

USDA Foreign Agricultural Service

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Global Agricultural Information Network

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Pakistan

Sugar Annual

Sugar Annual 2019

Approved By:

Casey Bean

Prepared By:

FAS Islamabad

Report Highlights:

Pakistan's Marketing Year 2019/20 sugar production is forecast at 5.2 million tons, a five percent decrease from the current year's revised estimate as delays in cane payments and reduced expectations surrounding support pricing are prompting some farmers to switch to other crops such as cotton and corn. Sugar consumption for the same year is forecast at 5.6 million tons, slightly higher than last year's estimates, and exports are forecast at 500,000 tons. Ending stocks are expected to decrease to seven year low mainly due to decreased production. The current year's production estimates are revised down 24 percent from last year mainly due to the delayed start of the crushing season. Sugar production for MY 2017/18 is revised down to 7.2 million tons based on crushing volume and sucrose contents. MY 2017/18 sugar exports stand at 1.6 million tons mainly due to a subsidy of \$97 per metric provided to sugar exporters. Since last year, sugarcane area and production are on a decreasing trend mainly due to farmer's discontent in not receiving procurement prices and delayed payments for their produce.

Commodities:

Sugar Cane for Centrifugal

Production:**SUGARCANE**

Pakistan is the world's fifth largest producer of sugarcane and the eighth largest producer and consumer of sugar. 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. In addition to sugar, sugarcane is employed in the production of pharmaceutical ethanol, bagasse for paper and chip board manufacturing, and press mud used as a rich source of organic fertilizer for crop production. Sugarcane is typically grown on the high delta away from areas that flood along Pakistan's major rivers.

Pakistan's marketing year (MY Oct/Sep) 2019/20 sugarcane production is forecast at 64 million metric tons (MMT), down five percent from the revised 2018/19 estimate. Planting for the crop that will be harvested in the fall of 2019 is complete, and the area decreased by five percent compared to last year. Farmer discontent in not receiving procurement price followed by delayed payments for their produce is taking a toll on sugarcane area and production.

The sugarcane production cycle swaps between 3 to 5 years. After three successive years of increases in sugar production (MY 2015/16 to MY 2017/18), it is on a downward trajectory mainly due to a decrease in area followed by a significant acreage of ratoon crop (older crop). During MY 2018/19 sugarcane acreage decreased by 12 percent and in MY 2019/20 it is expected to decrease by five percent to 1.1 million hectares, mainly due to mill late payments to cane growers and better prospects offered by crops such as cotton and corn. Mills delayed the payments to growers to encourage them to pressure the Government for export support and increased procurement by the state enterprise, Trading Corporation of Pakistan (TCP). The TCP is mandated to maintain strategic stocks as well as to keep its supply line in operation for public sector outlets. This arrangement helps in maintaining sugar supply and prices in the domestic market. The MY 2018/19 sugarcane production is estimated at 67 million metric tons, down 20 percent from the previous year. This significant decrease in production is mainly due to the 12 percent drop in planting area. The MY 2017/18 estimate is revised based on official data from the Ministry of National Food Security and Research (MNFSR) and the Pakistan Sugar Mills Association (PSMA).

Among the provinces, Punjab accounts for 65 percent of sugarcane area, Sindh 25 percent, and Khyber Pakhtunkhwa 10 percent. 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 farmers 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 yields of sugarcane in Pakistan are 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 and

development initiatives in line with international standards. The harvesting period follows the pattern of many other northern hemisphere crops, beginning in October/ November and ending in April/ May.

Table 1: Sugarcane Area and Production by Province

| Province | Area ('000' Hectares) | | | Production ('000' Tons) | | |
|--------------------|-----------------------|---------------|---------------|-------------------------|---------------|---------------|
| | MY 2017/18 | MY 2018/19 | MY 2019/20 | MY 2017/18 | MY 2018/19 | MY 2019/20 |
| Punjab | 860 | 735 | 700 | 55,070 | 43,896 | 41,700 |
| Sindh | 332 | 334 | 315 | 20,610 | 17,670 | 16,786 |
| NWFP | 148 | 111 | 105 | 7,610 | 5,394 | 5,124 |
| Baluchistan | - | - | - | | | - |
| Total | 1,340 | 1180 | 1,120 | 83,290 | 66,960 | 63,610 |

Sources: MNFSR, PSMA and FAS/Islamabad

Production Policy:

The provincial governments set 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 2018/19 crushing season, the provincial governments of Punjab, Sindh and KPK maintained the same minimum support price (MSP) announced since MY 2014/15. The MSP for Punjab and KPK is Rs. 180 per 40 Kg (\$32/ton), and for Sindh is Rs. 182 per 40 Kg (\$32.5/ton). Mills are typically bound to pay farmers the MSP; however, buyer and seller will occasionally work out sales at below-MSP rates if both parties agree. The steady rise in sugarcane procurement prices (see Table 2) has made it difficult for mills to profitably produce sugar. Data analysis shows that procurement prices have increased by 300 percent during the period from 2008 onward as these prices have been maintained so far by the provinces. The sugar industry is protected by a 40 percent import tariff designed to boost domestic sugar prices and protect the local industry from imports.

In late 2017, the Government of Pakistan increased its sugar export quota from 500,000 metric tons to 2.0 million tons in an effort to move accumulated stocks off the domestic market under a subsidized program. A freight subsidy of up to \$97 per metric ton was provided for the announced quota. Under this subsidy program, sugar export continued till September 2018 and a total of 1.6 million tons was exported during the marketing year and the MY 2018/19 export estimate is 1.2 million tons.

The provincial governments support research, development, training of farmers and transfer of new technologies to growers in order 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 sugarcane for each province over the past 15 years.

Table 2: Procurement Prices of Sugarcane by Province (Rs. per 40 kg. \$1.00=Rs.140)

| YEAR | PUNJAB | SINDH | KPK | BALUCHISTAN |
|----------------|--------|-------|-----|-------------|
| 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 | - |
| 2018-19 | 180 | 182 | 180 | - |

Source: Provincial Agriculture Departments and PSMA

SUGAR

MY 2019/20 refined sugar production is forecast at 5.2 million tons, down five percent from the revised 2018/19 estimate. Estimated MY 2018/19 sugar production is down 24 percent mainly due to the 12 percent decrease in sugarcane cultivated area and the delayed start of crushing by the sugar mills. Normally, crushing season starts in November, but this year it was delayed for more than a month as the industry sought government support to off load accumulated sugar stocks and pay the farmers for the cane they procured the last year. This delayed crushing will impact sugar production by limiting the crushing season and activating fresh sprouting in standing sugarcane crop that affects the sucrose content in the cane. A decrease in sugarcane cultivated area and delayed crushing is estimated to reduce sugar by 1 MMT. MY 2017/18 production now reflects official data from the MNFSR and PSMA. The estimate is based on 85 percent crushing and a 10.2 percent sugar recovery rate.

Sugar in Pakistan's domestic market continues to be priced well above the international market. Current wholesale prices are \$403 per metric, an estimated 17 percent higher than the international market pegged at \$345/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, sugar availability 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 a growing population and a slowly developing domestic food processing sector. MY 2019/20 sugar consumption is projected at 5.6 million

metric tons. 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/MONTH | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| JANUARY | 52.47 | 51.39 | 53.92 | 59.80 | 64.80 | 53.12 | 58.47 |
| FEBRUARY | 52.58 | 51.25 | 54.23 | 62.80 | 63.12 | 51.50 | 59.13 |
| MARCH | 52.71 | 53.35 | 54.28 | 62.93 | 60.41 | 51.33 | |
| APRIL | 53.11 | 52.40 | 56.92 | 63.76 | 59.97 | 52.85 | |
| MAY | 53.27 | 52.27 | 59.53 | 63.75 | 58.46 | 52.64 | |
| JUNE | 54.15 | 53.84 | 62.49 | 64.37 | 56.48 | 53.69 | |
| JULY | 54.35 | 55.92 | 65.41 | 67.34 | 55.04 | 54.71 | |
| AUGUST | 54.28 | 57.83 | 65.36 | 71.17 | 56.88 | 55.59 | |
| SEPTEMBER | 53.84 | 60.49 | 64.75 | 71.03 | 55.45 | 55.99 | |
| OCTOBER | 55.68 | 59.17 | 61.55 | 71.04 | 54.28 | 54.78 | |
| NOVEMBER | 58.86 | 56.78 | 59.56 | 71.80 | 53.68 | 54.87 | |
| DECEMBER | 54.12 | 54.12 | 57.14 | 63.68 | 53.91 | 55.63 | |
| AVERAGE | 54.12 | 54.90 | 59.59 | 66.12 | 57.70 | 53.89 | 58.8 |
| | \$0.54 | \$0.55 | \$0.58 | \$0.64 | \$0.55 | \$0.45 | \$0.42 |
| | USD=Rs. .99 | USD=Rs. 100 | USD=Rs. 102 | USD=Rs. 104 | USD=Rs. 105 | USD=Rs. 120 | USD=Rs. 140 |

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

Trade:

In an effort to move stocks off of the domestic market, to generate additional revenue for the millers, and to 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. A freight subsidy of up to \$97 per metric ton (Rs.10.7 per kg) applies to the entire quota amount till the close of marketing year, bringing potential total expenditures on sugar export subsidies to \$194 million. Official data shows that during MY 2017/18 an export of 1.6 million tons of sugar was effected. Later on, with the depreciation in the currency, sugar exports became more competitive and 2018/19 exports are estimated at 1.2 million tons. Exports during 2019/20 are projected at 500,000 tons after meeting local requirements and maintaining minimum stocks.

Table 4: Sugar Import and Export (MT)

| Sugar Imports and Exports |
|---------------------------|
|---------------------------|

| Months | Imports | | | | Exports | | | |
|--------------|---------------|--------------|--------------|--------------|----------------|----------------|------------------|----------------|
| | My 2015/16 | My 2016/17 | My 2017/18 | My 2018/19 | My 2015/16 | My 2016/17 | My 2017/18 | My 2018/19 |
| Oct | 1,458 | 889 | 1,120 | 667 | 0 | 0 | 49,448 | 0 |
| Nov | 1,023 | 2,258 | 655 | 545 | 0 | 0 | 187,237 | 0 |
| Dec | 852 | 1,014 | 438 | 531 | 0 | 0 | 156,194 | 70,614 |
| Jan | 1,054 | 1,519 | 582 | 481 | 27,344 | 0 | 133,983 | 23,637 |
| Feb | 865 | 1,448 | 800 | 592 | 119,845 | 15,885 | 150,484 | 33,236 |
| Mar | 650 | 1,758 | 650 | | 125,033 | 107,558 | 249,416 | |
| Apr | 1,060 | 662 | 718 | | 0 | 67,186 | 178,605 | |
| May | 800 | 750 | 683 | | 0 | 112,130 | 170,026 | |
| June | 490 | 820 | 705 | | 0 | 5,080 | 111,036 | |
| July | 600 | 998 | 683 | | 0 | 58,555 | 119,286 | |
| Aug | 467 | 1,347 | 290 | | 0 | 9,774 | 48,088 | |
| Sept | 724 | 864 | 619 | | 0 | 23,632 | 14,768 | |
| Total | 10,043 | 9,339 | 7,943 | 2,816 | 272,222 | 399,800 | 1,568,571 | 127,487 |

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

Stocks:

Ending stocks in MY 2019/20 are expected to decrease to seven year low at 1.2 million tons mainly due to a decrease in sugar production.

Table 5: Production, Supply and Demand Data Statistics:

| Sugar Cane for Centrifugal | 2017/2018 | | 2018/2019 | | 2019/2020 | |
|----------------------------|---------------|----------|---------------|----------|---------------|----------|
| Market Begin Year | Oct 2016 | | Oct 2018 | | Oct 2019 | |
| Pakistan | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted | 1340 | 1340 | 1210 | 1210 | 0 | 1120 |
| Area Harvested | 1340 | 1340 | 1210 | 1210 | 0 | 1120 |
| Production | 83290 | 83290 | 72000 | 72000 | 0 | 63610 |
| Total Supply | 83290 | 83290 | 72000 | 72000 | 0 | 63610 |
| Utilization for Sugar | 83290 | 83290 | 72000 | 72000 | 0 | 63610 |
| Utilization for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Utilization | 83290 | 83290 | 72000 | 72000 | 0 | 63610 |
| (1000 HA) ,(1000 MT) | | | | | | |

Production, Supply and Demand Data Statistics:

Table 6: Production, Supply and Demand Data Statistics:

| Sugar, Centrifugal | 2017/2018 | | 2018/2019 | | 2019/2020 | |
|-----------------------------------|--------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| Market Begin Year | Oct 2017 | | Oct 2018 | | Oct 2019 | |
| Pakistan | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 2805 | 2805 | 3140 | 3140 | 0 | 2090 |
| Beet Sugar Production | 25 | 25 | 25 | 40 | 0 | 40 |
| Cane Sugar Production | 7400 | 7200 | 6500 | 5500 | 0 | 5200 |
| Total Sugar Production | 7425 | 7225 | 6525 | 5540 | 0 | 5240 |
| 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 | 10240 | 10040 | 9675 | 8690 | 0 | 7340 |
| Raw Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Refined Exp.(Raw Val) | 1800 | 1600 | 1300 | 1200 | 0 | 500 |
| Total Exports | 1800 | 1600 | 1300 | 1200 | 0 | 500 |
| Human Dom. Consumption | 5300 | 5300 | 5500 | 5400 | 0 | 5600 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Use | 5300 | 5300 | 5500 | 5400 | 0 | 5600 |
| Ending Stocks | 3140 | 3140 | 2875 | 2090 | 0 | 1240 |
| Total Distribution | 10240 | 10040 | 9675 | 8690 | 0 | 7340 |
| | | | | | | |
| (1000 MT) | | | | | | |