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Report Highlights:

Pakistan's MY 2007/08 sugar production is forecast to increase to 3.7 million metric tons (MMT) as a result of higher yields and an increase in sugar cane acreage due incentives provided by high market prices during last season. Total annual consumption is forecast at 4.1 million metric tons. Trial production of sugar beet has been encouraging and is expected to supplement cane production as well as conserve scarce irrigation supplies. Large quantities of molasses are being used to produce ethanol, which is mainly exported.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Pakistan's total centrifugal sugar production is forecast to increase 2.8 percent to 3.7 MMT in marketing year (MY) 2007/08. Responding to higher sugar prices, acreage is projected to increase by 3.5 percent in MY 2007/08. MY 2006/07 production is estimated at 3.6 MMT, 20 percent higher than the previous estimate and 39 percent up then the previous year revised production. Sugar consumption in MY 2007/08 is forecast to rise 4 percent over the previous year, driven by population growth and increased use in processed food.

Sugarcane and sugar production for the past three years has fallen short of requirements, resulting in Pakistan becoming a net importer of sugar. Current water availability patterns do not favor crops with higher water requirements, especially sugar cane. However, despite this problem, higher prices for sugar are forecast to cause farmers to shift some acreage from competing crops, such as cotton and rice, to cane.

The Ministry of Food, Agriculture and Livestock (MinFAL) is working with the provincial governments of Punjab and Sindh to explore the feasibility of supplementing cane production with sugar beets. Trial results indicate that sugar beet production can be successful given appropriate changes to marketing and processing within the existing sugar industry.

SUGARCANE

Production

The Government of Pakistan (GOP) encourages cane production via a market support price announced prior to planting. The support price, through well above the world price, is set below the local domestic price. As a result the government generally does not procure cane. Provincial governments in 2006/07 increased the official cane purchase price for 40 kilograms to Rs. 60 for Punjab, Rs. 65 for NWFP, and Rs.60 for Sindh [\$1 = Rs. 60]. However, prices were a volatile issue between the growers and processors for much of the season. The growers refused to sell the cane at the official price and millers in some areas of Punjab and Sindh delayed the start of crushing season. As a result, market prices for cane ranged from Rs. 70 to Rs. 90, depending on the region. Sources predict sugar mills will enhance field extension activities to encourage increased productivity in the years to come.

MY 2006/07 sugarcane production is estimated at 54.8 MMT, an increase of 23 percent from the previous year due to increases in both area and yield. Higher cane prices coupled with favorable weather conditions and fewer pests and diseases helped achieve higher yields. Improved profit margin for cane, compared to competing crops, especially cotton, led to an increase in cane area in the main cotton belt.

MY 2007/08 sugarcane production is forecast at 56 MMT, an increase of 2.3 percent over the previous year due to an expected increase in area and yield as a result of better prices and extension services by the sugar mills. Due to overall sugar shortage in the country, growers were able to manipulate the market to some extent and get better prices for their produce. Increased area due to price incentives, coupled with better management practices, will determine the ultimate size of the crop for MY 2007/08.

Table 1: Sugarcane Area and Production by Province

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2005/06	MY 2006/07	MY 2007/08	MY 2005/06	MY 2006/07	MY 2007/08
Punjab	625.70	712.00	735.00	28,969	37,542	38,220
Sindh	183.00	215.00	225.00	11,243	12,529	12,825
NWFP	97.00	106.00	110.00	4,439	4,800	5,100
Baluch	0.3	0.0	0.00	15	0.0	0.0
Total	906.00	1033.00	1070.00	44,666	54,871	56,145

Source: Ministry of Food, Agriculture and Livestock & FAS / Islamabad

Production Policy

The GOP supports cane production by setting a market support price, which may be announced either before or after planting. The federal government generally does not procure cane, but authorizes the provincial governments to fix respective cane price in consultation with the representatives of the sugar industry and farmer organizations.

During MY 2006/07 cane prices per 40 kilograms were increased to Rs. 60 for Punjab, Rs.65 for NWFP, and Rs. 67 for Sindh. There was a wide fluctuation in the prevailing market price due to competition and enhanced demand by the industry versus the farmer's strength to bargain higher prices. The provincial governments and mill authorities will increase extension activities to encourage farmers to enhance productivity.

SUGAR

Production

MY 2006/07 refined sugar production is estimated to increase to 3.6 MMT (raw value), mainly due to an increase in sugar cane area and improved productivity due to favorable weather conditions and decreased pest pressure.

MY 2007/08 refined sugar production is forecast to be 3.7 MMT, due primarily to an expected increase in both area and production of sugar cane. As the country's requirement is 4.1 MMT, the domestic requirement will be supplemented through imports.

In recent years MinFAL, in association with governments of Punjab and Sindh provinces, has conducted experiments on the cultivation of sugar beet. Results are encouraging as beets have a shorter growing season (4-5 months, compared to 12-18 months for cane) require fewer irrigations (5-to-6, compared to 22 for cane), and yielded 30 percent more sugar than sugarcane. Beets have a higher sugar recovery percentage than cane, and the commercial transformation of the sugar mills requires minimal additional equipment, such as diffuser and

slicer for beet crushing. It would also extend the crushing season for 45-60 days and will improve the overall production of the mills by making them more economical. MinFAL is working on a comprehensive program to increase beet production.

Table 2: Refined Sugar production, Supply and Demand

Country	Pakistan									UOM
	Sugar, Centrifugal									
Commodity	2006 Revised			2007 Estimate			2008 Forecast			
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin	10/2005	10/2005	10/2005	10/2006	10/2006	10/2006	10/2007	10/2007	10/2007	MM/Y
Beginning Stocks	920	1042	585	585	807	1260	0	0	1060	(1000 M
Beet Sugar Production	15	15	9	20	20	15	0	0	20	(1000 M
Cane Sugar Production	2600	2700	2588	3700	3000	3600	0	0	3700	(1000 M
Total Sugar Production	2615	2715	2597	3720	3020	3615	0	0	3720	(1000 M
Raw Imports	250	250	401	250	300	0	0	0	0	(1000 M
Refined Imp.(Raw Val)	800	600	1581	600	900	200	0	0	400	(1000 M
Total Imports	1050	850	1982	850	1200	200	0	0	0	(1000 M
Total Supply	4585	4607	5164	5155	5027	5075	0	0	5180	(1000 M
Raw Exports	0	0	0	0	0	0	0	0	0	(1000 M
Refined Exp.(Raw Val)	0	0	61	0	0	65	0	0	70	(1000 M
Total Exports	0	0	61	0	0	65	0	0	70	(1000 M
Human Dom. Consumption	4000	3800	3843	4200	3950	3950	0	0	4100	(1000 M
Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 M
Total Use	4000	3800	3843	4200	3950	3950	0	0	4100	(1000 M
Ending Stocks	585	807	1260	955	1077	1060	0	0	1010	(1000 M
Total Distribution	4585	4607	5164	5155	5027	5075	0	0	5180	(1000 M

Consumption

MY 2007/08 sugar consumption is forecast to increase to 4.1 MMT due to increase in population and strong economic growth for the last three years. Total per capita refined sugar consumption is estimated at about 25 kilograms, based on improved domestic supplies and strong demand. Retail sugar prices will continue to hover around Rs. 32 per kilogram, which is about 20 percent below prevailing prices for last year. The GOP would like to keep the retail prices at the minimum possible level by timely management of imports.

Trade

MY 2006/07 sugar imports are estimated at 200,000 metric ton (MT). Poor timing of imports and the late releases of stock by the Trading Corporation of Pakistan and certain millers during the previous year had a negative market impact and contributed to the upward price spiral throughout the year. The GOP decision to allow duty free import of unlimited quantities of raw and refined sugar resulted in huge imports and the year ended with healthy

stock position. MY 2007/08 sugar imports are forecast at 0.4 MMT. Both the state-owned Trading Corporation of Pakistan and private traders are expected to import sugar.

Cane molasses is the main by-product of sugar production. In the past, large quantities of molasses were exported. In 2004/05, Pakistan exported 1.15 MMT of molasses, valued at \$71.6 Million. Since 2005/06, molasses has been used to produce ethanol due to its strong demand in the international market. Pakistan exported 165,406 MT of ethanol during 2006 and is projected to export 234,000 MT in the current year.

Stocks

MY 2007/08 stocks are forecast at 1.01 MMT, based on projected supply-demand scenarios and trade expectations.