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GAIN Report #PK1006

## **Pakistan**

## **Sugar**

## **Annual**

## **2001**

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### **Report Highlights:**

**Sugar production continues to suffer from drought and continuing problems between growers and millers. MY 2001/02 cane production is forecast to increase slightly to about 45 million metric tons (MMT) and sugar production is forecast at about 2.5 MMT. As a result, Pakistan is expected to again be a major market for sugar, with MY 2001/02 imports forecast at 950,000 MT.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Islamabad [PK1], PK

## SUGARCANE

### PRODUCTION

Pakistan is experiencing its worst drought and irrigation shortage since the completion of its irrigation system—the world's largest contiguous irrigation network--in the 1970's. The primary short-term reasons for the current acute irrigation shortage are two consecutive weak monsoons and inadequate glacier and snow melt due to below normal snowfall and cooler than normal temperatures. Irrigation reserves were depleted in early March, leaving only river flow, which is minimal at this time of the year, available for irrigation.

The longer-term cause for the irrigation shortage is poor resource management and planning. Since the irrigation system was completed, demand has increased more than 50 percent while storage capacity has decreased by one-third due to silting, leaving per capita availability at a fraction of its original level. As a result, chronic irrigation shortfalls are expected to play an increasingly important part in Pakistan's agricultural production. In addition to increasing storage capacity and adapting new irrigation techniques, many observers believe Pakistan will need to alter cropping patterns significantly to conserve scarce water resources by shifting out of water-intensive crops, particularly sugar cane and rice.

However, despite the irrigation shortage, MY 2001/02 cane area is forecast to increase slightly in response to attractive returns from cane last year and because farmers currently have viable alternatives. Last year, cane prices soared due to the shortage and farmers are expected to try to take advantage of this situation, especially in view of declining returns to rice cultivation, higher production costs for cotton and marketing problems for wheat and other competing crops. Cane yields are forecast to remain at last year's level and largely will depend on the monsoon rains. Some cane farmers reportedly have installed tubewells to take advantage of the current attractive returns to cane.

The MY 2000/01 cane production estimate has been reduced 5 percent to 44.1 MMT due to a reduction in area.

**Table 1: Sugarcane Area and Production by Province**

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 99/00	MY 00/01	MY 01/02	MY 99/00	MY 00/01	MY 01/02
Punjab	672.1	615.5	650.0	27,081	26,740	27,000
Sindh	230.6	239.0	235.0	14,291	12,466	13,000
NWFP	106.3	106.0	106.0	4,917	4,897	4,900
Baluch	0.8	0.7	0.7	43	34	35
Total	1,009.8	961.2	991.7	46,332	44,137	44,935

Source: Ministry of Food and Agriculture and FAS/Islamabad

## PRODUCTION POLICY

The Government of Pakistan (GOP) encourages cane production and announces a support price prior to planting. The support price, which is well above world price levels, is set below domestic market prices and acts as minimum guaranteed price. As a result, the government generally does not procure cane. The MY 2001/02 support price is expected to remain unchanged at Rs. 35 per 40 kilograms for Punjab and NWFP and Rs. 36 per 40 kilogram for Sindh, both adjusted for sugar recovery levels (\$1 = Rs. 60). Current market prices are nearly double the support price and are expected to remain strong during MY 2001/02 due to the short crop.

The government is in the process of formulating a new sugar policy, aimed at increasing cooperation between the growers and the mills as well as to increase the productivity and efficiency of the industry. Last year, farmers and middlemen demanded higher prices and withheld cane from the mills early in the season. In response, the mills went on strike. Cane gradually began moving but the rancor and mistrust that characterize the industry have been a disincentive to increased production and productivity and relations will need to improve if the industry is to function effectively.

## SUGAR

### PRODUCTION

MY 2001/02 refined sugar production is forecast at last year's level of 2.47 MMT (raw value). Market observers estimate that 28 MMT of cane will be crushed for centrifugal sugar, 12.44 MMT will be crushed for non-centrifugal sugar and the remaining 4.49 MMT will be used for seed. Cane use for non-centrifugal (gur) has increased sharply, particularly in the Northwest Frontier Province (NWFP), due to the high price of refined sugar. Gur production also has an advantage in that, thus far, it is not taxed..

The MY 2000/01 refined sugar production forecast has been revised downward 5 percent to 2.47 MMT (raw value) due to lower cane production and a marginal decline in recovery levels because of the continuing drought.

### CONSUMPTION

MY 2001/02 sugar consumption is forecast at 3.45 MMT (raw value). This forecast is based on a 2-percent increase in population and a decline in consumers' purchasing power because of a slow growth in economy. During MY 2000/01, retail sugar prices increased sharply to Rs. 27 per kilogram due to reduced production, increased energy costs, and the high cost for imported sugar (largely because of the 45-percent duty). Sources expect prices to reach Rs. 30 per kilogram at the end of the current crushing season.

**Table 2: Centrifugal Sugar Production, Supply and Demand**

PSD Table						
Country	Pakistan					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Beginning Stocks	552	552	447	397	0	442
Beet Sugar Production	11	11	10	10	0	10
Cane Sugar Production	2584	2584	2500	2460	0	2460
TOTAL Sugar Production	2595	2595	2510	2470	0	2470
Raw Imports	0	0	0	575	0	700
Refined Imp.(Raw Val)	550	550	700	400	0	250
TOTAL Imports	550	550	700	975	0	950
TOTAL SUPPLY	3697	3697	3657	3842	0	3862
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	0	0	0	0	0	0
Human Dom. Consumption	3250	3300	3250	3400	0	3450
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	3250	3300	3250	3400	0	3450
Ending Stocks	447	397	407	442	0	412
TOTAL DISTRIBUTION	3697	3697	3657	3842	0	3862

## TRADE

MY 2001/02 sugar imports are forecast at 950,000 MT (700,000 MT raw and 250,000 MT refined). The MY 2000/01 sugar import estimate has been revised to 975,000 MT, based on imports data. Of this total quantity, 575,000 MT was raw sugar and 400,000 MT was refined imports. Raw sugar was imported mainly from Brazil (400,000 MT) and South Africa (175,000 MT), while refined sugar was imported from India only.

To supplement domestic supplies and moderate prices, the government reduced the import duty on sugar from 45 percent to 15 percent in mid-2000. After realizing the extent of the production shortfall, the government allowed the duty-free import of 500,000 MT of raw sugar in October 2000, which was further increased by 100,000 MT to 600,000 MT in February 2001.

Sugar mills complained that imports of cheap India raw and refined sugar were harming both the growers and the millers. In response, the government banned imports of India sugar on March 9, claiming it was inferior quality, a health risk and was damaging the industry. Imports from other countries remain unaffected.

**Table 3: Imports by Origin**

Import Trade Matrix			
Country	Pakistan		
Commodity	Centrifugal Sugar		
Time period	Oct/Sep	Units:	000 MT
Imports for:	2000		2001
U.S.		U.S.	
Others		Others	
China	275	Brazil	400
Thailand	145	India	400
		South Africa	175
Total for Others	420		975
Others not Listed	130		0
Grand Total	550		975

## STOCKS

MY 2001/02 stocks are expected to decline to 412,000 MT due to the shortfall in production despite heavy imports. All stocks are held by private producers and distributors.