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PTQ9258

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B1, 1.4(B), 1.4(C), 1.4(D)

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	INR-00	IO-00	ITC-01	JUSE-00	L-01	ADS-00	M-00
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O 131323Z AUG 97
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 9215
INFO AMCONSUL KARACHI
AMCONSUL PESHAWAR
DIA WASHDC
USMISSION USUN NEW YORK
USCINCCENT MACDILL AFB FL
AMCONSUL LAHORE
AMEMBASSY RIYADH
AMEMBASSY BEIJING
AMEMBASSY MOSCOW
AMEMBASSY ROME
AMEMBASSY PARIS
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 AMEMBASSY DUSHANBE
 AMEMBASSY ALMATY
 AMEMBASSY ASHGABAT

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DEPT FOR SA/PAB, EB, AND EUR/CEN; PARIS FOR POL/RAVELING; CENTCOM
 FOR POLAD

E.O. 12958: DECL: 8/13/97
 TAGS: PGOV, ETRD, EAGR, KISL, SNAR, AF, PK
 SUBJ: AFGHANISTAN: PAKISTANIS TO REGULATE WHEAT AND FUEL TRADE TO
 GAIN LEVERAGE OVER TALIBAN

REFS: (A) ISLAMABAD 6827; (B) 96 ISLAMABAD 10540 (NOTAL)

(U) CLASSIFIED BY THE AMBASSADOR. REASON: 1.5 (C) (D).

1. (C) SUMMARY: GOP POLICY-MAKERS SAY THEY ARE MOVING FORWARD ON
 PLANS TO REGULATE TRADE WITH AFGHANISTAN. ALTHOUGH THE CONCEPT HAS
 BEEN UNDER INTERNAL GOP DISCUSSION SINCE THE APRIL WHEAT CRISIS,
 THE OBJECTIVE NOW APPEARS TO BE PRIMARILY POLITICAL: REGULATING
 TRADE ON THE NOW WIDE-OPEN BORDER COULD PROVIDE PAKISTAN ADDED
 LEVERAGE WITH THE TALIBAN. THE GOP IS GRAPPLING WITH WAYS AND
 MEANS, AND IN AUGUST 12 MEETINGS, [REDACTED] TOLD THE
 AMBASSADOR THAT AN AGREEMENT HAS BEEN REACHED (ALTHOUGH NOT YET
 FINALIZED) WITH THE TALIBAN ON TRADE IN WHEAT, AND THE [REDACTED]
 [REDACTED] SAID POL (PETROLEUM AND PRODUCTS) IS SOON TO COME. OTHER
 PRODUCTS CARRIED BY ROAD WILL NOT BE SO REGULATED, IN ORDER TO CUT
 BACK ON SMUGGLING AND GIVE THE GOP SOME INCOME ON TRADE THAT IS NOW

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 COMPLETELY SMUGGLED. WE SEE THE PAKISTANI EFFORTS AS POSITIVE,
 ESPECIALLY IF THE GOP GAINS LEVERAGE AND USES IT TO TRY TO MODERATE
 THE TALIBAN. END SUMMARY.

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 GAINING LEVERAGE ON THE TALIBAN

2. (C) VARIOUS HIGH-LEVEL PAKISTANI GOVERNMENT OFFICIALS HAVE MADE A NUMBER OF PUBLIC STATEMENTS IN THE PAST SEVERAL WEEKS ON THE NEED FOR PAKISTAN TO GAIN CONTROL OF ITS TRADE WITH AFGHANISTAN. THE CONCEPT OF REGULATING TRADE IN WHEAT AND FUEL (PAKISTAN'S TWO MAIN INPUTS TO TALIBAN) HAS BEEN UNDER DISCUSSION WITHIN THE GOP SINCE THE APRIL WHEAT CRISIS, WHEN [REDACTED]

[REDACTED] MENTIONED IT TO THE AMBASSADOR AND SAID [REDACTED] WAS PROMOTING IT WITH PM MIAN MUHAMMAD NAWAZ SHARIF. BUT IT IS ONLY NOW TAKING CONCRETE FORM: IN A JULY 26 SPEECH AT TORKHAM ON THE AFGHAN BORDER WITH THE NORTHWEST FRONTIER PROVINCE, NAWAZ PROMISED THAT TRADE WITH AFGHANISTAN WOULD BE REGULATED "UNDER AN ESTABLISHED POLICY." COMMERCE MINISTER MOHAMMAD DAR MADE SIMILAR REMARKS ON AUGUST 9. IN AN AUGUST 11 MEETING, THE AMBASSADOR RAISED THIS ISSUE WITH [REDACTED], WHO CONFIRMED THAT ONE KEY ASPECT OF THE GOP'S REVIEW OF ITS POLICY IS ITS DESIRE TO ATTEMPT TO REGULATE TRADE WITH AFGHANISTAN AS A WAY OF ENHANCING PAKISTANI LEVERAGE ON THE TALIBAN (REF A).

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3. (C) [REDACTED]
 [REDACTED], PROVIDED POLCOUNS FURTHER DETAILS ON THIS POLICY IN AN AUGUST 1 MEETING. HE NOTED THAT THE PROCESS OF CREATING LEVERAGE TO USE ON THE TALIBAN HAD BEEN ENERGIZED BY A DECISION OF THE PRIME MINISTER IN JUNE THAT THE BORDER HAD TO BE REGULATED. GOP MINISTRIES,
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 [REDACTED] ADDED, ARE NOW WORKING TO FIND WAYS TO IMPLEMENT SHARIF'S POLICY. THE FOCUS OF THEIR EFFORTS AT THIS TIME IS TO REGULATE THE EXPORT OF WHEAT FLOUR, SINCE THE GOP DOMESTICALLY SUBSIDIZES THIS COMMODITY AND IS LOSING A GREAT DEAL OF MONEY THROUGH SMUGGLING TO AFGHANISTAN.

 TRYING TO REGULATE THE WHEAT TRADE

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4. (C) IN AN AUGUST 12 MEETING WITH [REDACTED], THE AMBASSADOR, ACCOMPANIED BY AGCOUNSELOR, RAISED THE ISSUE OF THE CROSS BORDER TRADE IN WHEAT. [REDACTED] NOTED THAT MUCH OF THE ILLICIT TRADE IN WHEAT ACROSS THE BORDER IS POSITIVE BECAUSE IT BRINGS IN FOREIGN EXCHANGE. HOWEVER, PAKISTAN HAD MADE A DECISION TO REGULATE THIS TRADE AND, TOWARD THIS END, THE GOP HAD AGREED IN WRITING TO SELL WHEAT ON CASH TERMS (U.S. DOLLARS) DIRECTLY TO THE TALIBAN. ALTHOUGH NO FORMAL BILATERAL AGREEMENT HAD YET BEEN SIGNED, IT SOON SHOULD BE: THAT SAME DAY HE HAS PUSHED FOREIGN MINISTER GOHAR AYUB KHAN TO GET IT DONE.

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5. (C) UNDER THE TERMS OF THIS AGREEMENT, ACCORDING TO [REDACTED], THE GOP HAD AGREED TO MAKE 600,000 TONS OF WHEAT AVAILABLE TO THE TALIBAN -- 300,000 TONS WOULD BE SOLD EACH AT TORKHAM AND CHAMAN.

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PM-00	PRS-00	P-00	CIO-00	SCT-00	SP-00	SSO-00
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THE SALE PRICE WAS FIXED AT 9.5 PAISA/KG OR 9,500 PK RP/TON (40.50 PK RP=1 \$US). IF THE TALIBAN WANT WHEAT FLOUR, 1 PAISA/KG WOULD BE ADDED TO THE PRICE. ALL PAYMENTS WOULD BE MADE IN ADVANCE, IN DOLLARS. THE BUYERS WOULD NOMINATE REPRESENTATIVES TO PICK UP STOCKS IN QUETTA AND PESHAWAR. THE AFGHANS WOULD BE RESPONSIBLE FOR TRANSPORTING THE WHEAT FROM THERE TO AFGHANISTAN, AND BEAR THE COST, ALTHOUGH THE FOOD AND AGRICULTURE DEPARTMENTS OF THE TWO PROVINCIAL GOVERNMENTS (NWFP AND BALOCHISTAN) WOULD BE INVOLVED IN PROVIDING TEMPORARY STORAGE; IDEALLY, HOWEVER, WHEAT COULD BE SCHEDULED FOR SHIPMENT STRAIGHT FROM KARACHI AS PORT OF ENTRY TO THE BUYERS.

5. (C) WHEN ASKED IF SOME WHEAT WOULD BE SOLD IN THE NORTHERN PART OF AFGHANISTAN, WHICH IS CONTROLLED BY ANTI-TALIBAN FACTIONS, [REDACTED] REPLIED THAT THE GOP IS ONLY DEALING WITH THE TALIBAN. HOWEVER, HE ADDED THAT IF THERE IS A MARKET FOR THE WHEAT IN THE
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 NORTH, THE WHEAT WOULD GET THERE THROUGH PRIVATE TRADERS AS IT HAS IN THE PAST. QUERIED ABOUT WHETHER REGULATION OF THE WHEAT TRADE MIGHT PROVIDE THE GOP POLITICAL LEVERAGE OVER THE TALIBAN, [REDACTED] AFFIRMED THAT THE GOP'S OBJECTIVE IS NOT POLITICAL, BUT ECONOMIC AND NARCOTICS-RELATED -- "IT IS IN PAKISTAN'S INTEREST TO KNOW WHAT WE ARE GETTING IN RETURN FOR OUR WHEAT," AND THAT THIS SHOULD BE HARD CURRENCY RATHER THAN "POWDER." AMERICANS SHOULD BE HAPPY, HE ADDED, AT THE ELIMINATION OF DRUG PAYMENTS, AND IT WILL CERTAINLY HELP PAKISTAN, WITH ITS 3 MILLION ADDICTS.

 [REDACTED] ELABORATES ON GOP PLANS

6. (C) IN AN AUGUST 12 MEETING WITH THE AMBASSADOR (SEPTTEL), [REDACTED] ELABORATED ON SEVERAL ASPECTS OF TRADE WITH AFGHANISTAN. THE GOP HAD RECENTLY REVERSED A PREVIOUS POLICY WHICH COMPLETELY BANNED ROAD TRADE WITH AFGHANISTAN, HE SAID. UNDER THIS EARLIER POLICY, A LARGE AMOUNT OF PAKISTANI GOVERNMENT-SUBSIDIZED WHEAT AND OTHER PRODUCTS HAD BEEN

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SMUGGLED INTO AFGHANISTAN. THIS SERIOUSLY UNDERCUT LOCAL PAKISTANI INDUSTRIES, AND DEPRIVED THE GOP OF INCOME IT NEEDED. IN PLACE OF THIS POLICY, [] ADVOCATED OPENING LAND TRADE AS AN ANTI-SMUGGLING MEASURE AND AS A SOURCE OF REVENUE FROM TRADE THAT IS NOW COMPLETELY SMUGGLED. THE OPENING OF ROAD TRADE, HOWEVER, HAS TWO CONDITIONALITIES: IT DOES NOT INCLUDE FOOD, INCLUDING WHEAT, OR POL, AND THE ROAD TRADE ITSELF WILL NOT BE SUBSIDIZED BY THE GOP THROUGH EXPORT REBATES AND THE LIKE.

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7. (C) COMMENTING FURTHER ON THE SYSTEM FOR WHEAT AND POL TRADE, [] SAID THE GOP SUPPORTS A SYSTEM IN WHICH THE AFGHANS WILL CREATE
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 THE REGULATORY FRAMEWORK AND CONTROL THE TRADE FOR THESE ITEMS. THERE WILL BE NO PERMITS ON THE PAKISTANI SIDE, BUT THE AFGHANS WILL CREATE A PERMIT SYSTEM ON THEIR SIDE OF THE BORDER, AND PAKISTAN WILL HONOR THOSE PERMITS FOR AUTHORIZED AFGHAN PURCHASERS OF WHEAT AND POL IN PESHAWAR AND QUETTA. THE WHEAT SYSTEM IS NEARLY AGREED, AND POL WILL FOLLOW SHORTLY.

 COMMENT

8. (C) MANY PAKISTANIS ASSERT THAT THEY ARE UNCOMFORTABLE WITH THE TALIBAN, BUT THEN QUICKLY ADD THAT PAKISTAN HAS NO LEVERAGE ON THEIR BEHAVIOR. WE SEE THE GOP'S ATTEMPTS TO GRAPPLE WITH THE ISSUE OF TRADE WITH AFGHANISTAN AS POSITIVE BECAUSE, GIVEN THAT THEIR MAJOR INPUT TO THE TALIBAN WAR EFFORT IN RECENT YEARS HAS BEEN PRIVILEGED ACCESS TO PAKISTANI FOOD AND FUEL, REGULATION COULD PROVIDE SUCH LEVERAGE. THE GOP'S EFFORTS, THUS FAR, HAVE BEEN HALTING. INDEED, THEY HAVE BEEN TALKING ABOUT THE NEED TO REGULATE TRADE FOR A LONG TIME (SEE REF B). HOWEVER, THERE SEEMS TO BE A NEW INTENSITY TO THEIR SEARCH FOR LEVERAGE, WHICH IS PERHAPS MOTIVATED BY THE GOP'S CONCERN THAT IT HAS BECOME TOO CLOSELY ASSOCIATED WITH THE TALIBAN, ESPECIALLY THROUGH ITS PRECIPITATE RECOGNITION OF THE TALIBAN IN LATE MAY. WE WILL CONTINUE TO MONITOR THE INTRODUCTION OF THE SYSTEM, AND TO ENCOURAGE THE GOP TO

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USE IT, ONCE IN PLACE, TO MODERATE THE TALIBAN.
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