

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Pakistan

Sugar Annual

Sugar Annual 2018

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Report Highlights:

Despite a generous export subsidy aimed at moving 2017/18 sugar off the domestic market, stocks continue to rise as only 1.0 million metric tons of sugar that are expected to be exported, well below the 2.0 million metric tons that were eligible for a subsidy. 2018/19 stocks are projected at 4.7 million metric tons, equivalent to nearly a full year of domestic consumption. Pakistan's marketing year (MY) 2018/19 sugar production is forecast at 6.5 million tons, down 12 percent from the revised 2017/18 estimate as delays in cane payments and reduced expectations surrounding support pricing are prompting some farmer to switch to other crops such as cotton.

Sugarcane Production:

Sugarcane is grown on approximately 1.2 million hectares and provides the raw material for 90 sugar mills. The sugar industry is the country's second largest agriculture-based industry after textiles.

Based on preliminary official data, Pakistan's marketing year (MY Oct/Sep) 2018/19 sugarcane production is forecast at 72 million metric tons (MMT), down 12 percent from the revised 2017/18 estimate. Planting for the crop that will be harvested in the fall of 2018 is complete and area decreased 9 percent as compared to a year ago as farmers shifted to cotton. Farmer concerns about late payments from mills and reduced pricing below government-established indicative prices appears is thought to be a significant factor behind reduced area.

According to preliminary official estimates, MY 2017/18 sugarcane production is estimated at a record 82 million tons, up 9 percent from the previous year. The 2016/17 estimate is revised based on official data from the Ministry of National Food Security and Research (MNFSR) and Pakistan Sugar Mills Association (PSMA).

Among the provinces, Punjab accounts for 65 percent of area, Sindh 25 percent, and Khyber Pakhtunkhwa 10 percent of sugarcane area. There is a small sugar beet industry in the higher elevations of Khyber Pakhtunkhwa. Farmers opt for sugarcane planting in autumn or spring; autumn planting provides better results due to a longer growing season. Punjab and KPK mostly plant sugarcane in the spring and harvest eight to ten months later. In Sindh most planting is in the autumn, allowing growth for up to 16 months. Per hectare yield of sugarcane in Pakistan is relatively low. According to experts, water shortages, a lack of high yielding varieties, and uneven fertilizer and pesticide application contribute to lower yields. Many observers agree that Pakistan would benefit from additional sugarcane research.

Table 1: Sugarcane Area and Production by Province

Province	Area ('000' Hectares)			Production ('000' Tons)		
	MY 2016/17	MY 2017/18	MY 2018/19	MY 2016/17	MY 2017/18	MY 2018/19
Punjab	782	864	790	49,700	56,000	47,300
Sindh	320	333	300	20,200	20,300	19,000
NWFP	118	118	110	5,600	5,700	5,200
Baluchistan	-	-	-	-	-	-
Total	1,220	1,315	1,200	75,500	82,000	71,500

Sources: MNFSR, PSMA and FAS/Islamabad

Production Policy:

The provincial governments set indicative procurement prices for sugarcane in consultation with representatives of both the sugar industry and farmers' organizations, based on recommendations from the Ministry of National Food Security and Research and the provincial ministries of agriculture, food, and industry. During the MY 2017/18 crushing season, the provincial governments of Punjab, Sindh and KPK maintained the minimum support price (MSP) announced since MY 2014/15. The MSP for Punjab and Sindh is Rs. 180 per 40 Kg (\$43.3/ton), and for Sindh is Rs. 182 per 40 Kg (\$44/ton). Mills are typically bound to pay farmers the MSP, however, buyer and seller will occasionally work out sales at below-MSP rates based on issues such as quality, water content, variety, and other factors to the chagrin of farmers. These negotiations often result in price discounts below the indicative procurement price. The steady rise in sugarcane procurement prices (See Table 2) has made it difficult for mills to profitably produce sugar. Procurement prices increased 200 percent during the period from 2008 to 2015; since then these prices have been maintained by the provinces. The sugar industry is currently protected by a 40 percent import tariff designed to boost domestic sugar prices and protect the local industry from imports.

The provincial governments support research, development, training of farmers and transfer of new technologies to growers in an effort to raise cane yields and sugar recovery rates. Agricultural universities and a few sugar mills also support research and development (R&D) activities.

The following table shows the history of procurement prices for each province over the past 15 years.

Table 2: Sugarcane Indicative Prices by Province

(Rs. per 40 kg)

YEAR	PUNJAB	SINDH	KPK	BALUCHISTAN
2003-04	40	41	42	43
2004-05	40	43	42	43
2005-06	45	58	48	-
2006-07	60	67	48	-
2007-08	60	67	65	-
2008-09	80	81	65	-
2009-10	100	100	100	-
2010-11	125	127	125	-
2011-12	150	152	150	-
2012-13	170	172	170	-
2013-14	170	172	170	-
2014-15	180	182	180	-
2015-16	180	182	180	-
2016-17	180	182	180	-
2017-18	180	182	180	-

Source: Provincial Agriculture Departments and PSMA

Sugar Production:

MY 2018/19 refined sugar production is forecast at 6.5 MMT, down 12 percent from the revised 2017/18 estimate. The estimate of MY 2017/18 sugar production is up 900,000 MT from the previous assessment, and now reflects official data from the MNFSR and PSMA. The estimate is based on 90 percent crushing and 10 percent sugar recovery rate. The MY 2016/17 estimate is also revised up 685,000 MT and reflects official data.

Sugar in Pakistan’s domestic market continues to be priced well above the international market. Current Lahore wholesale prices are \$435 per metric, an estimated 28 percent higher than the international market pegged at \$341/metric ton. The sugar market is insulated from imports by a tariff of 40 percent. While mills enjoy a high price in the domestic market, millers are still squeezed between high provincial and federal minimum cane prices and their returns from selling sugar in the domestic market along with the costs of carrying stocks of unsold sugar. Still, production is in excess of domestic requirement as mills offer predictable prices for cane and, at least in recent years, export subsidies have facilitated exports.

Consumption:

Consumption continues to grow modestly, largely as a result of growing population and a slowly developing domestic food processing sector. MY 2018/19 sugar consumption is projected at 5.7 MMT. Bulk sugar consumers such as bakeries, candy, ice cream, and soft drink manufacturers account for about 60 percent of total sugar demand. With the added protection of 40 percent tariff on imports, high market prices likely discourage a larger increase in consumption.

Table 3: Monthly Average Retail Prices of Sugar

(Rs. per kg)						
YEAR/MONT H	2013	2014	2015	2016	2017	2018
JANUARY	52.47	51.39	53.92	59.80	64.80	53.12
FEBRUARY	52.58	51.25	54.23	62.80	63.12	51.50
MARCH	52.71	53.35	54.28	62.93	60.41	51.33
APRIL	53.11	52.40	56.92	63.76	59.97	
MAY	53.27	52.27	59.53	63.75	58.46	
JUNE	54.15	53.84	62.49	64.37	56.48	
JULY	54.35	55.92	65.41	67.34	55.04	
AUGUST	54.28	57.83	65.36	71.17	56.88	
SEPTEMBER	53.84	60.49	64.75	71.03	55.45	
OCTOBER	55.68	59.17	61.55	71.04	54.28	
NOVEMBER	58.86	56.78	59.56	71.80	53.68	
DECEMBER	54.12	54.12	57.14	63.68	53.91	
AVERAGE	54.12	54.90	59.59	66.12	57.70	59.40
	\$0.54	\$0.55	\$0.58	\$0.64	\$0.55	\$0.47
	USD=Rs.9	USD=Rs.10	USD=Rs.10	USD=Rs.10	USD=Rs.10	USD=Rs.11
	9	0	2	4	5	0

Source: Pakistan Bureau of Statistics (PBS), Government of Pakistan

Trade:

In an effort to move stocks off of the domestic market, generate additional revenue for the millers, and speed payments to growers, in December 2017, the Government of Pakistan increased its sugar export quota from

500,000 metric tons to 2.0 million metric tons to move accumulated sugar stocks off the domestic market. A freight subsidy of up to \$97 per metric ton (Rs.10.7 per kg) applies to the entire quota amount, bringing potential total expenditures on sugar export subsidies to \$194 million. Official data shows that through March 2018 around 680,000 metric tons of sugar was exported. It is expected that at the present pace of exports, 1.0 MMT tons of sugar will be exported by the end of April when the current subsidy authorization expires. Further exports and exports during 2018/19 are currently forecast at zero given the high price of sugar and the absence of an announced quota and subsidy, though that could change if international prices rise sufficiently.

Table 4: Sugar Import and Export (MT)

Sugar Imports and Exports								
Months	Imports				Exports			
	My 2014/15	My 2015/16	My 2016/17	My 2017/18	My 2014/15	My 2015/16	My 2016/17	My 2017/18
Oct	1,246	1,458	889	1,120	51,657	0	0	49,448
Nov	2,638	1023	2,258	655	4,158	0	0	187,237
Dec	830	852	1,014	438	75	0	0	156,194
Jan	1,180	1,054	1,519	582	49,342	27,344	0	133,983
Feb	288	865	1,448	800	99,330	119,845	15,885	150,484
Mar	1,254	650	1,758		99,676	125,033	107,558	
Apr	652	1,060	662		98,167	0	67,186	
May	375	800	750		123,002	0	112,130	
June	499	490	820		35,003	0	5,080	
July	1,720	600	998		19,116	0	58,555	
Aug	1,775	467	1,347		0	0	9,774	
Sept	3,856	724	864		0	0	23,632	
Total	16,313	10,043	9,339	3,595	579,526	272,222	399,800	677,346

Source: Pakistan Bureau of Statistics (PBS), Government of Pakistan

Stocks:

Stocks during 2018/19 are projected to accumulate to 4.7 MMT unless a new set of export subsidies are announced by the government or higher world prices attract export demand. Under the scenario, mills may face the cost of carrying large stocks of unsold sugar, a prospect that could inhibit their ability to pay farmers for their cane; a cycle that could further reduce sugarcane area and production in the future.

Production, Supply and Demand Data Statistics:

Table 5: Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal	2016/2017	2017/2018	2018/2019
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Market Begin Year	Oct 2016		Oct 2016		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Pakistan						
Area Planted	1225	1225	1310	1315	0	1200
Area Harvested	1225	1225	1310	1315	0	1200
Production	73400	75450	78000	82000	0	72000
Total Supply	73400	75450	78000	82000	0	72000
Utilization for Sugar	73400	75450	78000	82000	0	72000
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	73400	75450	78000	82000	0	72000

(1000 HA) ,(1000 MT)

Table 6: Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
Pakistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1470	1470	2120	2805	0	3840
Beet Sugar Production	25	25	25	25	0	25
Cane Sugar Production	6115	6800	6500	7400	0	6500
Total Sugar Production	6140	6825	6525	7425	0	6525
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	10	10	10	10	0	10
Total Imports	10	10	10	10	0	10
Total Supply	7620	8305	8655	10240	0	10375
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	400	400	500	1000	0	0
Total Exports	400	400	500	1000	0	0
Human Dom. Consumption	5100	5100	5400	5400	0	5700
Other Disappearance	0	0	0	0	0	0
Total Use	5100	5100	5400	5400	0	5700
Ending Stocks	2120	2805	2755	3840	0	4675
Total Distribution	7620	8305	8655	10240	0	10375

(1000 MT)

