

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 1/24/2018

GAIN Report Number: PK1802

Pakistan

Post: Islamabad

Sugar Update 2018

Report Categories:

Sugar

Trade Policy Monitoring

WTO Notifications

Approved By:

David Williams

Prepared By:

M. Shafiq Ur Rehman

Report Highlights:

In response to large carry-over stocks at the onset of the current harvest, the Government of Pakistan has increased the volume of sugar eligible for an export subsidy from 500,000 metric tons to 2.0 million metric tons. The subsidy is categorized as a freight subsidy of up to \$97 per metric ton, for total potential subsidy expenditures of \$194 million. Pakistan has utilized export subsidies to move sugar off its domestic market during four of the past five marketing years.

Government of Pakistan Announces Sugar Export Quota and Subsidy:

In late 2017, the Government of Pakistan increased its sugar export quota from 500,000 metric tons to 2.0 million metric tons in an effort to move accumulated sugar stocks off the domestic market as harvest swings into gear. A freight subsidy of up to \$97 per metric ton (Rs.10.7 per kg) applies to the entire quota amount, bringing potential total expenditures on sugar export subsidies to \$194 million.

Sugarcane growing areas receive relatively limited rainfall from the monsoon from July to September, but surface and ground water supplies enable farmers to produce this water intensive crop despite nine months of limited rainfall. Farmers produce cane for 87 sugar mills that are required to pay a government-established indicative price for sugarcane. While discounts for quality and water content are often applied to the indicative prices, the certainty of a nominally guaranteed price creates an incentive for farmers to produce sugarcane in areas within delivery distance of a sugar mill. Indicative prices go up or remain unchanged from year to year, but rarely if ever go down; leaving sugar mills to pay prices for cane that are often disconnected from market forces. Millers are able to recoup some of their cane procurement costs by selling into Pakistan's inflated domestic sugar market where prices are shielded from lower-priced imports by a 40 percent tariff. However, because indicative sugar cane prices are so attractive for farmers, cane production in recent years has tended to exceed the needs of the domestic market, resulting in a high-priced exportable surplus that, more often than not, requires a subsidy to be competitive on international markets.

Sugar in Pakistan's domestic market is currently trading at \$487 per metric ton, nearly \$100 above reported international prices. Preliminary export data suggests that foreign buyers are purchasing Pakistani sugar with exports of 260,000 metric tons from September to November (most of it in November). According to trade sources, Sri Lanka, Bangladesh, and certain African countries are the major buyers thus far.

Export Quotas and Subsidies Not New

As long as global sugar prices remain below domestic prices in Pakistan, export quotas and subsidies are expected to be a feature of Pakistani sugar policy. Officials have implemented subsidies during all but one (2016/17) marketing year since 2012/13, but the current quota of 2.0 million tons is by far the largest. As long as sugarcane remains an attractive option for farmers with a nominally guaranteed price, barring a significant increase in international prices, Pakistan is likely to continue this annual cycle of excess cane and sugar production followed by subsidized exports.