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Sugar

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Report Highlights:

Pakistan's MY 2006/07 sugar production is forecast to increase to 3.02 million metric tons as a result of increased productivity and an increase in sugar cane acreage due to high market prices in the previous season. The nation's annual consumption requirement is 3.95 million metric tons, and the gap will be bridged through increased imports of bulk sugar.

Experiments on sugar beet were carried out in Punjab and Sindh provinces to increase sugar production in the context of decreasing water available for water-intensive crops. Initial results have been encouraging.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

Sugarcane production for the past two years has fallen short of target, resulting in Pakistan becoming a net importer of sugar. While the country is recovering from a prolonged drought, water availability does not yet favor crops that consume high amounts of water. A continued shortfall in water supply is expected to play an important role in altering cropping patterns significantly. As water becomes scarce, farmers will shift production away from water-intensive crops such as sugar cane and move to rice and other crops. The Ministry of Food, Agriculture and Livestock has been working with the provincial governments of Punjab and Sindh on exploring the feasibility of supplementing production with sugar beets. Early results are promising.

In MY 2006/07 the area planted in sugarcane is forecast to increase slightly due to better market price during the previous season, but domestic demand will not be covered by the increase in production, and the government will again turn to imports to maintain sugar prices at an acceptable level for consumers.

SUGARCANE

Production

The Government of Pakistan (GOP) encourages cane production via a market support price announced prior to planting. The support price, through well above the world price, is set below the local domestic price. As a result the government generally does not procure cane. Provincial governments in 2005/2006 increased the official cane purchase price for 40 Kilograms to Rs. 45 for Punjab province and Rs.48 for Sindh and NWFP. Sindh government later revised this price to Rs. 60 while Punjab and N.W.F.P to Rs.58 per 40 kg. However, during the entire season the price issue remained a volatile issue between the growers and millers. The growers refused to sell the cane at the official price and millers in some areas of Punjab and Sindh delayed the start of crushing season. The market prices in different sugarcane areas ranged from Rs. 60 to RS. 90 but the average market price during the season was Rs. 74 for Sindh and Rs.63. for Punjab and N.W.F.P. Post predicts sugar mills will increase the purchase price of cane next season and also enhance field extension activities to encourage putting additional areas under sugarcane cultivation in the years to come.

MY 2005/06 sugarcane production is estimated at 41.2 MMT, a decrease of 13% from last year. Decreases were observed in both area planted and production levels. Frost in December and January in Punjab adversely affected the crop and lowered final yield. A 7% reduction in area planted was noted as compared to last year. Cane growers shifted to other crops due to decreased availability of water, improved profit margins of alternate crops, increased cost of production inputs and delayed payments by crushers to the farmers. Reduced cane production resulted in higher sugar prices that precipitated a sugar crisis in the country, and required an import of 0.85 MMT to satisfy consumption requirements.

MY 2006/07 sugarcane production is forecast at 51.00 million metric tons (MMT), an increase of 23% over the previous year due to an expected increase in area and yield as a result of better prices. Due to a sugar shortage in the country growers were able to manipulate the market to some extent and get better prices for their produce. This along with better management practices will determine the ultimate size of the crop for MY 2006/07.

Table 1: Sugarcane Area and Production by Province

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2004/05	MY 2005/06	MY 2006/07	MY 2004/05	MY 2005/06	MY 2006/07
Punjab	645.00	615.00	670.00	33,048	28,493	33,500
Sindh	215.00	183.00	230.00	9,357	8,536	11,960
NWFP	106.00	102.00	105.00	4,816	4,196	5,040
Baluch	0.4	0.0	0.00	22.5	0.0	0.0
Total	966.4	900.0	1005.0	47,243.5	41,225	51,000

Source: Ministry of Food, Agriculture and Livestock & FAS / Islamabad

Production Policy

The Federal government generally does not procure cane, but authorizes the provincial governments to fix respective cane price in-consultation with the representatives of the sugar industry and farmer organizations.

During MY 2005/06 cane prices per 40 kg. were increased to Rs. 45 for Punjab province and Rs.48 for Sindh and NWFP. The Sindh government later revised their estimates upward to Rs. 60 and Punjab and NWFP raised their price to Rs.58 per 40 kg. There was a wide fluctuation in the prevailing market price, while the average market price during the season was Rs. 74 for Sindh and Rs.63 for Punjab and NWFP. The provincial governments and mill authorities will increase the prices of cane to encourage farmers to increase area under cultivation.

SUGAR

Production

MY 2005/06 refined sugar production is estimated to decrease to 2.715 million metric tons (raw value) mainly due to a decrease in sugar cane area and decline in productivity due to frost in the late season.

MY 2006/07 refined sugar production is forecast to be 3.02 MMT due primarily to an expected increase in both area and production of sugar cane. As the country's requirement is 3.95 MMT, the domestic demand will be met by relying on imports.

In recent years MINFAL, in association with governments of Punjab and Sindh provinces, has conducted experiments on the cultivation of sugar beet. Generated data encourages results as sugar beet; a short duration (4-5 month) crop requiring 5-6 irrigations, yielded 30 percent more sugar than sugarcane, which required 22 irrigations to achieve crop maturity in 12-18 months. Beets have a higher sugar recovery percentage than cane, and the commercial

transformation of the sugar mills requires minimal additional equipment such as diffuser and slicer for beet crushing. This would extend the crushing season and provide more sugar from less water.

Table 2. Refined Sugar Production, Supply and Demand

Commodity	Centrifugal Sugar		(1000 MT)			
	2005 USDA	Revised Estimate 10/2004	2006 USDA	Revised Estimate 10/2005	2007 USDA	Post Forecast 10/2006
Market Year Begin						
Beginning Stocks	1030	1030	827	1042	717	807
Beet Sugar Production	15	15	15	15	0	20
Cane Sugar Production	2922	2922	2875	2700	0	3000
TOTAL Sugar Production	2937	2937	2890	2715	0	3020
Raw Imports	250	250	250	250	0	300
Refined Imp. (Raw Val)	575	575	600	600	0	900
TOTAL Imports	825	825	850	850	0	1200
TOTAL SUPPLY	4792	4792	4567	4607	717	5027
Raw Exports	0	0	0	0	0	0
Refined Exp. (Raw Val)	215	0	0	0	0	0
TOTAL EXPORTS	215	0	0	0	0	0
Human Dom. Consumption	3750	3750	3850	3800	0	3950
Other Disappearance	0	0	0	0	0	0
Total Disappearance	3750	3750	3850	3800	0	3950
Ending Stocks	827	1042	717	807	0	1077
TOTAL DISTRIBUTION	4792	4792	4567	4607	0	5027

Consumption

MY 2006/07 sugar consumption is forecast to increase to 3.95 MMT due to the normal population increase. Retail sugar prices will continue to hover around Rs. 40 per kilogram due to the increased cost of imported sugar. The Government of Pakistan would like to keep the retail prices at the minimum possible level by timely management of imports. However, it is broadly understood that sugar prices will continue to impact consumers over the next year due to sugarcane production shortfall.

Trade

MY 2005/06 sugar imports are expected at 0.85 MMT. Mismanagement of import timing and late releases of stock by trading corporation of Pakistan and certain millers during the season had a negative market impact and contributed in the upward price spiral. On average, the price per kg hovered in the range of Rs. 40 whereas prices in the same period of the preceding year were Rs. 26 to Rs. 29 per Kg. MY 2006/07 sugar imports are forecast at 1.2 MMT. Both state-owned Trading Corporation of Pakistan and private traders are expected to participate in sugar imports.

Stocks

MY 2006/07 stocks are forecast at 1.077 MMT given projected supply-demand scenarios and trade expectations.