



Minutes of Consultative Roundtable Meeting

Reforming State-Market Nexus:

A Critical Assessment of Pakistan's Sugar Sector

PRIME organized a consultative roundtable¹ on 20th October 2022 to facilitate a discourse on the sugar sector and solicit views on the draft report from various stakeholders. The event was attended by government dignitaries, members of the Pakistan Sugar Mills Association, farmers, agriculture specialists and economists. There were 7 speakers and 30 individuals from different institutions participated.

1. **Mr. Ali Salman**- Executive Director, PRIME moderated the roundtable and initiated the discussion with a brief introduction.
2. **Mr. Tuaha Adil**- lead author of the report said that:
 - Stakeholders i.e. farmers and millers complain about the distortions in the sector and their inability to earn profits.
 - Excessive government regulations have added complexity to the operation of the sector and hinder efficiency.
 - Trade restrictions have resulted in the inability of the mills to sell their sugar stock and make timely payments to the farmers.
 - Deregulation of the sector in a phased manner can eliminate bottlenecks and promote efficiency in the sector.

¹ PRIME is grateful to Friedrich Naumann Foundation for Freedom, Pakistan for providing support to organize the consultative roundtable.

3. **Mr. Muhammad Amin**- Chief, Agriculture Policy Institute expressed his views as the following:

- The Government of Punjab has taken initiatives for better utilization of the Cess Fund by promoting research and development of infrastructure, which remained unutilized previously. The progress in the rest of provinces is lacking.
- The government does not determine the price of sugarcane rather it provides indicative price to the farmers and millers.
- The government does not fix the retail price of sugar. However, it intervenes to regulate the prices according to the court order when price increase is too high.
- Sugarcane output can be increased by improving cropping patterns and adopting modern farming techniques.

4. **Mr. Rana Iftikhar**- Chairman, Research and Development Board Sugarcane Research Institute, Faisalabad said that:

- It is vital to carry out analytical research to educate the stakeholders i.e. farmers, mills and the government to make better decisions.
- The distribution of farm sizes and family ownership of the cropping area indicate that majority of farm holdings are small and most of the farmers work on small farms.
- The estimated losses in the yield range from 10 percent to 15 percent due to outdated harvesting techniques.
- He informed the audience about prevalent farming methods and suggested ways to improve the quality of crops developed by his organization.
- He informed the audience that his institute has started the cultivation of sugar beet in a phased experimental manner and found a higher recovery of sugar beet as compared to sugarcane.
- He educated that there are ways through which several other crops could be cultivated with the sugarcane crop to ensure the maximum utilization of the cropped land.

5. **Mr. Asim Ghani Usman**- Chairman, Pakistan Sugar Mills Association said that:

- Sugar mills are facing financial problems and moving towards default as the government is lagging to verify the existing stocks of sugar.

- The government has refused to allow the export of sugar and the current surplus stock of sugar will result in the inability of the mills to make payments to the farmers and procure sugarcane for crushing. Resultantly, the produced sugarcane will not be sold and next year farmers will decrease the production and shift to other crops thus resulting in a shortage in the country.
- Mills are blamed for market distortions but in reality, the government policies are responsible for the low performance of the sector.
- The government's effort to regulate prices through price controls does not take into account the cost of mills, the cost of production of sugar varies across mills and regions, and the uniform price setting of sugar deprives mills of due profits.
- The government needs to take into consideration the fact that such policies should be designed that allow mills to prosper and generate decent revenues to enable them to innovate and improve efficiency.

6. **Mr. Aamer Hayat Bhandara**- Director, Hayat Farms provided farmers' perspectives as the following:

- The entire marketing structure of the sugar sector is problematic starting from farmers to the retail market and farmers suffer the most from inefficiencies.
- The government has enacted laws regarding timely payments to the farmers and punishments in case of violation but the implementation of those laws is nonexistent and farmers face delays in the payments.
- The farmers lack access to formal banking channels at a low cost and they have to resort to informal channels thus preventing them from adopting modern farming techniques.
- We need to focus more on water productivity instead of water pricing. The amount of water used to produce certain output in Pakistan needs to be compared with the neighboring countries to evaluate our efficiency. If our water productivity is low, then we need to upgrade our farming methods.
- It is imperative for higher productivity that seeds, fertilizers and pesticides are easily accessible and available to farmers.
- Support price mechanism is crucial to protect farmers under current circumstances where the implementation of laws is lagging.
- Deregulation of the sector without ensuring protection for the farmers will only contribute to more distortions and deterioration of the sector.

Ms. Shaista Gilani- Former Member, Competition Commission of Pakistan (CCP) shared her experience as a regulator of the sector as:

- The objective of the CCP and the government has been the same to promote competition and efficiency but there has been a disconnect between the two on mechanism. CCP has proposed deregulation of the sector and moving away from administrative controls; whereas, the government has always resorted to regulations and price controls to stabilize prices.
- The incentive structure currently in place needs to be evaluated to find the efficacy of the support prices.
- It is imperative to estimate the cost of administrative and regulatory controls and such expenditures could be diverted to productive avenues that support farmers.
- The competition in the sector could only be promoted by reducing the government's footprint in the sector to allow stakeholders to make production decisions based on market dynamics.

The meeting was then opened to guests to express their views and give their opinion on the resolution of problems in the sector through policy actions. The guests appreciated the effort put into the report and expressed the need for such research to educate the public and policymakers about the prevalent market problems. The views presented by guests are

- The sugar sector is highly regulated and there is a need to ease business regulations to create space for businesses to operate. They recommended that PRIME should incorporate a roadmap in the report highlighting steps to deregulate the sector.
- Sugarcane has remained a focus of the sugar sector while sugar beet has emerged as an alternative to produce sugar with better recovery.
- The participants highlighted the externalities caused by sugarcane cultivation in the form of soil degradation and the impact on health from excessive sugar consumption.
- It was agreed by the participants that trade restrictions, though intended to protect domestic farmers and mills, have actually done more damage to the economy and stakeholders than the good. The opening of trade by eliminating export restrictions and allowing the import of raw sugar was considered a cardinal step in bringing efficiency into the sector.
- The participants highlighted the inefficient mechanism adopted by the government to estimate the current stocks and predict future needs, which resulted in the hesitation and reluctance of the government to allow exports of sugar at the time of surplus stock.

Mr. Abdul Wajid Rana- Program Leader, International Food Policy Research Institute (IFPRI) concluded the roundtable by sharing his views on the subject as:

- The first thing we need to understand is that reforms and deregulation imply the segregation of inefficient farmers and mills from efficient ones, which will promote competition and closure of inefficient farmers and mills.
- The cost of production of sugar ranges from Rs. 49/kg to Rs. 68/kg which shows that there are some inefficient mills with outdated technology which should have gone out of business.
- If we look at the 45 years trend analysis of sugarcane cultivation, the cultivation area has almost doubled from 700,000 hectares to around 1.4 million hectares, which implies that we are substituting other crops with sugarcane. It is important to analyze the economic return of sugarcane crop in comparison to other crops keeping in view water availability and water productivity.
- Historically, international prices of sugar have remained lower than domestic prices. In 2011 mills asked the government to purchase surplus sugar that government did but later when international prices soared, then mills sold the government purchased stock and made money but the industry never talks about that.
- Another important fact to consider is how vertical and horizontal integration of the sugar industry is impacting the price mechanism. Politically influential, who are the farmers, millers and have a distribution channel, support increase in indicative prices to jack up the cost of production and are the actual beneficiaries.
- No one in Pakistan computes the cost of environmental externalities of producing sugarcane in Pakistan. The cost of production of sugarcane according to Punjab Government is around Rs. 117,000 per acre whereas the cost of environmental externality from greenhouse gases, use of synthetic fertilizer and fossil fuel consumption is around Rs. 20,000 per acre. These pollutants mixed in water causes soil degradation and decrease the yield by 10 percent.
- There is also a need to assess the release of effluent from the mills. The annual release of effluent per mill is around 795,000 cubic meters and 89 mills operating in the country will result in significant environmental degradation in the country. The environmental degradation is caused by the sugar industry but the cost is paid by the public.

- Therefore, it is important to assess the need of cultivating sugarcane in the country keeping in view the impact of climate change and Pakistan being among the most vulnerable countries in the world.
- The regime of subsidy and protection for the farmer and the industry needs evaluation. We are paying subsidies on agricultural inputs, fertilizers and implicit subsidy on water because water pricing in the provinces is only 40 percent of the total cost of maintenance of infrastructure.
- Keeping all these things in mind, we need to decide whether are we better off producing sugarcane in the country or importing it from other countries.

Minutes prepared by: Tuaha Adil (tuaha@primeinstitute.org)

Released on: 16th November 2022

List of Participants

Sr. no.	Name	Institution/ Organization
1	Mr. Abdul Wajid Rana	International Food Policy Research Institute (IFPRI)
2	Mr. Muhammad Amin	Agriculture Policy Institute, Government of Pakistan
3	Ms. Shaista Gilani	Competition Commission of Pakistan (CCP)
4	Ms. Aamer Hayat Bhandara	Hayat Farms
5	Mr. Rana Iftikhar Muhammad	Research and Development Board Sugarcane, Faisalabad
6	Dr. M. Azeem Khan	National Agricultural Research Centre (NARC)
7	Dr. Sagheer Ahmad	Pakistan Agriculture Research Center (PARC)
8	Malik Khuda Yar	Islamabad Capital Territory Administration
9	Mr. Asim Ghani Usman	Pakistan Sugar Mills Association
10	Mr. Suleman Kanjiani	Pakistan Sugar Mills Association
11	Mr. Waheed	Pakistan Sugar Mills Association
12	Dr. Usman Ahmad	Pakistan Institute of Development Economics
13	Dr. Asif Ahmad	Institute of Food and Nutritional Sciences, PMAS, ARID Agricultural University
14	Dr. Arshad Mahmood Malik	Department of Economics, PMAS-Arid Agriculture University Rawalpindi
15	Prof. Dr. Sher Muhammad	Agricultural Sciences, Allama Iqbal Open University
16	Dr. Najabat Ali	Hamdard Institute of Management Sciences (HIMS)
17	Dr. Mirajul-Haq	International Islamic University Islamabad
18	Mr. Baber Amin	International Islamic University Islamabad
19	Mr. Mueen Batlay	Iqra University / Think Build Scale
20	Mr. Abdul Hadi	Reforms Council, Sialkot
21	Syed Javed Hassan	Economic Advisory Group
22	Mr. Sohail Sarfraz	Business Recorder
23	Ms. Aniq Arshad	Friedrich Naumann Foundation for Freedom, Pakistan
24	Ms. Birgit Lamm	Friedrich Naumann Foundation for Freedom, Pakistan
25	Ms. Aimen Zulfiqar	Sustainable Development Policy Institute (SDPI)
26	Mr. Ali Salman	Policy Research Institute of Market Economy (PRIME)
27	Mr. Tuaha Adil	Policy Research Institute of Market Economy (PRIME)
28	Ms. Sarah Javaid	Policy Research Institute of Market Economy (PRIME)
29	Ms. Maria Anum	University of Karachi
30	Mr. Muhammad Saad	Policy Research Institute of Market Economy (PRIME)