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Pakistan Sugar Update

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Report Highlights:

The Government of Pakistan has approved a sugar export subsidy of $124 per metric ton to cover exports of up to 500,000 metric tons through March 31, 2016. Pakistan's domestic sugar market is protected by a 40 percent tariff and domestic prices are well above international prices. The subsidy is designed to reduce stocks, improve cash flow for sugar mills, and facilitate payments from mills to farmers. Actual exports are expected to near or reach 500,000 metric tons bringing the total cost of the subsidies to $60 million.

Government of Pakistan Announces Sugar Export Subsidy

On December 7, 2015, the cabinet-level Economic Coordination Committee (ECC) authorized a subsidy of $124 per metric ton (Rs. 13 per kg) to facilitate the export of 500,000 metric tons of sugar. The subsidy will be available through March 31, 2016. Only those sugar mills that have cleared their outstanding 2014/15 payments to farmers and begun crushing new crop 2015/16 cane at full capacity will be eligible for the subsidy.

Sugar in Pakistan's domestic market continues to be priced well above the international market and the market is insulated from imports by a tariff of 40 percent. While mills enjoy a high price in domestic market, millers are still squeezed between high provincial and federal minimum cane prices and their returns from selling sugar in the domestic market. With an estimated 500,000 metric tons of stocks and difficulties in completing payments to farmers, the subsidy is designed to move the stocks, generate cash flow for the mills, and facilitate payments to farmers.

The Government of Pakistan established a similar subsidy in late 2014 that resulted in additional exports. The new subsidy will be phased in with 200,000 tons available for export through December 31, 2015, an additional 150,000 tons through January 31, 2016, and an additional 150,000 tons through March 31, 2016. The cost of the subsidy will be shared between the federal and provincial governments and disbursed through the State Bank of Pakistan. The ECC also established a minimum sugar export price of $450 per metric ton for Afghanistan and the Central Asian countries.

Exports are expected to near or reach 500,000 metric tons over the next few months. That would bring the total cost of the subsidy program for the current marketing year to around $60 million; nearly the same amount that was spent in 2014/15 on export subsidies. In short, Pakistan is on track to spend an estimated $120 million on sugar export subsidies between December 2014 and March of 2016.