

**Press Release**

**PRIME: Price control and export restrictions in sugar market should be lifted**

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PRIME’s new report, “Reforming State-Market Nexus in Pakistan’s Sugar Sector: Analysis, Recommendations and Roadmap” has recommended that current restrictions on price control and export of sugar should be lifted to provide incentives to both farmers and industry. The report evaluates the performance of the sugar sector in Pakistan by analyzing the trends in key indicators, government policies and trade potential. The report provides a roadmap to carry out reforms for better performance of the sector.

The report highlights that every aspect of the sugar sector supply chain: cultivation, pricing of sugarcane, crushing of sugarcane, retail price of sugar and trade of sugar is directly or indirectly influenced by the government. The government has implemented administrative controls to keep prices stable, but sugar is sold at different prices in the market thus making the government initiative futile. Whereas, the Competition Commission of Pakistan has been recommending the government not use price controls and deregulate the sector.

The report notes that the government controls the trade of sugar. The restriction on the export of sugar at the time of surplus makes it difficult for the mills to sell the stock and make payments to the farmers. Thus, the entire sector experiences inefficiencies and losses. Currently, sugar mills have a surplus stock of around 1.3 million tons of sugar which could be easily exported to earn $1 billion without having any impact on domestic supply because new crop is ready. Unfortunately, the government has refused to allow the export of sugar, and therefore, mills have refused to purchase sugarcane from farmers and start crushing. If the problem persists, then there is going to be a shortage of sugar next year and delay in sowing of Sugarcane for next season.

PRIME recommends reducing the footprint of the government in the sector, rescinding antiquated regulations which are creating distortions and opening the trade, especially the export of sugar throughout the year. The government should link the pricing of sugarcane with the sucrose recovery to encourage farmers to improve the quality of crop, eliminate the requirement of approval for the establishment and expansion of mills, move away from price controls and let supply-demand of sugar to determine the price for stability in the market.

The report analyzes the sugar market for a period of 10 years from 2011 to 2021. The report notes that the sugar industry comprises 6 percent of the manufacturing sector and 13 percent of the crop economy. The sugar sector provides direct employment to 1 million people and has a market size of Rs. 501 billion as of 2021.

The report mentions that the government has continuously increased the support price on sugarcane from Rs. 126/40kg in 2011 to Rs.300/40kg in 2022 to incentivize farmers to increase sugarcane production. The sugarcane cropped area as a percentage of the total cultivated area increased from 4 percent in 2011 to 5 percent in 2021. Moreover, since 2011, sugar production in the country has shown a cumulative growth of 36 percent compared to a 42 percent growth in the demand for sugar. The sugarcane yield in Pakistan increased from 56 tons/hectare in 2011 to 70 tons/hectare and sucrose recovery is around 10 percent.

The report mentions that one of the factors that hinders the improvement in the farming mechanism is the lack of access to low-cost formal capital for the farmers. The complete roadmap for the overhaul of the sugar sector is as follows

1. The incentive structure should be re-designed for competitive returns, which is linked to the quality of the crop to encourage farmers to improve the quality of crop and earn higher incomes.
2. The retail price of sugar should also be determined by the market forces depending upon the supply and demand of the commodity.
3. The government should ensure the implementation of laws and sugar mills should be forced to make timely payments to the cane growers without any deductions.
4. The export of sugar should be allowed throughout the year to prompt cane growers and mills to not only focus on domestic demand but to increase their production for meeting international demand.
5. The productivity and yield of the crop could be enhanced by ensuring access to capital for farmers to minimize their dependence on informal market and sugar mills.
6. The requirement of licensing for the expansion of mills should be removed to increase the manufacturing capacity of mills and encourage competition.
7. The government should also devise a mechanism for accurate and timely collection of data for better monitoring of available stocks and better policy formulation.
8. The government needs to ensure the continuity of policies and remove uncertainty created by policy changes through frequent SROs.
9. The import of raw sugar should be opened on a permanent basis by lowering the tariffs and taxes to ensure the availability of sugar in the country and price stability.
10. In case of significant shortages and/or maintain a check on tendency of cartelization, the government should allow commercial import of refined sugar.

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