

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Pakistan

## SUGAR SEMI-ANNUAL

## Pakistan Sugar Semi Annual 2009

**Approved By:**

Joseph M. Carroll

**Prepared By:**

Mohammad Shafiq-ur-Rehman

**Report Highlights:**

Post's estimate of Pakistan's MY2008/09 sugar imports has been reduced from 700,000 metric tons (MT) to 125,000 MT, as earlier expectations that the government would step-up imports of sugar to off-set the estimated 650,000 MT, year-to-year decline in production were not realized. Lower than anticipated imports have meant demand being met by a draw down in stocks and a steep (60 percent) increase in sugar prices. Government efforts to stem the rise in sugar prices through the imposition of price controls have contributed to confusion in the market and even higher free-market prices. Pakistan's production of sugar in MY 2009/10 is forecast at 3.5 million tons.

**Executive Summary:**

Pakistan's marketing year (MY) 2009/10 (Oct/Sep) total centrifugal sugar production is forecast at 3.5 million metric

tons (MMT), equivalent to last year's estimated level of 3.5 MMT. Post's estimate of MY2008/09 ending stocks was reduced from 1.1 MMT to 550,000 MT, down nearly 50 percent from the 2008 ending stock level. With lower stocks and stagnant production, Pakistan's imports of sugar in MY2009/10 are projected at 800,000 MT. Since February 2009, the Trading Corporation of Pakistan (TCP) has issued international tenders for the import of 300,000 MT of sugar of which only 125,000 was imported in 2008/09. Based on this year's import performance, greater private sector participation in Pakistan's sugar import market would likely to contribute greater stability in the market.

Pakistan's demand for sugar typically peaks during the Muslim holy month of Ramadan. This year's tight supplies and rising prices during Ramadan led to sugar becoming a hot political issue. In response, the central government announced a federal price of sugar set at rupees (Rs.) 48/kg (\$0.57/kg). Not to be outdone, the High Court of Lahore set the Punjab provincial price of sugar at Rs. 40, a decision subsequently upheld by the Supreme Court of Pakistan and extended to all provinces. Confusion in the market and fears of public seizure have led to traders holding back the release of sugar into the market leading to periodic shortages and higher prices. The court has established a committee to analyze the sugar sector and provide recommendations to restore stability in the market.

## **Commodities:**

Sugar Cane for Centrifugal

## **Production:**

In Pakistan, sugarcane is grown on approximately one million hectares, providing raw material for the country's 84 sugar mills and making sugar the second largest agro-industrial sector after textiles. Post's estimate of MY2008/09 sugarcane production was reduced marginally to 50 MMT, down about 20 percent from the 2007 harvest due to reductions in both area and yield. Milling policies and practices, coupled with attractive prices for competing crops (rice, cotton and sunflower) and insufficient irrigation supplies are major factors leading to a reduction of the crop. Due to last year's attractive wheat procurement price, farmers moved more area into wheat and area planted to cane declined marginally. MY2009/10 cane production is forecast at 50 MMT.

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

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2007/08	MY 2008/09	MY 2009/10	MY 2007/08	MY 2008/09	My 2009/10
<b>Punjab</b>	827.00	670.00	660.00	40,372	32,000	31,800
<b>Sindh</b>	310.00	260.00	260.00	18,300	13,500	13,500
<b>NWFP</b>	105.00	99.00	99.00	4,800	4,460	4,650
<b>Baluch</b>	1.00	1.00	1.00	28	40	50
<b>Total</b>	<b>1,243.00</b>	<b>1,030.00</b>	<b>1,020.00</b>	<b>63,500</b>	<b>50,000</b>	<b>50,000</b>

Sources: Ministry of Food, Agriculture and Livestock; FAS/Islamabad

## **Production Policy**

The Ministry of Food and Agriculture (MinFA) has initiated consultations with key stakeholders to formulate a new sugar policy to be implemented from the next cropping season. The indicative prices of sugarcane by province are provided below.



Comments	-	-	-	-	-	-	-	-	-
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### Consumption:

Post's estimate of MY 2008/09 sugar consumption was reduced to 4.175 MMT, and is forecast at 4.250 MMT in MY2009/10. Projected increases in consumption are just barely keeping pace with Pakistan's population growth. Retail sugar prices are expected to hover around Rs. 50 (US\$ 0.60) per kilogram, or 58 percent higher than last year's average prices. Higher retail prices could be even further aggravated should the millers decide to delay the start of next crushing season in response to the Supreme Court judgment to impose price control.

**Table 3: Monthly Average Retail prices of Sugar**

YEAR/MONTH	2006	2007	2008	2009
JANUARY	29.49	31.55	26.06	39.38
FEBRUARY	35.05	30.83	25.73	42.63
MARCH	35.61	30.63	25.44	43.83
APRIL	36.77	30.25	25.18	44.96
MAY	36.32	29.85	28.45	45.45
JUNE	34.91	28.38	29.75	45.71
JULY	35.06	29.20	31.68	46.79
AUGUST	34.98	30.17	32.70	51.86
SEPTEMBER	33.43	29.85	33.44	-
OCTOBER	32.87	29.36	37.61	-
NOVEMBER	33.15	28.75	37.72	-
DECEMBER	30.86	26.89	35.59	-
<b>AVERAGE</b>	<b>34.08</b> <b>\$0.57</b> USD1=Rs.61	<b>29.64</b> <b>\$0.49</b> USD1=Rs.61	<b>30.80</b> <b>\$0.38</b> USD1=Rs.80	<b>44.95</b> <b>\$0.55</b> USD1=Rs.82

**Table 4: Retail Sugar Prices Estimated From Sugarcane Prices (2008/09 Crop)**

Items	Units	Actual recovery 2008/09 Crop (9.5 %)
Price of sugarcane (raw material cost	Rs. /40Kg	100.00
Sale of molasses (1.8Kg @ Rs. 5/Kg	Rs.	9.00
Net cost of raw material (40 Kg of cane)	Rs.	91.00
Development cess and market fee	Rs. / 40 Kg	0.70
Total cost of raw material	Rs.	91.70
Sugar obtained from 40 kg of cane	Kgs	3.80
Cost of raw material per kg of sugar	Rs. / kg	24.13
Manufacturing cost of sugar	"	9.00
Mills profit	"	1.00
General sales tax (GST)	"	3.15
Ex. Mill sugar Price (with GST)	"	37.28

Wholesale market price with GST	"	38.28
Retail price with GST	"	39.78

### **Trade:**

Post's estimate of MY 2008/09 sugar imports was reduced from 700,000 MT to 125,000 MT. Sugar imports are controlled by the Trading Corporation of Pakistan (TCP). Since February 2009, the TCP has issued international tenders for the import of 300,000 MT of sugar, of which only 125,000 was imported in MY 2008/09 (despite the 650,000 MT year-to-year reductions in sugar production). Based on TCP's recent import performance, greater private sector participation in the sugar import market is likely warranted if sugar supplies are to keep pace with Pakistan's growing consumption needs. MY 2009/10 sugar imports are estimated at 800,000 MT.

### **Stocks:**

Post's estimate of MY 2008/09 ending stocks was reduced from 1.1 MMT to 550,000 MT, 50 percent lower than 2008 ending stocks. Stocks are projected to remain tight in the coming year with MY 2009/10 ending stocks projected at 550,000 MT (assuming an import level of 800,000 MT is achieved).