highest rates among wheat consuming countries in the world. Over 80 percent of the wheat consumed in Afghanistan is consumed as *naan*.

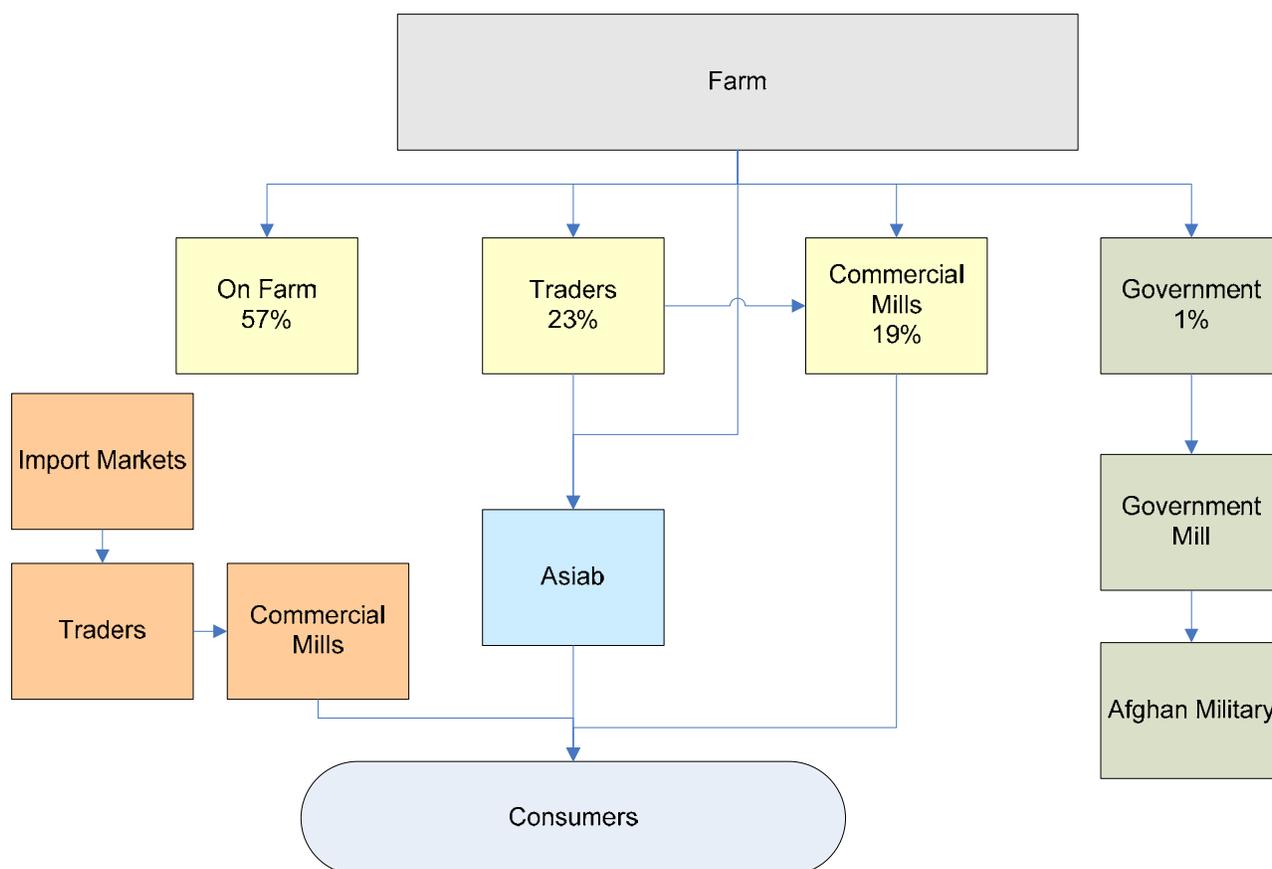
**4.2.2.2 Traders.** Typically traders in Afghanistan buy about 90 percent of the marketable surplus of wheat. Traders do not keep large amounts of wheat and wheat flour, but rely on revolving stocks. Traders utilize whatever temporary facilities are available to store wheat for 1-2 weeks on average. The lack of storage capacity, especially in chronically food insecure areas, is a significant food security concern in Afghanistan

**4.2.2.3 Asiabs (small mills).** There are approximately 200-300 *Asiab* mills operating (at 1-3 MT/day) in each province in Afghanistan. The mills, an important component of the rural and urban milling industry, include stone mills, water mills, and electric/diesel run stationary or mobile mills. These mills collectively mill more than 90 percent of the wheat produced in Afghanistan. However, these small mills do not have cleaning, purifying, and separation systems. Lack of milling capacity, in general, and the associated higher cost of diesel to run the mills due to increasing oil prices further inhibit Afghan producer's ability to compete with neighboring countries with relatively lower export flour prices.

**4.2.2.4 Commercial flour mills.** There is a significance shortage of refined flour milling in Afghanistan. There are only nine medium sized commercial mills in the country operating at 80-200 MT/day capacity. The actual milling capacity of these mills is at least double their current operating levels. However, a shortage of power, unavailability of quality wheat grain, and other factors limit the mills' capacity utilization. Mills in Hirat, Kunduz, and Mazar-i-Sharif are operating at a profit. Although, increasingly commercial mills are compromised by competition with Pakistan mills

The Afghanistan wheat and milling sector performed well in the past, in part, due to the assistance from the USAID-funded RAMP project. These mills are producing quality flour and their flour is well received by the local consumers. However these mills do face stiff competition with imported flour from the neighboring countries.

Figure 8: Afghanistan wheat market channels



However, according to the president of the wheat/wheat flour traders association, Kabul local mills are not producing sufficient flour in terms of quality and quantity that is preferred by consumers. Imported flour, mostly from Pakistan, is preferred by bakers and other consumers. Traders are playing their part to meet the demand for the imported flour (mostly from Pakistan) in Afghan markets and they help stabilize the flour prices. Wheat flour demand in the Afghan markets enables the neighboring competitors to export their wheat or wheat flour to Afghanistan at significant cost to Afghan producers.

## 5. WHEAT POLICY

### 5.1 PAKISTAN WHEAT POLICY

The aim of Pakistan's wheat policy since independence has been to maintain food security and stabilize prices. The elements of the policy have been:

- Federal and Provincial Food Departments procure grain: about 60 percent of the total marketable surplus of wheat.
- The government fixes and announces a support price each year before the harvest.
- Federal and provincial governments provide input subsidies (on fertilizers, seed, farm machinery, and chemicals) to the farmers.
- Provincial Food Departments release wheat to flour mills at fixed release prices (i.e., the release price at all locations in Pakistan is the same) and on the basis of a quota system.
- Food departments subsidize the price of flour through fair price shops, food stamp schemes, *Bait-ul-Mall*,<sup>10</sup> and the Utility Stores Corporation<sup>11</sup>.
- Provincial and district governments occasionally impose restrictions on inter-district and inter-provincial movement of wheat in order to meet the GOP's wheat procurement targets. However, this policy is being phased out as a shift towards a more free market system.
- The Federal government may impose taxes on the export of wheat and wheat flour when domestic wheat supplies are low or eliminate taxes on the export of wheat and wheat flour when domestic wheat supplies are in surplus.
- The Federal government has imposed non-tariff barriers, mainly based on quality controls on imported wheat.
- Private sector mills and seed companies have access to credit from government banks at subsidized interest rates.
- The Trading Corporation of Pakistan (TCP) and the private sector have been allowed to import wheat when the domestic supply is in deficit. However, the government did allow wheat imports to the four mills whether a deficit or surplus in domestic supplies was expected.
- The government exports a targeted quantity of wheat when there is surplus wheat. The private sector was also allowed to export wheat in 2004 for the second time since 1981-82. The GOP has now, in 2007, permitted wheat export through the private sector.
- To facilitate trade, the Afghan Transit Trade Agreement (ATTA) between Pakistan and Afghanistan was agreed to in 1965. Pakistan has conveniently failed to enforce the agreement in order to pursue its desired agricultural and trade policy goals.
- GOP subsidies and its wheat quota system encourage investments in mills in all provinces.
- The GOP uses only one standard i.e., Fair Average Quality (FAQ) for buying and selling wheat.

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<sup>10</sup> Bait-ul-Mall is a charity organization established by the government to provide flour to the poor free of cost under a food stamp scheme.

<sup>11</sup> The Utility Stores Corporation is government entity and has a chain of fair price stores in the country and sells household items to the general public at discounted prices.

- The GOP has established grain quality laboratories, but they function more as reference laboratories to settle disputes.
- The GOP is encouraging an expansion of wheat production to 30 million MT by 2015
- The GOP has not instituted grades and standards for wheat and wheat flour nor has it modified its No-Loss Policy, which opens the door to poor management practices and possibly malpractice within the wheat storage and handling system.

For liberalized wheat marketing, the State Bank of Pakistan (SBP) has provided banks with financing facilities starting in 2007 which they can on lend to eligible borrowers (licensed wheat traders and the flour mills). Banks are also allowed to provide facilities for wheat procurement by the seed processing plants, in line with their lending policies and the capacity/production plans of the seed processing plants. Expansion of private wheat markets will encourage Pak-Afghan wheat trade and bring price stability for the consumers in both countries.

Government invention is not likely to ease up any time soon. Policies and government actions relevant to wheat production, milling, marketing and trade for the near future will look like the following:

- Continue input subsidies for farmers in order to achieve wheat production targeted at 30 million tons by 2015.
- Continue its wheat support price policy for farmers
- Not impose inter-provincial and inter-district restrictions on wheat movement as a result of the court decision in favor of a petition by the flour mills associations.
- Not immediately restructure its Federal and Provincial Food Departments as being suggested by the international donors.
- Not allow the private sector to continue exporting wheat (the prediction proved true so far as the GOP imposed a ban on the export of wheat; despite the bumper crop in 2007).
- Maintain price support on wheat: release and ex-mill prices to provide wheat flour to the general public at cheap rates (reason - 2007 is an election year too).
- Expand storage capacity - complete privatization of Pakistan wheat subsector appears to be a prolonged process as the Punjab Food Department is building and expanding its grain storage facilities by putting up new silos.
- Impose restrictions on the construction of new flour mills, but the GOP may not implement them fully due to various reasons.
- Possibly introduce new grades and standards on wheat in place of Fair Average Quality (FAQ) standard as per recommendations made by a USAID project in 1992 (this may be a bit premature).

### 5.1.1 Key Policy Decisions

**5.1.1.1 Support Price Policy.** To reduce the uncertainty and price risk in wheat farming, and to maintain food security in the country, the government has been announcing the support price for the wheat crop before planting each year. The government annually reviews the minimum guaranteed price of wheat after carefully considering all the relevant factors. According to the Agricultural Price Commission of Pakistan (APCOM), prices are fixed on the basis of the cost of production of wheat including the change in agricultural input costs.<sup>12</sup>

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<sup>12</sup> Support Price Policy for Wheat 2005-2006/Agricultural Prices Commission of Pakistan (July 2005)

The wheat support price was increased by Rs. 15 to Rs. 415 per 40 kg while in 2005/06, government procurements were kept at around five million tons. It was assumed that the wheat price during the post-harvest period would not fall below the support price.

**Table 5: Procurement / Support price of wheat in Pakistan Rupees per 40 Kg**

Year	Price/40 Kg
2000-2001	300
2001-2002	300
2002-2003	300
2003-2004	350
2004-2005	400
2005-2006	415
2006-2007	425

Source: APCOM

**5.1.1.2 Fair Average Quality.** The present Fair Average Quality (FAQ) standards originated in the grain exchanges that were common in Lahore, Lylapur (now Faisalabad), Okara, Multan, and other cities in the 1930s. The FAQ in use at a given time was developed for each grain market for each harvest season according to the performance of the wheat harvest. The FAQ has some limitations on moisture content and shrunken, broken, and insect damaged kernels: all assessed via visual inspection. Most wheat is harvested at nine percent moisture content or less. The FAQ has no legal status for enforcement under the law. The FAQ has largely lost its meaning for several reasons, including the fact that wheat production technology has advanced, harvesting has become mechanized, and wheat varieties have been greatly improved. However, several surveys have found that wheat on the farm at the time of harvest is superior to the wheat when it reaches to the market.

It was observed during the survey that flour quality differed at different mills, but these differences tended to reflect the different quality specifications of buyers. Flour millers set their margins on the sale of flour on the basis of a grade (A, B or C). There is labeling, but the assessment of quality is made on visual basis only. It is really demand and consumer preferences at the time of purchase that determine the quality of flour in the market (table 6).

**Table 6: Impacts of FAQ and No Loss Policy on wheat distribution and consumption**

At Procurement	During Storage	At Consumption
No objective test on grain quality	Impossible to determine changes in quality during storage	Uncertain milling yields and Products
Purchase of wheat with excessive impurities and moisture	Increased risk in grain deterioration	Higher cost in processing
Greater opportunity for irregularities	Higher cost in handling and storage	Higher consumer prices
Sellers adulterate grain to offset cost of procurement malpractices	Storage managers adjust quality to cover losses	Less food for consumers
Honest sellers and producers not rewarded monetarily	No incentive to purchase good quality wheat	Poor nutritional food value

Source: FEWS NET survey responses 2007

**5.1.1.3 Wheat incentives/subsidies.** The government of Pakistan is giving billions of rupees in wheat subsidies, which is, in fact, the cause of many of the problems within the industry or subsector.<sup>13</sup> Two years ago it was decided that the two primary subsidies on transportation costs and gunny bags ought to be removed. This was not implemented fully and some residual subsidies remain. The subsidized wheat is logically cheaper than wheat in the open market, which sends the wrong signals to the markets, attracting profiteers to put up new mills to get these subsidies when in reality there is already 300 percent over-capacity.

<sup>13</sup> Business Recorder, PFMA Seminar Paper 2005

The GOP sets the a pan-territorial<sup>14</sup> price for wheat leaving the mills, covers the cost of transportation from deficit to surplus areas and has also started to subsidize final consumption (e.g., food stamp scheme, utility stores) to low-income groups and populations living in remote areas of the country, i.e., Northern Areas, FATA etc. While retail prices are permitted to vary, wholesale prices are set and controlled through the PFDs.

A targeted consumer subsidy (as proposed in ADB report for PFD Balochistan Province, December 2006) as part of the “pro-poor” wheat subsidy mechanism combined with an appropriate level of public reserve stocks is an effective policy mix to reduce food insecurity and price instability in Pakistan. However, this has little effect on the ex-mill prices (set by the GOP) for flour destined for Afghanistan. If prices are set artificially high at the point of departure from the mills, the cost most likely is pushed onto the Afghan trader and subsequently the consumer. Market prices for the flour desired by the Afghan traders are greatly determined on the basis of a set of quality parameters, not strictly the market.

**5.1.1.4 Tariff / non-tariff.** The GOP imposes inter-province/inter-district bans or restrictions on wheat movement so that the government agencies have enough wheat to meet their procurement targets set by the federal government. The government did impose an export tariff (15 percent) or regulatory duty on flour exported to Afghanistan in 2005. The duty did affect the Pakistan and Afghanistan markets. Exports to Afghanistan declined. The duty was withdrawn in 2006, and the exports were increased in 2006-2007.

Key complements to an initiative to reduce government market intervention include consistent and transparent trade policy with low tariffs to encourage international trade and level playing fields, avoidance of marketing restrictions to promote competitive domestic markets, and enhanced analytical capacity and information flows. The expectations are that such changes will allow Pakistan wheat markets to move freely under a liberalized system and markets will have more free interaction with the international markets, especially with Afghanistan, and will ultimately promote wheat trade.

## **5.2 AFGHANISTAN WHEAT POLICY – SALIENT FEATURES**

- The wheat policy and market issues such as poor market infrastructure, inadequate storage, absence of grades and standards, and power shortages for operating mills are diverse and difficult to solve. Policy and market issues are in many cases inextricably bound together.
- Market signals are blurred and preferred quality standards are not achieved which means that mills are unable to acquire uniform wheat quality.
- There are no subsidies or special incentive programs for wheat production and marketing
- Wheat market centers in urban areas of Afghanistan are poorly equipped for transporting and storing wheat.
- Less than 1 percent of wheat is procured by the government and only one mill is producing flour for the Ministry of Public Health and the private sector.
- The government should consider privatizing its silos and the mills as it is unable to run the units efficiently. Around 180,000 MT silo capacity (table 4) exists in the public sector in the various provinces (Kabul, Hirat, Mazar, Pul-e-Khumri). These facilities are not functioning except the one in Kabul, which is operating at much less than full capacity.
- The government is encouraging a warehouse receipt system (i.e. improved storage).
- A small percentage of the improved wheat seed is tested (and labeled as quality declared seed) at the government seed testing laboratories before being sold to the farmers.

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<sup>14</sup> Same price in all locations.

- The government imposes a 10 percent duty on imported flour which is partially passed on to the consumer in the form of higher flour prices.
- There is an on-going food aid program for vulnerable populations including Afghan refugees repatriated from Pakistan.
- Wheat seed and fertilizer distribution programs over the past few years have adversely affected the development of private sector seed markets.
- No formal grades and standards exist and thus there is no adequate grading system or quality parameters that are easily and effectively understood by millers
- The government does not have a grain reserve or wheat stabilization stocks since millers can import large quantities of wheat within three weeks from neighboring countries.
- A revised version of the ATTA between Pakistan and Afghanistan has been drafted and presented at the recent regional conference in New Delhi, India where Afghanistan officials tried to hold discussions with Pakistan officials.

## 6. PAKISTAN-AFGHAN WHEAT TRADE

### 6.1 OFFICIAL TRADE

Afghanistan is a land-locked country and is dependent on trade with other countries. Pakistan and Afghanistan signed the Afghan Transit Trade Agreement (ATTA) in 1965 under which Afghanistan's transit rights through Pakistan were recognized. This agreement has never been fully enforced. Islamabad, on occasions, has tried to control the list of items that Afghans can import through Pakistan in response to "widespread smuggling." Some adjustments have been made to the protocol and Pakistan has offered new proposals like complementary tariff structures to eliminate the smuggling margins.

Regional grain markets of Pakistan appear to be more closely linked with markets in Afghanistan. Private sector imports are estimated to be about twice as large as food aid inflows which help stabilize national grain supplies and prices. According to the Afghan Foreign Minister; the trade between Pakistan and Afghanistan has increased to \$1.3 billion compared with only \$23 million in 2001.

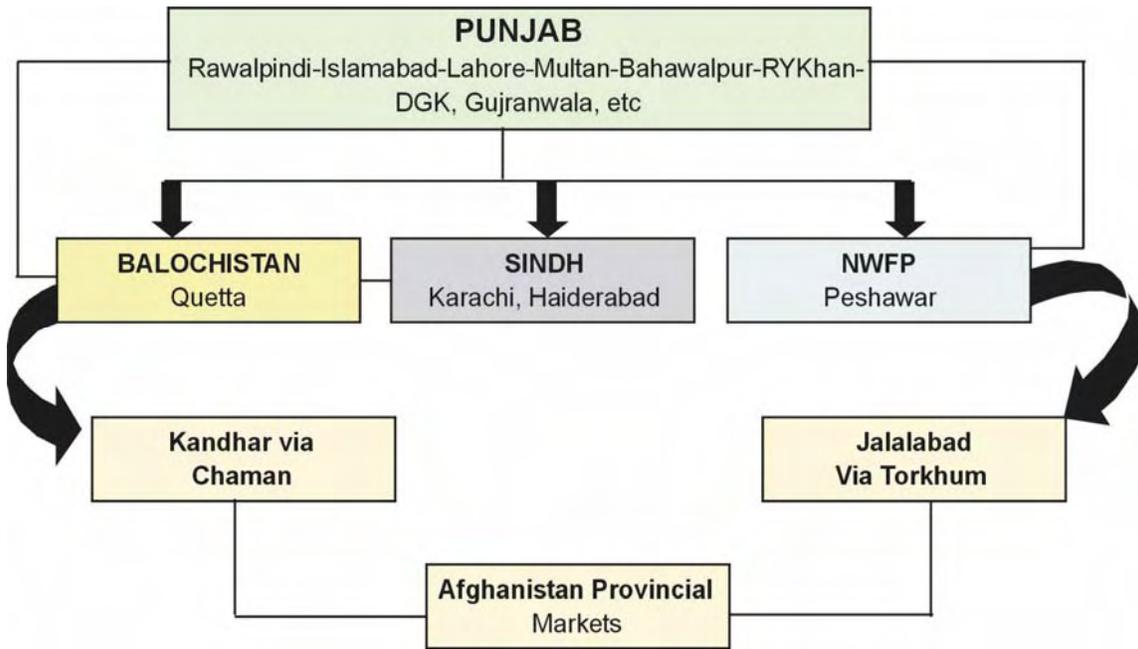
Wheat trade between the two countries is not a new thing. There are two main routes through Pakistan's provinces; Balochistan (Chaman) and NWFP (Torkhum). Movement of wheat from Pakistan to Afghanistan has been a regular feature since 1960. There are reports that in the past when there were restrictions on wheat and wheat flour from Pakistan, trade in Afghan *naan* and baked products was at its highest levels through these borders because there were no restrictions on baked items. Afghan truckers working along major transit routes between Pakistan and Afghanistan have traditionally included Pakistani wheat among the commodities they ship. In addition, there are many minor trade routes for wheat along the extensive Pakistan-Afghanistan border.

Market links between Pakistan and Afghanistan identified by this study are listed on Table 7, and the major wheat market chain is presented in figure 9.

Table 7: Wheat trade linkages between Pakistan and Afghanistan

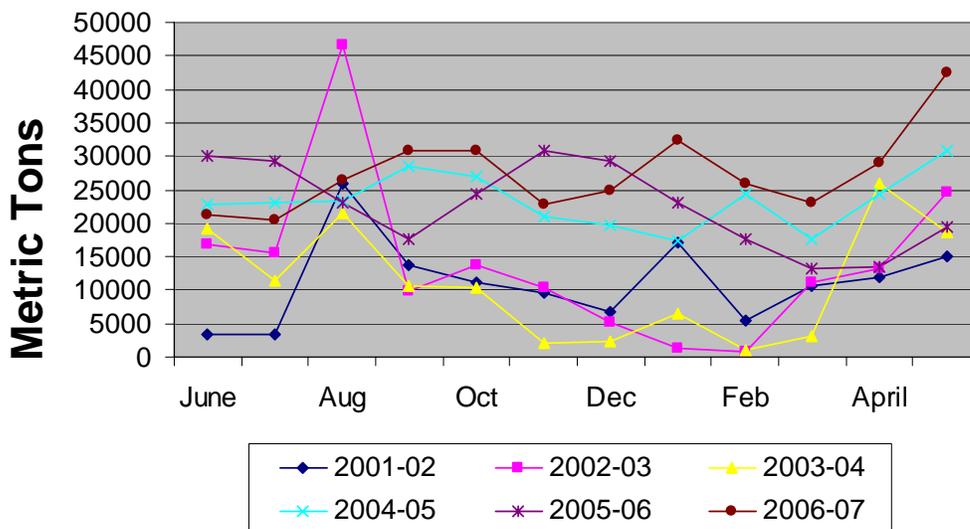
Pakistan Local wheat markets	Linkage with Export Markets		Afghanistan Major markets
	Province	Border cities	
Khanewal, Multan, Bahawalpur, Rahim Yar Khan , DG Khan	Punjab – Balochistan	Quetta – Chaman	Jalalabad (Nangarhar) and Kabul
Lahore, Gujranwala, Gujrat, Rawalpindi, Taxila, Attock, Nowshera, Mardan, Charsada, Peshawar	Punjab – NWFP	Torkhum	Kandhar, Helmand
(Karachi, Hyderabad)	Sindh – Balochistan	Quetta – Chaman	Kandhar, Helmand
Khairpur, Usta Mohammad	Sindh – Balochistan	Quetta – Chaman	Kandhar, Helmand

Figure 9: Wheat flow from Pakistan to Afghanistan



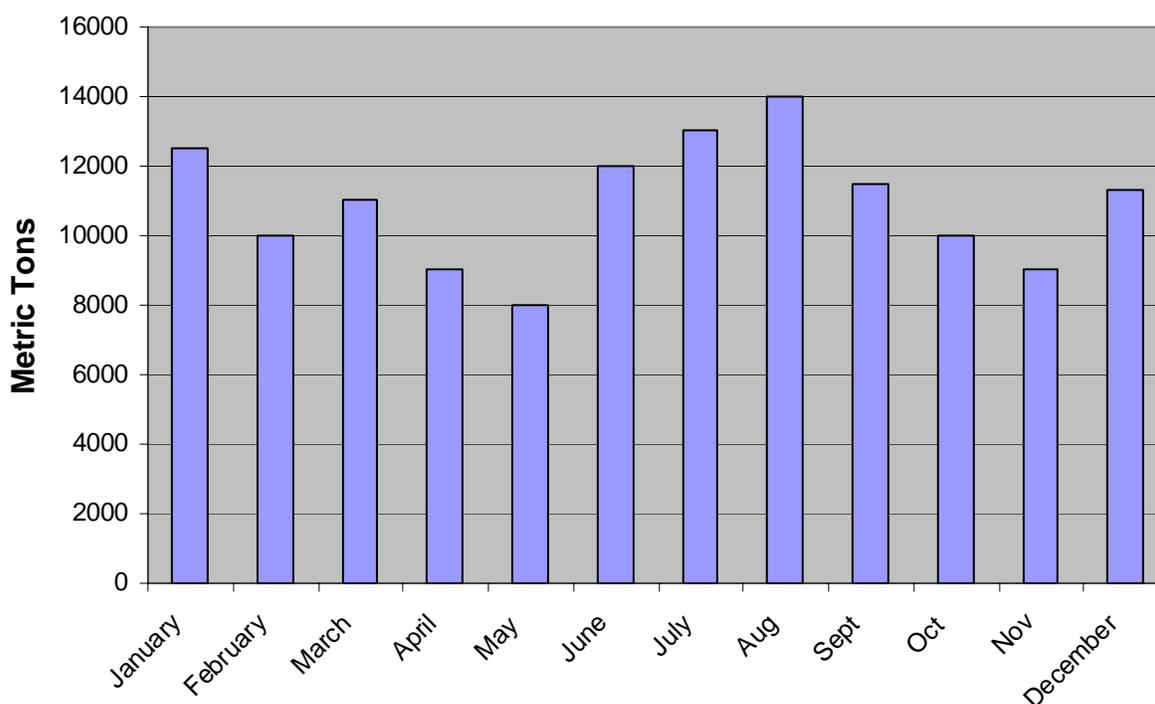
In 2006-2007, the government withdrew the 15 percent export duty and lifted inter-provincial and inter-district movement of wheat. This resulted in a boost in the export of flour from Peshawar, Pakistan (see figure 10). Figure 10 plots flour exports through Torkham from Peshawar, Pakistan from June 2000 through May 2007. Monthly flour exports were relatively low prior to 2004.

Figure 10: Flour exports through Torkham from Peshawar, Pakistan, 2000/2001 – 2006/2007



Source: Department of Customs, NWFP, Pakistan

Figure 11: Flour exports from Quetta (Chaman), Pakistan to Afghanistan, 2006



Source: Department of Customs, Quetta, Pakistan

In 2007, there were flour exports from Peshawar via Torkham (30,000 MT) and from Quetta via Chaman (20,000 MT). The demand for Pakistani flour in Afghan markets hit its highest level at the time of survey in January-February 2007.

## 6.2 UNOFFICIAL OR INFORMAL TRADE:

According to reports<sup>15</sup>, unofficial trade takes place in order to avoid customs duties, taxes, and quantitative restrictions on imports from neighboring countries, affording traders (i.e. smugglers) huge profits on sales in the neighboring markets. Unofficial trade also takes place in the form of exports to neighboring countries because domestic prices in Pakistan are kept lower than world market prices by subsidies or restrictions on exports (as is the case with wheat and other food items in Pakistan). Traders are seeking rents made available through domestic price policies and poorly enforced export controls. Unofficial trade between Pakistan and Afghanistan in 2000 was greater than official trade. Some unofficial trade takes place across the porous borders simply because of convenience and along the particular route there may be no official customs house.

The study suggests that there has been a significant decrease in unofficial trade due to recent measures taken by the governments of Pakistan and Afghanistan to more effectively surveillance the borders (observations based on the interviews with wheat and flour traders in Pakistan during January-February 2007). According to Pakistani sources, there is no wheat being imported into Pakistan from Afghanistan for milling purpose.

## 6.3 PAKISTANI-AFGHAN WHEAT TRADE ROUTES

Flour exports to land-locked Afghanistan move through both the southern and northern corridors. WFP food aid also arrives through the southern route. Around 0.6 million tons of wheat flour are shipped by road from Punjab, NWFP, Sindh and Balochistan provinces in Pakistan to eastern and southern Afghanistan. Kazakhstan has the largest wheat surplus in the region, and exports to Russia, Iran, and the world market as

<sup>15</sup> Afghanistan's International Trade with Neighboring Countries (2001)

well as to Afghanistan.<sup>16</sup> Wheat from Kazakhstan, which has no common border with Afghanistan, is trans-shipped through Uzbekistan, Tajikistan, and even Iran.

It is generally understood that most flour exports into Afghanistan transit through the two neighboring provinces (NWFP and Balochistan). But the survey detected that these two provinces are wheat deficit provinces and around 70 percent of wheat flour is brought from Sindh and Punjab provinces. NWFP and Balochistan provinces work as corridors for wheat assembling, storing, and distribution.

In Punjab Province, flour mills in the districts of Rahim Yar Khan, Multan, Bahawalpur, Lahore, Rawalpindi, Islamabad, Attock, and Gujranwala were exporting substantial quantities of flour to Afghanistan. The mills in Rahim Yar Khan (south Punjab) adopted a strategy of selling flour on credit to the Afghan traders. The mills in Rahim Yar Khan procured a substantial quantity of wheat from the private sector in addition to their normal wheat quota from the government. Sales from this district were much higher as compared to neighboring districts of Multan, Bahawalpur, and Khanewal, which are within the same region, but do not offer sale on credit options.

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<sup>16</sup> Wheat markets, food aid and food security in Afghanistan, Paul A Dorosh/Philippe Chabot, July 2006 USDA/WP

## 7. WHEAT PRICES

### 7.1 PAKISTAN WHEAT PRICES

In Pakistan, the price of *atta* (wheat flour) has always been a political issue.<sup>17</sup> Flour, being the staple food, is always at the top of the agenda of policy makers. Often the decisions that are made are contrary to market forces, e.g., prices of wheat are controlled artificially by the PFDs

Table 8 illustrates that according to the APCOM, the monthly wholesale market prices for wheat during the period 2004/05 cropping season were reported in the range of Rs. 407 to Rs 440 per 40 kgs in the major producing areas of Punjab and Sindh. Monthly average wholesale prices of wheat in markets of all main producing areas of the country during 2004/05 were higher than the support price of Rs. 400 per 40 kg.

**Table 8: Average wholesale price of wheat in main producing areas/markets (Punjab) in Pakistan (Rupees per 40 kg), 2004/2005**

District	Month			Average
	April	May	June	
<b>Punjab</b>				
Lahore	433	434	440	436
Faisalabad	432	410	417	420
Gujranwala	433	421	434	429
Multan	431	416	421	423
Okara	419	407	412	413
Sargodha	436	408	409	418
Average	431	416	422	423
<b>Sindh</b>				
Hyderabad	414	411	416	414
Nawabshah	392	408	432	411
Mirpur Khas	393	405	405	401
Average	400	408	418	408

Source: Agricultural Price Commission of Pakistan (APCOM)/wheat support policy 2005-2006

The price of wheat and related products fall in the harvest months (May-June) and rise thereafter. There is no evidence that increased production and increased food supplies may have depressed domestic prices in 2004/05 because the government controls the support price, release price, and ex-mill price.

**Support Price.** The government announces the support price as per APCOM's recommendations every year before the sowing period. The purpose of this scheme is to guarantee a minimum price to the farmers at harvest time. The support price for wheat was US \$180 at harvest in 2006 and has been fixed at US \$190 for coming wheat harvest in 2007. The historical price series are presented here.

**Release Price.** Provincial Food Departments in the country announce the release price after consulting with the flour mill associations on the per ton wheat milling cost. These prices are fixed with consideration of the current support price and release price in addition to the milling costs. Ex-mill flour prices for Punjab Province were fixed at US\$208/per ton.

**Ex-Mill (Market Price).**<sup>18</sup> The Provincial Food Departments sell the bulk of the public sector wheat stocks to private flour mills at the official release (or issue) price. Like the procurement price, the release price is set at the same level in all areas of the country. The release (issue) price is considered to be the main instrument for the government to control the price of wheat at the wholesale level. If the wholesale price is significantly higher than the release price (as generally is the case), private millers purchase their wheat from the

<sup>17</sup> Household Integrated Economic Survey (HIES) in 2001-02

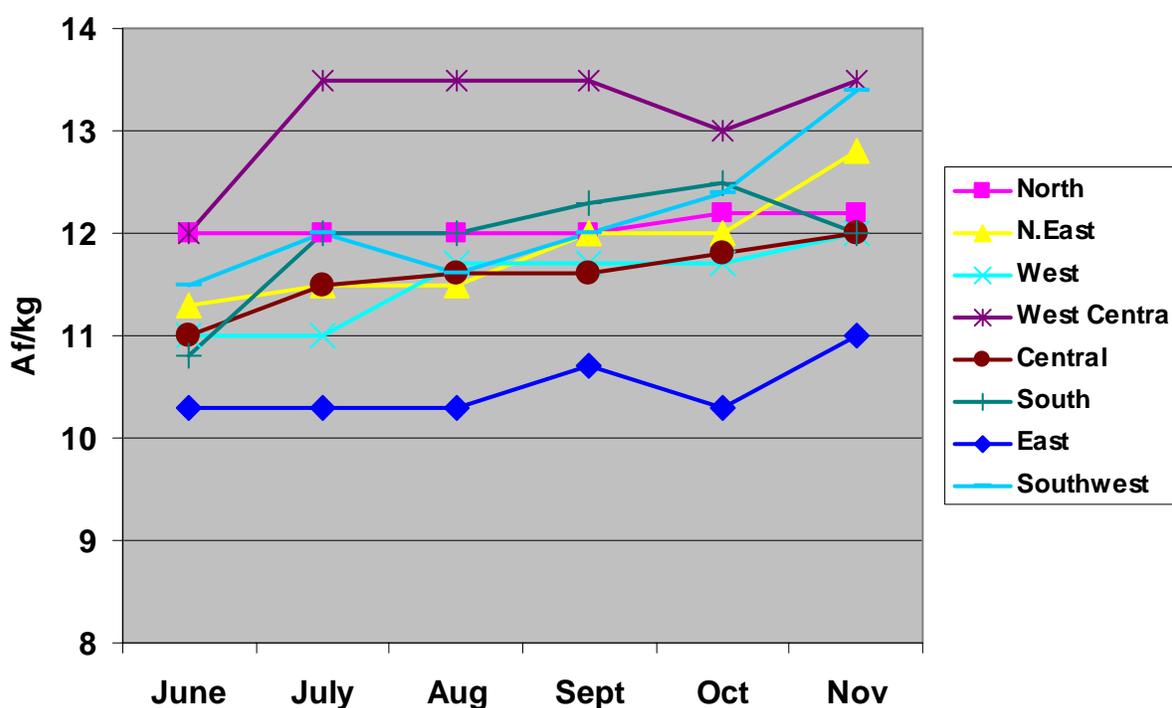
<sup>18</sup> Reforming Wheat Policy in Pakistan, *PASS Project Code* WB0229 (2005)

government and are expected to charge consumers a price that is agreed upon with the PFDs. In this way the release price is used as an instrument to control the price of flour to consumers.

The PFDs buy imported wheat from the federal government at the same release price at which they sell domestically produced wheat to private millers. Ex-mill prices are fixed by the respective PFD in consultation with the association of flour mills.

In contrast, Afghan wheat prices work according to market trends and supply and demand conditions. These prices are set by the traders associations of major cities and most of the supplies are routed through major provincial markets. Wholesale and local wheat prices for the remote markets vary according to transportation costs. Wholesale prices of flour ranged US\$240-250/per ton in major markets of Afghanistan.

Figure 12: Average price of local Afghan wheat in various regions, 2006



Source: MAAH Afghanistan

### 7.1.1 Wheat Prices (local/imported)

Distance from the import point and transportation costs have a direct bearing on the price for imported wheat grain in Afghanistan. Some of the border districts around the country have the lowest prices, while those areas having access problems (mountain areas with high transportation costs) in the Northeast, South and within the Central Highlands have the highest prices (14 to 15 Afs/kg).<sup>19</sup> The Afghan pricing structure is highly dependent on surplus supplies and price stabilization mechanisms in Pakistan. In spite of large fluctuations in domestic production caused by periodic droughts, domestic grain prices in Afghanistan have been remarkably stable due to the influx of imported flour. A major reason for this relative stability of price in Afghanistan is the significant grain inflows that compensate for inter- and intra-seasonal variations in local supplies.

<sup>19</sup> MRRD FEWS NET Survey report March 2006

Pakistan wheat market prices (support and release) remain under government control. The GOP price mechanism does affect the ex-mill prices in Pakistan and Freight on Board (FOB) prices in Kabul. FOB Kabul, ex-mill, release, and the support prices are projected into the year 2015 using the five-year trend in government fixed prices and the projections are presented in figure 13. The trends show marginal changes in the prices due to government controls on wheat and flour prices in Pakistan. The trends show that there will be suitability in support prices since the government will continue its price fixing practices for the purpose of supporting producer prices and stabilizing retail prices for consumers.

Lower prices in the Pakistan markets for the year 2005/06 were due to the fact that the government of Pakistan imported wheat in excess of their original estimates at the same time that private mills purchased substantial quantities of wheat. Both the GOP and the mills are making concerted efforts to get rid of surplus stocks of wheat before the next harvest in 2007. The special measures, like withdrawal of regulatory duties on the export of flour, and other concessions are given to the flour mills to boost the flour exports to Afghanistan.

## 8. AFGHANISTAN FOOD SECURITY CONCERNS

Food Security is defined as ‘everyone having access to adequate quantities and quality of food, either through production or sufficient resources to purchase it’ according to the “National Policy and Strategy Framework for the Rehabilitation and Development of Agriculture and the Natural Resources Sector of Afghanistan” of the Ministry of Agriculture, Irrigation, and Livestock of Afghanistan.

It was also resolved in the FEWS NET workshop in Kabul (February 2007) that:

Food Security (at the national level) does not necessarily require national self- sufficiency in wheat or other food staples as long as the country has access to international markets. Diversification of high valued crops may be the most effective means of increasing food security, by generating foreign exchange and raising the income and purchasing power of the rural poor.

Pakistan’s wheat situation, outlook, policies, and prices have significant implications for food security in Afghanistan. Afghanistan’s wheat situation predominantly can be seen in the context of the wheat situation in Pakistan. Pakistan has been supplying wheat to Afghanistan since 1960 through the assistance of many donor agencies. The World Food Program in Afghanistan is the principal buyer of Pakistani wheat or wheat flour. There is also normal movement of wheat from surplus to deficit locations in Pakistan. Trade barriers (internal or cross border) and other regulations have never stopped the flow of wheat across provincial and international borders – mostly in the form of unofficial trade or smuggling.

Pakistan has been hosting more than three million Afghan refugees for two decades now and their livelihoods and food needs are looked after with the assistance of UNCHR and other donor agencies. UNCHR is closing its refugee camp dossier in Iran and Pakistan. The repatriation of refugees will be a challenge for the Afghanistan government in terms of managing the evolving food security requirements.

As reported by the Ministry of Agriculture Master Plan for 2005, the post-harvest losses of cereals are greater than 15 percent. It further describes on page 182 under section 2.1.2 on post harvest losses; at present, post-harvest loss of cereals is very high (15 percent of production). About 75,000-100,000 of additional tons of cereals would be available for human consumption if the post harvest losses were to be reduced by three percentage points. The types of loss-reducing interventions, in order of priority, are: the control of locust and Sunn pest, proper storage facilities, control of rodents, weed control, and the prevention of rust and smut.

## 9. PAKISTAN WHEAT POLICIES AND IMPLICATIONS FOR AFGHAN FOOD SECURITY

Pakistan's policies have a direct affect on Afghan food security. This is explained in the table below and was also resolved in the one day workshop held in Kabul on February 27, 2007.

Table 9: Pakistan wheat policies and implications on Afghan food security	
Wheat Trade Policy	Implications
<ul style="list-style-type: none"> <li>• GOP imposes inter-district and inter-provincial restrictions on wheat movement in order to meet public sector wheat procurement target.</li> </ul>	<ul style="list-style-type: none"> <li>• Not enough wheat supply to the mills especially in the provinces neighboring Afghanistan.</li> <li>• Less exports from Pakistan to Afghanistan leading to increase in wheat flour price. (Adverse effects on Afghan food security)</li> </ul>
<ul style="list-style-type: none"> <li>• Wheat movement restriction withdrawn by GOP in 2005-2006</li> </ul>	<ul style="list-style-type: none"> <li>• Flour exports to Afghanistan increased leading to increased supply on the market.</li> <li>• Stability in wheat and wheat flour prices and quantities (positive effects for consumers).</li> </ul>
<ul style="list-style-type: none"> <li>• Government allows export of wheat (targeted quantity) when there is surplus wheat</li> </ul>	<ul style="list-style-type: none"> <li>• Flour exports to Afghanistan increased leading to low and stable prices in Pakistani and Afghan markets.</li> </ul>
<ul style="list-style-type: none"> <li>• GOP imports wheat when expecting wheat deficit</li> </ul>	<ul style="list-style-type: none"> <li>• The effect of this on Afghan consumers and producers needs to be closely monitored by FEWS NET</li> </ul>
<ul style="list-style-type: none"> <li>• Government allows import of wheat to a few regions even when there is wheat surplus</li> </ul>	<ul style="list-style-type: none"> <li>• This unusual situation allows prices and quantities to stabilize across regions within Pakistan.</li> <li>• There is need for close monitoring by FEWS NET on the effects of this situation on Afghan consumers and traders.</li> </ul>
<ul style="list-style-type: none"> <li>• Food aid policy for vulnerable population including repatriated Afghan refugees from Pakistan and Iran</li> </ul>	<ul style="list-style-type: none"> <li>• Repatriation of refugees in 2007 (reported by UNCHR) will increase food demands in Afghanistan and if adequate measures are not taken, will bring food insecurity.</li> </ul>
Tariff / Non-tariff	Implications
<ul style="list-style-type: none"> <li>• Afghan Transit Trade Agreement (ATTA) between Pakistan and Afghanistan not fully enforced.</li> </ul>	<ul style="list-style-type: none"> <li>• Affects trade flows between two countries and encourages informal and sometimes illegal (smuggling) trading which involves higher transaction costs. These tend to increase Afghanistan consumer wheat flour prices. Pakistan-Afghanistan ministerial meetings scheduled in next couple of months.</li> </ul>
<ul style="list-style-type: none"> <li>• Pakistan rejected imported wheat on quality basis and experienced wheat shortages.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in wheat supply to Afghanistan markets leading to high consumer wheat flour prices</li> </ul>
<ul style="list-style-type: none"> <li>• Imposition of 15 percent withholding duty affected the exports to Afghanistan. Later duty withdrawn on the demand on flour millers 2006.</li> </ul>	<ul style="list-style-type: none"> <li>• Export of flour to Afghanistan increased after withdrawal of duty by the GOP in response to demands by flour millers from the province of NWFP.</li> </ul>
Wheat production incentives/subsidies	Implications
<ul style="list-style-type: none"> <li>• GOP encouraging expansion of wheat production up to 30 million MT by 2015</li> </ul>	<ul style="list-style-type: none"> <li>• Positive for Afghan consumers because surplus wheat flour from Pakistan will be exported to Afghanistan leading to more access to food from the market at relatively lower prices.</li> <li>• Negatively affects Afghan producers with low output levels or more costly production compared to subsidized Pakistani producers</li> </ul>
<ul style="list-style-type: none"> <li>• Increase in input subsidy to the farmers, (imported and locally-produced fertilizer and seeds, farm machinery, chemicals)</li> <li>• Subsidies on wheat to implement (pro-poor wheat subsidy policy)</li> </ul>	<ul style="list-style-type: none"> <li>• Positive for Afghan consumers because surplus exports to Afghanistan reduce consumer prices.</li> <li>• Negative for Afghan producer because cheap and subsidized wheat imports from Pak out compete the unsubsidized Afghanistan locally grown wheat in the market</li> </ul>
<ul style="list-style-type: none"> <li>• Wheat support price policy for the producers</li> </ul>	<ul style="list-style-type: none"> <li>• Positive for Afghan consumers in terms of lower wheat flour prices because support prices lead to increased supply in Pak with surplus output exported to Afghanistan.</li> <li>• Negative for Afghan producer because cheap wheat flour imports from Pakistan depress prices for locally grown wheat.</li> </ul>

<b>Grain Quality</b>	<b>Implications</b>
<ul style="list-style-type: none"> <li>• GOP practicing FAQ since (1930) with no grades and standards ever imposed for wheat and flour products</li> </ul>	<ul style="list-style-type: none"> <li>• Although standards are there, the quality is checked subjectively at buying and selling.</li> <li>• Inconsistent quality hurts the consumers and traders since both cannot tell whether the price they offer is worth the commodity bought. This can encourage cheating and trade disputes.</li> </ul>
<ul style="list-style-type: none"> <li>• GOP established grain quality laboratories in public sector</li> </ul>	<ul style="list-style-type: none"> <li>• Increased processing of disputes. Additional work for the Reference Lab.</li> <li>• Given the focus on disputes rather than encouraging quality standards, limited affect on quality and negative impact on traders, custodian and consumers</li> </ul>
<ul style="list-style-type: none"> <li>• GOP no loss policy on storage encourages slack storage practices</li> </ul>	<ul style="list-style-type: none"> <li>• Positive step but need to look at adaptability side as well</li> </ul>
<ul style="list-style-type: none"> <li>• Pakistan starts national program on flour fortification. 300 commercial mills will start flour fortification with the assistance of the GOP and CIDA. Project is launched.</li> </ul>	<ul style="list-style-type: none"> <li>• Afghan consumers will get fortified flour –will help meet micronutrient deficiencies of the consumers. Positive for vulnerable population.</li> </ul>
<b>Quota System, Storage, Credits</b>	<b>Implications</b>
<ul style="list-style-type: none"> <li>• Release of wheat to the mills on quota basis</li> </ul>	<ul style="list-style-type: none"> <li>• The benefits to Afghan consumers and producers can be both positive and negative.</li> <li>• Positive for Afghan consumers when the quota is used as a price stabilizing mechanism. This reduces uncertainty in wheat flour prices and quantities available for exports to Afghanistan.</li> <li>• Positive to Afghan producers if quota leads to a reduction in the supply of wheat to millers and thus a reduction of wheat flour on the Pak market. This limited supply will lower exports to Afghanistan which can increase the competitiveness of the locally-grown Afghan wheat.</li> <li>• Negative for consumers if quota results in limited wheat flour for exports to Afghanistan leading to higher consumer prices.</li> </ul>
<ul style="list-style-type: none"> <li>• GOP quota encourages investments in building flour mills especially in Punjab and Sindh provinces. (Private investments without feasibility).</li> </ul>	<ul style="list-style-type: none"> <li>• Positive for stabilization of prices both Pakistan and Afghanistan as a result of the increased competition between the private sector and government run flour mills.</li> <li>• Good for quality maintenance</li> </ul>
<ul style="list-style-type: none"> <li>• Govt. encouraging private seed, feed and mills to construct storage in wheat surplus areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Positive for Afghan markets as a result of the increased stability in wheat supplies during off-peak harvesting and marketing seasons.</li> </ul>
<ul style="list-style-type: none"> <li>• Private sector accesses credit from Government banks at controlled interest rates.</li> </ul>	<ul style="list-style-type: none"> <li>• Positive impact on Pakistani markets and Afghan consumers in terms of quantities and quality of wheat flour and prices due to improved investment in wheat production inputs such as seeds, storage facilities, and wheat flour mills.</li> <li>• FEWS NET in contact with Pakistan MoF</li> </ul>
<ul style="list-style-type: none"> <li>• Afghanistan Government. Privatization program for silos</li> </ul>	<ul style="list-style-type: none"> <li>• Under evaluation by the MoF. Could be a potential wheat supply risk reduction and price stabilizing policy.</li> </ul>
<ul style="list-style-type: none"> <li>• Afghanistan Government supports warehouse receipt system</li> </ul>	<ul style="list-style-type: none"> <li>• Could be a positive policy but needs implementation.</li> </ul>

## **9.1 TRADE POLICY IMPLICATIONS**

Pakistan occasionally imposes inter-provincial and inter-district restrictions on free movement of wheat in order to procure a targeted quantity of wheat for maintaining strategic reserves for food security aims. These actions are against the philosophy of free market trade. It affects all the stake-holders in the value chain. Due to movement restrictions, mills tend to have less wheat and cannot meet the demand of the Afghan markets. This has a negative effect on Afghan markets due to inconsistent supplies.

## **9.2 WHEAT QUALITY IMPLICATIONS**

Due to extended storage times, wheat stocks in Pakistan are vulnerable to post harvest losses both in terms of quality and quantity of the product. Existing FAQ standards for wheat are judged only by the visual inspections of buyers or consumers. When flour is in high demand in Afghanistan, the quality is less of a concern. What is more important is sufficient availability of supplies. During the survey, flour mills explained that they produce flour as per trader's requirements. Existing grain quality practices have a negative impact on traders and consumers.

### 9.3 TARIFF / NON-TARIFF

There are certain tariff/non-tariff barriers imposed by the GOP. Pakistan imposed a 15 percent export duty on flour exports to Afghanistan in 2005. The duty was later on waived in response to the demands of the flour mills in the provinces. On the other hand, the government of Afghanistan imposes taxes and duties which are not well respected by traders. Pakistani and Afghan traders sometimes engage in illegal trade practices to avoid such duties. This has the negative affect both on Pakistan and Afghanistan.

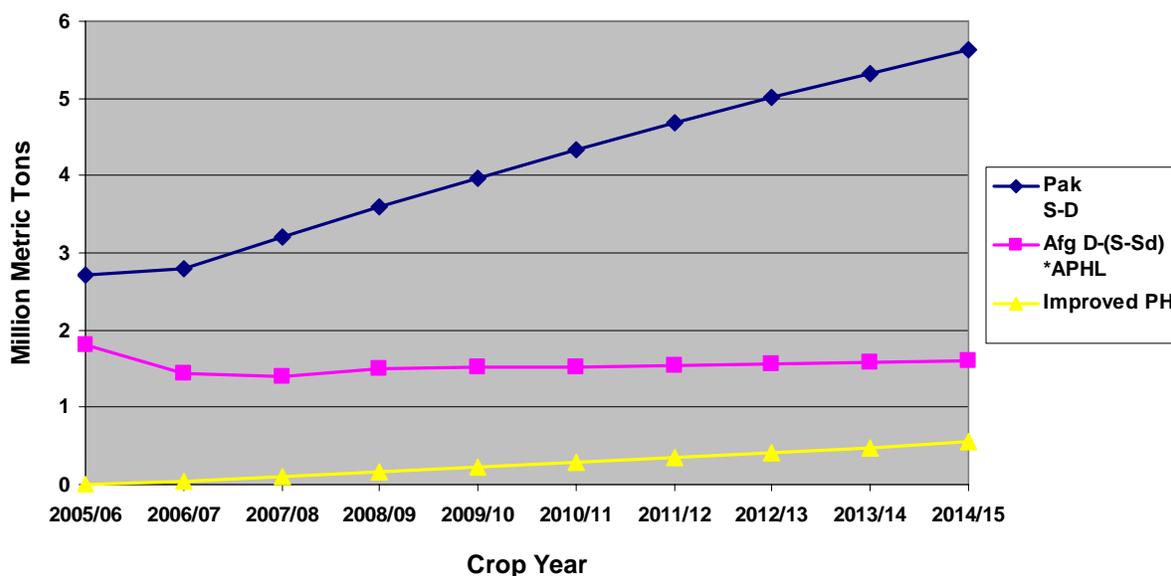
### 9.4 QUOTA SYSTEM, STORAGE AND CREDIT

The GOP is encouraging expansion of wheat production of up to 30 million MT by 2015. Further, the GOP imports wheat when there is deficit in the country and supplies wheat to the mills on the same release price level. Although the government artificially maintains flour prices for the purpose of stability in the local markets, this practice also has a positive effect on consumers in Afghanistan but ultimately discourages Afghan farmers from producing wheat. Due to anticipated increases in production, the GOP is encouraging private seed companies, feed mills and flour mills to construct storage in wheat surplus areas. This is partly through advancing low interest loans to the private sector from government banks.

### 9.5 INCENTIVE/SUBSIDY IMPLICATIONS

The Government of Pakistan is providing input subsidies to the farmers, i.e. subsidies on fertilizers, tractors, machinery, threshers, and interest free loans. There is also the support price for farmers. All these subsidies have negative affects on Afghan producers who do not have access to such facilities, and have to compete with producers in Pakistan.

Figure 13: Projected wheat surplus and deficit up to 2015



Note: PH = Post-harvest losses; APHL = Average post-harvest losses  
Source: MAAH

The projected wheat deficit is based on supply and demand. This indicates wheat surpluses and deficits in Afghanistan from 2007 to 2015. Afghanistan's deficit looks stable; however, the deficits could be reduced and the Afghan food security situation could improve through reduction in post-harvest grain losses with improved technology.

## 10. EARLY WARNING

FEWS NET monitors agricultural production indicators during the cropping season and the domestic food supply and demand. It also monitors a wider set of variables including access to food such as crop production monitoring reports during the agricultural season, agricultural production forecasts, estimates of stock levels, market prices, food requirements, imports and exports of staple foods and information on household income.

Early warning systems can predict problem areas, it can provide important information on actions that can be taken to keep people food self-sufficient. Monitoring Pakistan wheat markets and its affects on Afghanistan food security is one of the various initiatives in which FEWS NET can give assistance to the Afghanistan government. This will strengthen early warning and food security analysis in Afghanistan.

### 10.1 FEWS NET'S ROLE IN AFGHAN AGRICULTURE STATISTICS

FEWS NET can provide assistance to the Afghan government in amalgamating and analyzing agricultural statistics to help in effective design of policy and management of a famine early warning system that is timely and responsive to the on-the-ground events in Afghanistan. This could include, but not be limited to the following activities:

1. Compilation and analysis of data regarding area, production and yields of major crops in Afghanistan
2. Compilation of agricultural statistics collected from ministries and provincial departments in Afghanistan.
3. Briefing policy makers in Afghanistan on agricultural and wheat policy matters.
4. Supply monthly/quarterly agricultural information on wheat to the federal and provincial government and private agencies at the national and international level.
5. Preparation of monthly agricultural commodity bulletin for local and imported wheat and wheat flour imports from Pakistan.
6. Strengthen Regional Data Exchange System (Pakistan and CAS)
7. Research with a view toward improving statistics on food security management
8. Exchange of statistical information with Pakistan and neighboring countries
9. Coordination with Pakistan organizations working on crop reporting and Early Warning

Pakistan does have various organizations providing early warning information on weather, droughts, water resources, earthquakes, rain, etc. A substantial part of this work is done by the Pakistan Metrological Department (PMD), which produces the monthly Pakistan AgroMet Bulletin on weather and crop reporting.

The Ministry of Food Agriculture and Livestock (MINFAL) has mandated Pakistan Space and Upper Atmosphere Research Commission (SUPARCO) to devise a satellite-based crop reporting and forecasting system in collaboration with stakeholders. SUPARCO, in cooperation with MINFAL and the Planning Commission of Pakistan, intends to further expand the program to other provinces/areas and also cover additional crops. Yield forecasting models are also being developed. The aim is to develop algorithms to provide a synoptic view of cropping systems in Pakistan by gathering temporal satellite data. This will help to minimize/alleviate the gaps in timely availability of data and also address the data quality concerns.

## 11. RECOMMENDATIONS

### 11.1 GENERAL RECOMMENDATIONS

It was resolved in the workshop organized by FEWS NET in Kabul on February 27, 2007 that:

- Food Security (at the national level) does not necessarily require national self-sufficiency in wheat or other food staples production, as long as the country has access to international markets. Diversification of high valued crops may be the most effective means of increasing food security, by generating foreign exchange and raising the income and purchasing power of the rural poor agricultural households.
- The Government of Afghanistan may recognize the need for developing and implementing policies towards maintaining operational food security schemes that include an efficient marketing, storage and distribution system and monitoring the demand and supply situation in the country.
- The capability of the private sector to respond to food insecurity and help stabilize prices during the periods of scarcity depends significantly on their ability to compete and perform efficiently in international (regional) markets. Therefore, the Afghan government must improve market infrastructure and lower import taxes and other duties.
- The sustainable management of food commodities needs to be highlighted through information dissemination and seminars/workshops on improved post-harvest technologies, food safety and food security.
- Pakistan and Afghanistan share a 1,600-kilometer border. Unofficial trade of wheat flour and other agricultural products has been a regular feature, which is a major concern for both countries. Concessions on trade, taxes, and duties on wheat flour by both the countries will help in formal trade practices in the future.
- The establishment of Village-Based Seed Enterprises (VBSE) is a good initiative created by RAMP and FAO that is continuing. Such enterprises will help increase agricultural productivity.
- As Afghanistan nears WTO accession, the trade policy strategies on wheat will need to be given careful attention, especially as it relates to both national and household food security. The strategies will also need to create an enabling environment that aims at leveling the playing field to help Afghan stakeholders to compete with Pakistan and other countries' stakeholders in the wheat subsector
- Private sector investment in competitive storage and food processing (e.g., wheat milling) should increase in Afghanistan as policy reforms lead to a more enabling environment. This can be attested by the example of a local milling facility in Kunduz that has stabilized the wheat market in the Kunduz region as producers and traders can get the good price of their produce.
- There is growing need to establish practical grain quality standards that are shared by the two countries. The existing Fair Average Quality standards do not help wheat sellers and buyers because standards are based on arbitrary, subjective tests.
- Afghanistan's food security situation was affected by drought in 2006. There is a likelihood of a normal harvest in 2007. Afghanistan will compensate its wheat shortfall through food aid and imports. It becomes all the more necessary for the government to lay down the foundation of comprehensive development strategy for achieving sustainable food security for the country.
- Maintaining incentives for private sector imports through a policy of low tariffs and no import licenses can enable private sector imports to continue to play a market stabilization role.

- Food aid inflows can potentially reduce producer prices below free market levels (import parity prices).<sup>20</sup> Limiting the volume of food aid inflows and gradually reducing their levels over time can help avoid these disincentive effects.

## **I 1.2 SPECIFIC RECOMMENDATIONS**

- Extensive information should be supplied to policy makers to enable them to address the food security issues in Afghanistan. FEWS NET may coordinate with Pakistan organizations to obtain the required information for the benefit of early warning initiatives in Afghanistan.
- More than 80 percent of all wheat flour in Afghanistan is imported from Pakistan. Therefore, Pakistan wheat policies have a significant affect on the fulfillment of Afghan food requirements and need to be monitored by the Afghan government with FEWS NET assistance in establishing affective linkages with various organizations in Pakistan.
- FEWS NET or one of its local partners could issue a monthly Afghanistan Food Security Bulletin on Commodity Markets with input and collaboration with the agricultural market information systems (MISs) in Pakistan and Afghanistan.
- As per the information from the Ministry of Agriculture Master Plan for 2005, there is around a 15 to 20 percent post-harvest loss. This loss is very alarming and it is suggested that FEWS NET collaborates with relevant government to organizations to conduct a study which would suggest measures to reduce post-harvest losses in the Afghan wheat subsector.
- Pakistan has started a national program of flour fortification. The export of fortified flour to Afghanistan would serve to improve the micronutrient content of diets for those Afghans who would have access to fortified flour.
- The Pakistan wheat policies have implications on both national and household food security in Afghanistan. The projected increase and stability in Pakistan wheat supplies should have a stabilizing effect on Afghan national food security. For more practical reasons, monitoring Pakistan wheat policies should be a regular feature of FEWS NET as these will change through out the year. FEWS NET Afghanistan can facilitate these activities through establishing its independent contact in Pakistan in order to implement the proposed activities.
- The management of knowledge generated from different sources is key. For this emerging role of managing agricultural statistics in Afghanistan, it is recommended that FEWS NET promotes greater collaboration and networking among the many different information sources for the support of overall food security development objective as suggested in table 9.
- Afghan crop statistics need to be drastically improved. The crop reporting services in provincial governments at district levels through the agriculture departments need to be strengthened to collect basic statistics, which is imperative for the policy makers in making appropriate decisions in surplus or a deficit situation.
- FEWS NET uses a combination of remote sensing and on-the-ground monitoring to identify impending signs of food insecurity in Afghanistan. It is recommended that FEWS NET provides these reports containing information on early warning on regional food availability and emerging food insecurity in Afghanistan to policy makers for effective and efficient food security management.

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<sup>20</sup> Wheat Markets, food aid and food security in Afghanistan, Philippe Chabot USDA FAS/ Paul Dorosh World Bank, Washington DC, June 2006.

- FEWS NET should link to Pakistan agricultural statistics resources for data sharing and through reporting for further dissemination on events in Pakistan for Afghan policy makers.

### 11.3 HOW TO MONITOR AND WHAT TO MONITOR

Pakistan wheat and food security information is vital for Afghanistan. The information is available but with the following constraints:

1. Information on Pakistan wheat policies is inconsistent
2. There are around 15 government departments dealing with food and agriculture.
3. Information is available but is scattered and needs to be refined and consolidated before it pass on to FEWS NET Afghanistan.
4. There is a long time lag between collection, analysis, and diffusion of information on important government policies that affect food security.
5. Government websites are updated at the end of the year on pricing and relevant data, which cannot be used for instant decision making

For all practical purposes, FEWS NET Afghanistan requires having its contact/resource in Pakistan to collect and disseminate data to FEWS NET regularly that could be used as part of FEWS NET reports. The frequency and scheduling of data collection is an important factor for timely information for decision making. In order to develop food security assessments, there is need for a monitoring and evaluation network in collaboration with Pakistan. The following initiatives are suggested:

**Table 10: FEWS NET agro-informatics regional link (Pakistan)  
Plan for data collection and communication**

<b>Food Security Monitoring</b>	<b>Source Identified</b>
<ul style="list-style-type: none"> <li>• Monitor Pakistan wheat markets</li> <li>• Support price</li> <li>• Incentives/subsidies</li> <li>• Release prices</li> <li>• Tariff/non-tariff policy and other policies</li> <li>• Commodity reporting</li> <li>• Market Prices</li> <li>• Afghan Transit Trade Agreement</li> <li>• SAARC Food Bank</li> <li>• Food safety and Nutrition Program</li> <li>• Flour Fortification</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Food Agriculture and Livestock</li> <li>• Provincial Food Departments (Punjab, Sindh, NWFP, and Balochistan)</li> <li>• Ministry of Commerce</li> <li>• Trading Corp. of Pakistan</li> <li>• Afghan Dept of Customs</li> <li>• United Nations Commission for Refugees</li> <li>• International Center for Agri Research in Dry Areas</li> <li>• ACIAR</li> <li>• Afghan traders/importers</li> </ul>
<b>Early Warning</b>	<b>Source Identified</b>
<ul style="list-style-type: none"> <li>• Crop Reporting (production)</li> <li>• Pest Scouting</li> <li>• Agriculture Data</li> <li>• Agro Met reports</li> <li>• Water Resource Reports</li> <li>• Famine and Drought Warning</li> </ul>	<ul style="list-style-type: none"> <li>• Pakistan Metrological Department</li> <li>• Water Resource Research Institute, NARC</li> <li>• Pakistan Space &amp; Upper Atmosphere Research Commission</li> <li>• UN Food and Agriculture Organization</li> </ul>

#### 11.3.1 Pakistan Data Resources

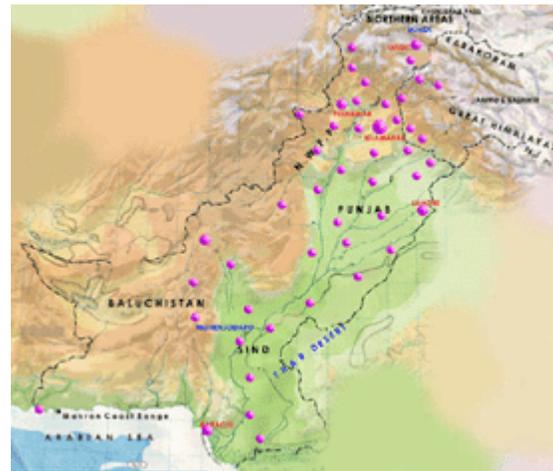
**11.3.1.1 Frequency and schedule of data collection.** The Pakistan resource will collect, consolidate and disseminate information on commodities according to the following format and forward to FEWS NET Afghanistan to update their bulletin for the information of Afghanistan policy makers and others involved in the national food security management and early warning on food security.

Table II: Sample data collection format

Data Type	Month											
	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b><i>Wheat balance Pakistan (federal and provincial departments)</i></b>												
Balochistan												
Northern Areas												
NWFP												
Punjab												
Sindh												
<b><i>Wheat prices in major markets connected with Afghanistan</i></b>												
Lahore												
Multan												
Bahawalour												
Rahim Yar												
Rawalpindi												
Attock												
Peshawar												
Quetta												
Karachi												
<b><i>Wheat imports</i></b>												
Australia												
Russia												
Ukraine												
India												
<b><i>Destination of wheat/wheat flour exports</i></b>												
Afghanistan												
UAE												
India												
Africa												
Others												

**11.3.1.2 Pakistan Agromet Bulletins.** FEWS NET could collect data from Pakistan Metrological Department (monthly AgroMet Bulletins) on crop reports and regional-level weather conditions. There is also crop modeling work, research work on crop-weather relationship, an agro-meteorological database for different agro-climatic zones of Pakistan, work on water requirement of major and minor crops, animal diseases, and analysis for climatic soil moisture stress conditions etc.

Figure 14: Pakistan meteorological observatories and agro-met reporting centers



Source: Pakistan Meteorological Department

## **ANNEX 1: CONSULTANT SCOPE OF WORK**

### **Scope of Work**

#### **Specific Pakistan Wheat Market Activities in Support of the Overall Regional Wheat Activity:**

This scope of work (SOW) attempts to clarify the relationships of Pakistan wheat production, marketing (market centers such as Peshawar and Quetta) and policy formation with Afghan wheat supply particularly in the central south and south. The SOW forms part of a larger regional market initiative (outlined above).

The bulk of work will be performed by a Pakistan wheat markets expert (SOW activities are detailed below). Three days of effort from an Afghan Wheat Markets Expert (see SOW for this expert for further details) will be used to orient the Pakistan wheat markets expert's research and deliverables on key Afghan wheat markets and policy issues and to participate in the Pakistan wheat markets and Afghan food security workshop

#### **Pakistan Wheat Markets Consultant's Activities:**

- Review existing literature on Pakistan wheat markets, their influence on Afghan wheat markets and their role in the determination of Afghan food security and early warning.
- Carry out interviews with both key informants familiar with Pakistan wheat markets and their relationship to Afghan wheat markets and food security and members of the Afghanistan Network for Food Security (ANFS) to help orient the findings of the literature review and interviews toward practical application to regular network food security monitoring and analysis and early warning.
- Draft a concise report on the relationship of Pakistan wheat markets and policy on Afghan wheat markets, food security and early warning. The report should provide guidance on what information could be utilized in what way for regular food security analysis and early warning.
- Map(s) of Pakistan-Afghanistan wheat marketing networks, illustrating supply points, trade routes, entry points, etc.
- Factors influencing the flow and price of Pakistan wheat destined for Afghan markets. These should include, but not be limited to, domestic and trade policies.
- Seasonal aspects of Pakistan-Afghanistan wheat trade.
- Indications of Afghanistan wheat flows to Pakistan (if and when or under what conditions this is occurring).
- Recommendations for monitoring markets for food security and early warning
- Identify critical knowledge gaps
- Recommendations for areas requiring further study.
- With assistance from the FEWS NET/Kabul office and the Afghan Wheat Markets Advisor, design and organize a one-day Kabul based Pakistan wheat markets and Afghan food security review workshop where Afghan participants will have the opportunity to respond to the draft report and

proposed utilization of Pakistan wheat market data and information in regular network monitoring, analysis and reporting. The workshop will include network partners, Afghan ministerial staff working on food security and market issues and, if deemed useful, researchers or market specialists from Pakistan. The consultant should help identify participants.

- Incorporate comments and suggestions from the workshop into the final report.

**Pakistan Wheat Markets Consultant's Deliverables:**

- Draft research plan including time line, interview guide(s) and budget. FEWS NET HO and the Afghan Wheat Markets Advisor will review and provide comments.
- Short concise (not more than 20 pages) draft report on Pakistan wheat markets and implications for food security analysis and early warning in Afghanistan. The draft will be reviewed by FEWS NET HO and Kabul as well as by the Afghan Wheat Markets Advisor.
- Agenda and presentation(s) for a one day Kabul based Pakistan markets and Afghan food security review workshop. The FEWS NET/Kabul office and the Afghan Wheat Markets Advisor will provide assistance with developing and conducting the Kabul workshop.
- Final report incorporating comments and suggestions from the Kabul based Pakistan wheat markets and Afghan food security workshop.

**Time frame and Level of Effort:**

The level of effort for this study is 26 days. The final report should be submitted no later than February 23, 2007. The FEWS NET Senior Markets and Trader Advisor, Patricia Bonnard and the FEWS NET Representative for Afghanistan, Karim Najimi, will provide technical oversight for this activity.

## ANNEX 2: LIST OF KEY INFORMANTS

1. Mr. Maqsood Ahmed, Chairman, Punjab Flour Mills Association, Lahore
2. Mr. Altaf Akbar, Additional Director Food, Punjab, Lahore
3. Ch. Mohammad Sharif, Consultant Punjab Food Department, Lahore
4. Haji M. Akhtar, Joint Director, Provincial Food Department, Quetta, Balochistan
5. Mr. Sahib-e-Haq, Program Officer World Food Program WFP, Islamabad, Pakistan
6. Mr. Asghar Ali Bajwa, Private consultant exporter, Lahore Pakistan
7. Mr. Ibrahim Dasti, District Food Controller, Multan, Punjab
8. Mr. Riaz-ul-Haq, Assistant Food Controller, Food Department, Bahawalpur
9. Mr. Zia-ul-Haq, District Food Controller, Rahim Yar Khan
10. Mr. Alvi, District Food Controller, Sahiwal, Punjab
11. Mr. Anwar Khan, Deputy Director Food, Peshawar
12. Mr. M. Sadiq, Owner, Sadiq Flour Mills Peshawar
13. Mr. Tariq Sadiq, Sihala Flour mills Islamabad
14. Mr. Sheikh Shabbier Ahmad Owner, Rawalpindi Flour Mills, Rawalpindi
15. Mr. Tariq Mahmmud, Assistant Director, Bureau of Statistics, Peshawar, Govt. of NWFP
16. Mr. Bismillah Khan Tareen, Assistant Director, Bureau of Statistics, Govt of Balochistan
17. Mr. Syed Irfan Editor The Seed News, Islamabad
18. Mr. Mahboob Akhtar Inspector, Food Rahim Yar Kahn
19. Mr. M. Iqbal Manager, Sewana flour Mills Rahim Yar Khan
20. Mr. Rauf Ahmed, owner Mukhtar Flour Mills, Rahim Yar Khan
21. Mr. Mohammad Jamil Miller, Sadiq Flour Mills, Peshawar
22. Mr. Ali Ahmed Project Manger, Pakistan Agri Storage & Services Corporation PASSCO
23. Mr. Rana Sajjad, PO
24. Mr. Nadeem Assistant Engineer, Chichaawtni Silos
25. Haji Saif Ullah, Owner Ishaq Flour Mills, Quetta
26. Mr. Hafiz Ghulam Qadir, Owner, Hafiz Flour Mills, Bahawalpur
27. Ch. Tanweer Ahmad, Aziz flour Mills, Bahawalpur
28. Maj. Shamshad Ali Malik Partner, Aziz Flour Mills, Bahawalpur
29. Mr. Shahid Khan, Owner Farmer and Owner, Zamindara Seed, Punjab
30. Mr. Rao Abdul Hayee Khan, Manager Zamindara Seed Corporation, Punjab Pakistan
31. Mr. Gul Alam, Owner, Al-Ghaznawi Flour Mills, Quetta
32. M. Furrukh Javed, Seed Certification Officer FSCD & R Islamabad
33. Mr. Mohammad Din Shah, Owner Pakistan Flour Mills, Quetta
34. Dr. Zafar Ahmed, Feed Mills Association, Lahore
35. Mr. Zahid Gul, Khalid Corporation Custom Clearing Agents, Peshawar.
36. Dr. Imtiaz Malang, National Coordinator, Flour Fortification Project Ministry of Health, Islamabad
37. Dr. Noor Ahmad Khan, National Program Manager, The Micronutrient Initiative CIDA Islamabad
38. Mr. Manfred Smotzok, Chief of Party FARMS, IFDC,
39. Mr. Rohail Anwar Butt, Engineer & Milling Technologist, Sihala Flour Mills, Islamabad
40. Mr. Tariq Sadiq, Director, Sihala Flour Mills, Islamabad
41. Dr. Abdul Hayee Qureshi, Agricultural Marketing Specialist, PARC Islamabad

## ANNEX 3: REFERENCES

- Ministry of Agriculture Afghanistan Master Plan page 182, under section 2.1.2, post-harvest losses
- Support Price Policy for Wheat 2005-2006/Agricultural Prices Commission of Pakistan (July 2005)
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- Pakistan Agricultural Research Council PARC Islamabad, Pakistan
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- Afghanistan's International Trade with Neighboring Countries 2001 (web report)

## ANNEX 4: QUESTIONNAIRE

### QUESTIONNAIRE FEWS NET Pakistan Wheat Markets and Afghan Food Security Assessment



1.1 Name of Contact person/respondent:

1.2 Address:

1.3 Type of Business: Trader \_\_\_\_ Transporter \_\_\_\_\_ Miller \_\_\_\_\_ Govt \_\_\_\_ Private \_\_\_\_

#### 2. WHEAT/FLOUR EXPORTS TO AFGHANISTAN

	Type of product	Product Quality Grade	Ex-mill Price MT	Average Export MT/day	Tax/duty	Transportation	Location/Areas for export in Afghanistan
2.1	Wheat						
2.2	Flour						
2.3	Others						
2.4	Marketing Channels						

3. Source of Raw material: \_\_\_\_\_ Indigenous/Imported

3.1 What grade or type of product quality (wheat or wheat flour type, protein, moisture, etc.) is generally preferred? by the Afghan buyers (traders, millers, bakers, et.al) \_\_\_\_\_

3.2 How much range in quality grade or type do Afghan buyers allow and what assurance can you offer \_\_\_\_\_

3.3 Do you have your own storage facilities or do you rent storage facilities \_\_\_\_\_

3.4 Common Problems in Transportation (are there transport controls in enforced in Pakistan \_\_\_\_\_)

3.5 Government assistance provided (wheat grain price controls, grain reserve for stabilizing prices, flour price controls, export controls, trucking subsidies for domestic and international sales, other) \_\_\_\_\_

3.6 Name the Proffered variety of Wheat / Flour \_\_\_\_\_

#### 4. Marketing Strategies

4.1. What marketing strategies do you apply for selling your products (differentiated products more specifically demanded by buyers, volume discounts, custom credit terms and conditions, product quality assurance, other \_\_\_\_\_)

4.2 Marketing strategies under bad production year and under the imposition of ban by the Government. \_\_\_\_\_

4.2 What is the profitability margins % on sale of your products? \_\_\_\_\_

4.3 Product Market, Where do you sell your products: Local/Export/(in country/others); prices and margins for domestic flour relative to prices for exported flour to Afghanistan \_\_\_\_\_

4.4 Types and quality of packing material used for finished products -----

4.5 Procedure for order and payments / transactions \_\_\_\_\_

4.6 Wheat supply from Afghanistan for milling/sale purpose? \_\_\_\_\_

#### 5. Product quality control

5.1 Do you Observe quality control procedures? Does the Pakistan Government inspect your products before marketing? \_\_\_\_\_

5.2 Customs/duty paid at the time of export? \_\_\_\_\_

#### 6. Any other information related to the above?

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