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Sugar Update

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Sugar

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Report Highlights: Pakistan's sugar prices rise as imports fail to materialize.

General Information:

Pakistan's MY 2009/10 production of refined sugar is estimated at 3.4 MMT, and consumption at 4.2 MMT. Recognizing the shortfall, in January 2010 the Economic Coordination Committee of the Cabinet (ECC) announced the import authorization of 1.25 million tons of refined sugar by June 2010. The government-run, Trading Corporation of Pakistan (TCP) was instructed to import 500,000 MT. The balance 750,000 tons was to be imported by the private sector. To encourage price sector trade, sugar imported by June 30, 2010 would be exempt from import duties and other sales taxes.

As of July 1, 2010, Pakistan imports of refined sugar totaled only 264,000 MT, all of which was imported by the TCP. Traders estimate the current landed price of refined sugar delivered to the port of Karachi at Rs. 56 per Kg. ($ 0.65/Kg). Prices in the domestic market are hovering at about Rs. 70/kg ($0.82/kg), and expected to rise even higher during the Muslim holy of month of Ramadan. Despite the rather substantial spread between international and local sugar prices (25 percent), there have been no private sector imports of sugar.

Sources report that despite the ECC decision to allow duty free imports by private traders, the Statutory Regulatory Ordinance (SRO) was not issued and the State Bank of Pakistan did not provide instructions to commercial banks to entertain letters of credit for private sector imports of sugar. Traders also noted that in response to last year's mandated prices for sugar set by federal and provincial governments, as well as the Supreme Court of Pakistan, they are reluctant to enter into contracts for imported sugar. Additionally, the Pakistan sugar market is highly centralized and new entrants to the market face considerable risk competing against vested interests.

Despite the steady rise in Pakistan sugar prices the government claims there is sufficient sugar available in the country. According to GOP sources, as of July 26, 2010 Pakistan's sugar stocks stood at 1.1 million tons. With monthly sugar consumption estimated at 350,000 tons, authorities claim the country has enough sugar to meet its needs over the next several months. Never-the-less, sugar prices continue to rise and analysts believe prices could cross Rs.80 per kg before the end of Ramadan.

On July 26, 2010, at the recommendation of the ministerial committee constituted by the ECC, the GOP decided to increase the price of sugar sold at Utility Stores Corporation (USC) outlets (a state organization tasked to provide basic commodities to general public at subsidized rates) by Rs. 10 per kg to Rs. 55 per kg. (Less than five percent of total sugar sales are sold by USC outlets.) The basis for this price increase was the rising differential between USC and open market sugar prices. During last year's Ramadan the same situation occurred with fatal consequences, as people rushed to buy lower-priced sugar.

At the onset of the holy month of Ramadan, Pakistan Prime Minister Gillani announced a Rs. 3 billion ($ 35 million) Ramadan Package to provide reduced prices for essential commodities sold at USC outlets). The package includes price reductions of up to 10 percent on more than 400 items. State authorities maintain that the Ramadan Package will not only provide economic relief to consumers but also help to stabilize prices in the open market.