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Pakistan Raises Sugar Tariff - Allows Exports

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Report Highlights:

The Government of Pakistan has increased the tariff on sugar imports from zero to 20 percent and authorized an export quota of 500,000 metric tons. Domestic sugar prices in Pakistan are well above international prices as harvest is about to begin. The move appears to be designed to protect domestic millers from sugar imports while allowing the export of existing sugar stocks. However, given the high price of domestic sugar, export prospects appear to be limited.

Disclaimer: This summary is based on a cursory review of the subject announcement and, therefore, should not under any circumstances be viewed as a definitive interpretation of the regulation or policy in question, or of its implications for U.S. agricultural trade interests. For more information, please contact the Office of Agricultural Affairs in Islamabad at agislamabad@fas.usda.gov

Sugar Tariff Hiked, Export Quota Established

On November 12, 2014, Pakistan's cabinet-level Economic Coordination Committee (ECC) approved an export quota of 500,000 metric tons of refined sugar. The quota is valid until March 31, 2015. The Government also increased the import tariff from zero to 20 percent. The higher tariff is defined as a "regulatory duty" which is viewed as a short-term increase in the tariff in response to market conditions or other factors affecting the pace of imports. Sugar in Pakistan is currently trading at $550 per metric ton and local importers indicate that sugar is available for as little as $430 per metric ton on the international market. The Pakistan Sugar Mills Association reportedly sought relief from the threat of imports in the final weeks leading up to the sugarcane harvest. It is not clear how long the tariff will remain in place, but it will likely be in place until Pakistani sugar is more competitive on the international market. Pakistan's World Trade Organization bound tariff rate, the maximum tariff the government can impose, is 150 percent.

Each of Pakistan's 84 sugar mills receives an individual export quota which totals to an overall national export quota. The quota may be adjusted as the marketing year progresses. The ECC has set a condition that exporters must secure an irrevocable letter of credit or a firm contract with 15 percent non-refundable advance payment to the Government of Pakistan. The millers or exporters will be required to export within 45 days after registration of a contract. If successful, the Government of Pakistan will reimburse the 15 percent advance payment. If not, the Government will retain the payment. The Government has also asked the provincial governments to ensure that mills make any overdue payments to farmers.

Sugar millers indicate that sugar stocks were 1.5 million metric tons as of November 6, 2014, which is 50 percent above the amount reported by FAS Islamabad in PK1407 on October 2. Mills indicate that they need to dispose of at least 500,000 metric tons to make room for the upcoming harvest. The high price of sugar suggests that there may be some wiggle room in that estimate. FAS Islamabad will monitor this situation over the next few months.
It is not clear how much sugar will be exported given the current high price of Pakistani sugar. Prices could drop with the onset of harvest, but regional markets, particularly Afghanistan, seem to be the most likely export destinations at this point.