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Pakistan

Sugar Annual

Sugar Annual 2010

Approved By:
Rey Santella

Prepared By:
M Shafiq Ur Rehman

Report Highlights:

Pakistan's MY 2010/11 sugar production is forecast at 3.77 million metric tons (MMT), up 10 percent from last year’s estimate of 3.42 MMT. Consumption is forecast at 4.28 MMT and imports at 700,000 tons. The GOP is considering a tax holiday for companies that process sugar beets.

Executive Summary:

The sugar industry in Pakistan continued to deal with uncertainty in CY 2009 due to decreasing sugar production and a lack of coordinated government policy.

Pakistan's MY 2010/11 (Oct/Sept) total sugar production is forecast at 3.77 MMT, an increase of 10 percent over last year's estimate. The increase is largely driven by higher prices and a strong demand. Despite efforts to achieve self-sufficiency, Pakistan remains a net importer of sugar. In MY 2009/10 sugar imports are forecast at 1.03 million tons and 700,000 tons in MY 2010/11. Sugar consumption in MY 2009/10 is expected to decrease 50,000 tons due to limited sugar supplies and price increases. Sugar consumption in MY 2010/11 is forecast at 4.28 MMT.

Commodities:

Sugar, Centrifugal

Production:

SUGARCANE

Pakistan has the 5th largest sugarcane growing area in the world and is the 15th biggest global producer of sugar. Sugarcane is grown on around a million hectares and provides the raw material for Pakistan's 84 sugar mills. The sugar industry is the country's second largest agro-industry after textiles. Besides its edible use, Pakistan also uses sugar to produce alcohol for medicinal purposes, ethanol for fuel, chip board manufacturing, etc.

In MY 2009/10, (Oct/Sept) Pakistan's sugarcane production is estimated at 47.8 MMT, down 2.2 million tons from last year's estimate. The decrease in sugarcane area and lower production during the last couple of years are attributed to the non-transparent government sugar policies, significant increase in minimum support prices for competing crops (e.g. wheat and rice), dwindling water resources, and higher input costs.

Internal disputes between Pakistan's sugar growers and processors also plague the industry. Procurement practices used by sugar processors such as delaying the crushing season, buying cane at less than the support price, and withholding payments hurt the farmers' profitability. On the other hand, sugar processors complain that farmers grow unapproved varieties that produce low sucrose content resulting in lower sugar production and recovery rates. As a result of the fluctuations in quantity and quality of raw material, sugar mills have been required to operate at 50 percent of their installed capacity. Furthermore, the lower sugarcane supplies have also forced most of the mills in cane producing areas to close 1-2 months earlier than normal.

Despite the industry's troubles, the tighter sugar supplies have led to higher sugar prices and benefitted sugar growers. This trend is projected to continue in MY 2010/11.

In MY 2010/11 sugarcane production is forecast at 52.7 MMT, an increase of 10 percent over the previous year due to an anticipated increase in planting area. Cane prices may range from Rs. 1,200 to 1,800 per ton, which is significantly higher than last year. The higher prices are likely to persuade farmers to grow more sugarcane in 2010, thus, MY 2010/11 cane acreage is expected to increase 14 percent to 1,075 thousand hectares.

Table: Sugarcane Area and Production by Province

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2008/09	MY 2009/10	MY 2010/11	MY 2008/09	MY 2009/10	My 2010/11
Punjab	665	605	700	31,612	30,300	33,300
Sindh	264	234	270	13,000	12,900	14,760
NWFP	95	100	104	4,400	4,560	4,600
Baluch	1	1	1	38	40	40
Total	**1,025**	**940**	**1,075**	**49,050**	**47,800**	**52,700**

Sources: Ministry of Food and Agriculture and FAS/Islamabad

Production Policy

The Federal government generally does not procure sugarcane, but it authorizes provincial governments to fix respective sugarcane prices in consultation with representatives of both the sugar industry and farmer organizations. For MY 2010/11, none of the cane producing states; Punjab and Sindh, increased sugarcane prices.

To assist sugar processors in the economic downturn, the Ministry of Food and Agriculture (MINFA) and the Ministry of Industries and Production are in consultation with the Pakistan Sugar Mills Association (PSMA) to finds ways of making sugar operations run more efficiently. The sugar industry is also searching for opportunities to develop value added by-products, reducing costs, and promoting cultivation of high sucrose cane. The GOP is also considering PSMA's proposal to use sugarcane in electricity production.

Table: Prices of Sugarcane by Province

(Rs. per 40 kg)

YEAR	PUNJAB	SINDH	NWFP	BALUCHISTAN
2000-01	35.00	36.00	35.00	36.00
2001-02	42.00	43.00	42.00	43.00
2002-03	40.00	43.00	42.00	43.00
2003-04	40.00	41.00	42.00	43.00
2004-05	40.00	43.00	42.00	43.00
2005-06	45.00	58.00	48.00	-
2006-07	60.00	67.00	48.00	-
2007-08	60.00	67.00	65.00	-
2008-09	80.00	81.00	65.00	-
2009-10	100	100	100	-
2010-11	-	-	-	-

SUGAR

Production

In MY 2010/11 refined sugar production is forecast at 3.75 MMT, primarily due to anticipated increase in area under sugar cane crop. Pakistan's domestic consumption is expected to be 4.28 MMT. Domestic production will be supplemented through imports. For MY 2009/10, refined sugar production is estimated at 3.42 MMT (raw value) based on 80 percent crushing and 8.9 percent recovery. The production decreased primarily due to a smaller growing area, which is down 8 percent from the previous year.

The MINFA and the PSMA have initiated a sugar crop development project utilizing sugar beets. The provinces of Punjab and Sindh have already conducted research in the cultivation of sugar beet with limited success. Industrial adoption and commercialization of sugar beet have been slow because it requires additional research as well as comprehensive planning on the part of government, industry and the farming community. In addition, the sugar industry is reluctant to promote sugar beet cultivation because the amount of time needed to process beets into sugar. The hot temperatures and processing delays could also easily deteriorate the quality of the product. Beet processing requires more fuel, making it costlier compared to cane processing. In order to promote this initiative, the GOP is considering tax holidays for companies that process sugar beets.

Consumption:

The MY 2010/11 sugar consumption is forecast at 4.28 MMT. Consumption estimates for MY 2009/10 is lowered to 4.2 million tons, 50,000 tons less than the earlier estimates due to relatively tight domestic supplies and higher prices.

Although limited sugar supplies and the steady increase in prices have affected household sugar consumption, overall sugar consumption remains the same due to growing demand by the processed food sector (soft drinks, fruit drinks, dairy, confectionary, traditional sweets etc). Bulk consumers such as bakeries, makers of candy and local sweets, and soft drink manufacturers account for about 60 percent of the total sugar demand.

Pakistan's sugar industry continued to deal with uncertainty in CY 2009 due to decreasing sugar production and a lack of coordinated government policy. Despite the Economic Coordination Committee of the Cabinet's (ECC's) February 2009 decision to import 200,000 metric tons of sugar, the Trading Corporation of Pakistan (TCP -government entity responsible for importing and exporting commodities) was still unable to arrange timely imports. As a result of the government's inability to deal with the supply situation, the Pakistan Supreme Court intervened to stabilize sugar prices. Despite the Supreme Court's intervention, however, sugar prices continued to rise due to the tighter supplies.

Sugar prices have been on the rise since May 2008 and reached record levels in December 2009. The current sugar retail price is around $803 per ton, about 60 percent higher than last year's level. Prices are expected to hover around Rs.60 in the remaining part of the year due to anticipated better sugar supplies in the international market. The future stability of retail prices will depend upon timely imports and prevailing prices in the international market.

Table: Monthly Average Retail Prices of Sugar

(Rs. per Kg)

YEAR/MONTH	2006	2007	2008	2009	2010
JANUARY	29.49	31.55	26.06	39.38	66.44
FEBRUARY	35.05	30.83	25.73	42.63	68.55
MARCH	35.61	30.63	25.44	43.83	64.87
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	45.65	-
JULY	35.06	29.20	31.68	46.96	-
AUGUST	34.98	30.17	32.70	52.16	-
SEPTEMBER	33.43	29.85	33.44	48.97	-
OCTOBER	32.87	29.36	37.61	45.75	-
NOVEMBER	33.15	28.75	37.72	45.75	-
DECEMBER	30.86	26.89	35.59	58.50	-
AVERAGE	**34.08** **$0.57** USD1=Rs.61	**29.64** **$0.49** USD1=Rs.61	**30.80** **$0.38** USD1=Rs.80	**46.66** **$0.57** USD1=Rs.82	**66.62** **$0.80** USD1=Rs.83

Trade:

In MY 2010/11 sugar imports are forecast at 700,000 MT, and MY 2009/10 sugar imports are estimated at 1,030,000 MT. On January 2010, the ECC decided to import 1.25 million tons of refined sugar from the international market. Accordingly, the GOP authorized the TCP to import 500,000 MT for government stocks and the remaining 750,000 MT for the private sector before June 2010. Industry reports indicate that the TCP has issued tenders for the import of half a million tons of sugar, whereas, private sector is waiting for a drop international sugar prices. The ECC also decided that the private sector import would be exempted from sales taxes and other duties to ensure that landing cost of imported sugar will range around Rs.50 per Kg and retail price at Rs.55. The ECC also decided to scrap the 16 percent General Sales Tax (GST) in order to stem the rise of sugar prices.

Imports of raw sugar are subject to a 25 percent import duty, whereas, imports of refined sugar may enter duty free.

Stocks:

MY 2010/11 stocks are forecast at 850,000 MT based on projected supply-demand scenarios and trade expectations.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Pakistan	**2008/2009**	**2009/2010**	**2010/2011**

	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	1,163	1,163	1,163	550	1,050	550			730
Beet Sugar Production	20	20	20	20	20	20			20
Cane Sugar Production	3,492	3,542	3,492	3,500	3,650	3,400			3,750
Total Sugar Production	3,512	3,562	3,512	3,520	3,670	3,420			3,770
Raw Imports	0	300	0	200	200	0			0
Refined Imp.(Raw Val)	125	400	125	600	530	1,030			700
Total Imports	125	700	125	800	730	1,030			700
Total Supply	4,800	5,425	4,800	4,870	5,450	5,000			5,200
Raw Exports	0	0	0	0	70	0			0
Refined Exp.(Raw Val)	75	75	75	70	0	70			70
Total Exports	75	75	75	70	70	70			70
Human Dom. Consumption	4,175	4,300	4,175	4,250	4,350	4,200			4,280
Other Disappearance	0	0		0	0				
Total Use	4,175	4,300	4,175	4,250	4,350	4,200			4,280
Ending Stocks	550	1,050	550	550	1,030	730			850
Total Distribution	4,800	5,425	4,800	4,870	5,450	5,000			5,200
TS=TD			0			0			0