SECTORAL ANALYSIS OF SUGAR INDUSTRY WITH SPECIAL REFERENCE TO PRICE HIKE

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ABSTRACT

Pakistan is the fifth largest in terms of area under cultivation of the sugar cane crop, 15th in terms of production and 60th in yield worldwide. Currently 81 sugar mills are operating in various parts of the country to cater to the needs of people. Sugar apparently is also the second most important cash crop in Pakistan after cotton. Despite having this self sufficient production, Pakistan has to import sugar, which exposes it to the effects of shortage and rising prices in the world.

This paper discusses in detail the factors responsible for the shortfall of sugar in the market, ranging from political interference, unscientific agricultural practices to the absence of proper policy have hindered the growth of this sector on modern lines. Similarly, Absence of research and development, credit shortage, late crushing and the negative role played by Pakistan Sugar Mills Association has further aggravated the problem. In due course of time the total area under cane production has decreased due to some other issues like monopolistic attitude of the mill owners, water shortage, behavior of the mills' management, late payments, increased input cost, and diseases and rodent attack. This research paper has also thrown light on various policy measures to overcome this perennial crisis in future.

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INTRODUCTION

Pakistan is an agricultural country, and agriculture is the backbone of economy. Sugar sector constitutes 4.2 per cent of manufacturing. Pakistan is one of the main producers of sugar worldwide. At the time of independence in 1947, there were only two sugar factories in Pakistan. The output of these factories was not sufficient for meeting the domestic requirements. The deficit was met through import of sugar from abroad and huge foreign exchange was spent on this item. Need was felt to increase the production of sugar. Keeping in view the importance of sugar industry, the Government setup a commission in 1957 to frame a scheme for the development of sugar industry. In this way the first mill was established at Tando Muhammad Khan in Sindh province in the year 1961. Currently there are 81 sugar mills operating in Pakistan. Allauddin Masood, "Impact of sugar crisis, how the game was played". *Dawn* 24 August 2009.

Currently Pakistan is the 5th largest country in the world in terms of area under sugar cane cultivation, 15th by production and 60th in yield. Sugar cane is the primary raw material for production of sugar. After Textiles, sugar industry in Pakistan is the largest agro based industry comprising 81 sugar mills with annual crushing capacity of over 6.1 million tones. According to Ministry of Industries and Production; total crushing capacity of Sugar mills in about 505,000 tones per day. The average capacity utilization of the sugar mills during the last five years remained 70 to 74%. Allauddin Masood, "Impact of sugar crisis, how the game was played". *Dawn* 24 August 2009.

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According to Food and Agriculture Organization of The United Nations, sugarcane is grown over a million hectares and provides raw material for Pakistan's sugar mills. Its share in value added of agriculture and GDP are 3.4 percent and 0.7 percent, respectively. Although, Pakistan happens to be the world 5th largest grower of sugarcane yet it has the lower yield in the world. The average sugar cane yield remained between 40-45 tons per hectare which is considerably less than those obtained in many other countries. Average yield of sugarcane in the world is around: 65 metric tons per hectare and Asia 65.4 while China 77.1, India70.6, Pakistan 46.0, Philippines 92.6, Thailand 92.6, Australia 75.5 and Egypt 105 tons per hectare. The sugar recovery is 8.5% against obtained recovery of 10.5%. Board of Investment, "An Introduction to Pakistan's Sugar Industry 2008", Govt. of Pakistan, Production and Yield of Sugarcane, Economic Survey of Pakistan 2008-09.

It is an important source of income and employment for the farming community throughout the year The sugar industry employed over 75000 people, including management experts, technologists, engineers, financial experts, skilled , semiskilled and unskilled workers. It is the matter of great concern that despite having a strong industrial and agriculture base, the sugar industry is forced to operate below 70% of its capacity There is a gaping wedge of over 10,000 MT/day between the demand and supply of sugar, which is the basic cause of recent sugar crisis.

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AGRONOMY

Sugarcane is an important crop of Pakistan. It is grown to meet the requirements of sugar and other products in the country. It also forms essential item for industries like sugar, chip board, paper, barrages, confectionery, and uses in chemicals, plastics, paints, synthetics, fiber, insecticides and detergents. The average sugarcane production in Pakistan is low as compared to other countries. On average sugarcane production in Pakistan is 45-50 tons/ha. Dr. ALAM et.al., "sugarcane cultivation" *Pakistan and gulf Economist*,(September2001), http://www.pakistaneconomist.com/issue2001/issue10/cover2.htm (accessed 13 march 2011).while yield of sugarcane on average in the world is 60 tons/ha. Recovery of sugar about 9% in Pakistan which is also low as compared with the 12-14% standard recovery of other major sugar producing countries. Main problems of sugar agronomy are:

- Retardation of sugarcane growth— a loss to growers, and
- Low recovery — a loss to sugar mills.

Reasons for low yield:

i) Unscientific/unsystematic agriculture practices.

a. Improper preparation of land

b. Conventional planting methods

c. Late planting

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d. Moisture stress at critical stages of crop growth

e. Poor management of rotation crop

f. Early and late harvesting

(ii) Environmental resistance

(iii) Low soil fertility

(iv) Defective varieties

(v) Pests, disease and weeds

(vi) Credit shortage

(vii) Rapid/Unplanned increase in sugarcane acreage in unsuitable areas of Pakistan.

Reasons of Low sugar recovery

a. Lack of improved early and late maturing varieties
b. Short duration of sugarcane crop life
c. Prolonged duration of sugarcane crop life
d. Unhealthy crop
e. Over capacity operation of factories
f. Lack of facilities for training of staff.

Some other factors are involved in aggravating the situation. These factors are directly affecting the role of farmers.

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a) Processing

b) Zoning

Processing

As far as the processing of sugarcane is concerned the farmers cannot process it in the fields or at their own at farm level. It is the prime duty of farmers to provide the needed quantity of sugarcane to the respective Mill owner. It creates the monopoly of Mill owner.

Zoning

Zoning is the concept which says that a farmer of specific zone cannot sell its sugarcane to other Mill. Every Mill has allocated a specific zone and the farmer of that zone cannot sell his sugarcane to somebody else. It again is a tendency towards monopoly. Adeel Malik, "Sugar and Political Power III". *News,* 5 September 2009.

Late Crushing Season

Time of crushing sugarcane is inherently economical. The mill owners usually try to delay the crushing of sugarcane. There are many reasons why the mill owners manipulate the situation in such a way. It reduce water content in the sugarcane which affects its weight and hence reduction in price. The other reason is that the farmers tend to operate a rotating crop pattern. Delays in crushing season pressurize the farmers to get rid of sugarcane as early as possible so that they can switch to the next crop (often Wheat). This leads to desperate panic selling and hence reduces the price of sugarcane.

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Late payment by Mill owners

Mill owners usually delay payments to the farmers. This tendency discourages sugarcane grower from growing sugarcane. It is estimated that the Mills owe nearly 25 billion rupees to the farmers. Adeel Malik, "Sugar and Political Power III". *News,* 5 September 2009.

Transportation of Sugarcane to Mills

According to the Sugarcane Act 1935, it is the duty of mill owners to fetch sugarcane from their respective zones or farms but the process is entirely different from this. The farmers carry sugarcane assembles in front of mill and wait for their turn of unloading sugarcane.

These tendencies discourage the farmers to opt for water intensive crop. Gradually they are moving away from the farming of sugarcane to other crops which are beneficial in every respect from low water consumption to early payment. As a result cultivation of sugarcane is retarding each season.

Industry

At the time of independence in 1947, there were only two sugar factories in Pakistan now the number is 84.It is no denying the fact that the role of sugar Mills is very important. They manipulate the situation in such a way that they get the maximum benefit. In the year 2009 everybody in Pakistan spent Rs. 550 more, so that the sugar mill owners benefitted Rs. 80 billion more than the previous year's profit.

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Role of PSMA in crisis

In 2009-10 sugar demand estimated 4.2 million tons and sugar mills were expected to produce 3.5 million tons. Unfortunately Pakistan Sugar Mills Association (PSMA) prohibited Trading Corporation of Pakistan (TCP) from importing the sugar on the plea that sugar mills have the stock of 1.74 million tons. Such acts played demonstrating role in creating sugar crisis in Pakistan by flaring up its retail price above 100/kg. Harron Haider, "Role of Sugar Mills in Sugar Crisis". *News*, 5 September 2009.

The farmers have reportedly blamed the mill owners of not providing adequate payments. Records state that the payments to the growers were delayed for more than eight to ten months. This discouraged farmers from sowing sugar cane and opt for growing wheat instead to avail attractive incentives. Now comes time for manipulations by the mill owners. Not only are the mill owners accused of delaying payments causing a decrease in supply of about 15 to 20 percent as compared to last year. Sana Saleem, "Pakistan sugar crises: A farce?". *News*, 25 August 2009. Due to bad behavior of the mills, sugarcane growers were dishearten last year and cultivation of sugarcane was not good during the crushing season of 2008 -09 which provided the sugar mills vital reason to create the current sugar crisis in the country and pocket billions of rupees consequently. Harron Haider, "Role of Sugar Mills in Sugar Crisis". *News*, 5 September 2009.

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POLITICAL ELITES

Sugar is the second largest Agro-industry in Pakistan. 1980 is the initiating year of sugar crises, when sugar mills were sanctioned through political connections and state owned banks extended money to finance the industry. After nearly 10 years, 1990, those loans were written off. Hence this economic issue was made political. The fact remains there that 50% of the sugar producers in Pakistan are influential politicians from all major parties. Adeel Malik, "sugar and politics". *News*, 5 September 2009.

Majority of the politicians in Pakistan are the owners of sugar mills. Almost every mill Board has a member in National Assembly. So in the policy making process these sugar barons influence the policies through their say in parliament. Sugar requirements are fulfilled by domestic production, import through Trading Corporation of Pakistan and private imports. Mill owners and their representatives always act in planned and organized way to ruin the public interest.

Timely import of sugar might have averted the crises. It is crystal clear fact that the mill owners played important role in delaying the import of sugar. According to a report "Pakistan sugar annual 2009" published by U S department of agriculture, production forecasted 3.56 million metric tons, consumption 4.35 million metric tons and imports 730,000 metric tones. But the import of sugar was cancelled which was a wrong step. Farrukh Saleem, "Sugar daddies". *News*, 30 August 2009. Stoppage of import of sugar plays a decisive role in the creation of crises. Later on sugar was imported on a higher price and such higher priced imported sugar provided a plea to the local suppliers to sell sugar on skyrocketed rates.

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Such things lead the Government to face current problems and still Federal Government finds itself unable to provide the public relief due to the powerful lobby of the sugar mill owners with the power benches of parliament.

GOVERNMENT

About a decade old issue, but Government has failed to adopt measures to tackle this issue. Mismanagement and lack of planning has plunged us into this crisis. Due to prolonged drought and heat stress in 1999-2001, there was decrease in productivity. This acute shortage of water resulted in 65% reduction in productivity. Ali Muhammad et.al., "Causes of sugar crisis" Pakistan.com, http://www.pakissan.com/english/issues/causes.of.sugar.crisis.shtml (accessed 11 march 2011). Although we are facing acute shortage of water, no attention has been paid to the construction of dams.

Government is also involved in exporting sugar at low prices and at the same time importing it at higher prices. There is lack of planning at governmental level that they even could not strike a balance between imports and exports.

Undue intervention of government is also responsible for sugar price hike. Government issues export permits to mills. When mill owners start exporting sugar then it became difficult to cater the needs of sugar at National level. After exporting sugar at relatively low prices, government import it at relatively higher prices in case of shortage. Sugar crisis in Pakistan, http://www.scribd.com/doc/44581257/sugar-crisis in Pakistan

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Government tries to control retail distribution below the market price through utility stores. This results in hoarding and shortage of sugar. Production, consumption and demand plays an important role as production depends on support prices. Government has failed to strike a balance between demand and supply, so ultimate result is sugar price hike. Ali Muhammad et.al., "Causes of sugar crisis" Pakistan.com, http://www.pakissan.com/english/issues/causes.of.sugar.crisis.shtml (accessed 11 march 2011).Then is no coordination between Federal and Provincial government, the reason being is different party government in centre and Punjab. Provincial government has been accusing Federal of late importing sugar. Reporter, "Delayed import caused sugar crisis, LHC told". *Dawn*, (December 2010), http://www.dawn.com/2010/12/01/delayed-import-caused-sugar-crisis-lhc-told.html (accessed 1 march 2011).

Government has failed to maintain a proper price structure, which is one cause of price hike. The price structure is that out of the sale price 35% of cost goes to farmers and 24% to the Government in taxes 21% to millers with 9 and 6% to whole seller and retailers respectively. That's why most of farmers switch from sugar to other profitable crops. Sugar crisis in Pakistan, http://www.scribd.com/doc/44581257/sugar-crisis in Pakistan

The recent havoc caused by floods to our crops is also responsible for shortage of sugar. As we don`t have dams that's why heavy rains causes flood and then destruction. Government failure is evident that it has failed plan proper disaster management and secondly no attention has been given to tap rain water.

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We don't have proper agricultural policy meeting our requirements and is lacking following steps:-

1. Solution to the problems of small farmers.
2. Consumer friendly policy.
3. Productivity enhancement program.
4. Mechanism to eradicate soil erosion.
5. New methods of cultivation.
6. Division of land generation after generation resulting in the creation of small farmers.
7. Control of water logging and salinity.
8. Farmer's education and welfare program.
9. Implementation of policy.

Mohsin Ali, "Agricultural problems in Pakistan and their solutions". SAP-PK blog, (March 2010), http://sappk,wordpress.com/2010/03/08 Agricultural problems in Pakistan-and –their –solution (accessed 3 march 2011).

Finally Trading Corporation of Pakistan is also not playing effective role in catering the sugar crisis. According to many analysts TCP imports sugar at lower prices and then sell it to millers at higher prices resulting in price hike. Actually RCP is busy in making its own profits. NewsBot, "Punjab Government holds TCP responsible for sugar crisis". Ittaleem.com, (September 2009), http://www.ittaleem.com/showthread.php?t=37930 (accessed 3 march 2011).

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PUBLIC

Public in Pakistan is the third major factor involved in sugar crisis. Pakistani people are fond of sugar and it's because of this reason diabetes is common in Pakistan. Consumption trends in Pakistan show that Pakistani nation is obsessed for sugar. The statistics shows that per capita consumption as well as overall calorie intake has been rising. Daily Jang reports "The sweet obsessed Pakistani nation consumes sugar worth Rs 200 billion annually."USDA Pakistan Annual Sugar report states that per capita refined sugar consumption is estimated at 25 kg/person and is based on improved supply and strong demand. Falling behind Pakistan are other countries of the region like India with 14kg /person, China with 11kg/person, Bangladesh with 10kg/person. In last four decades, per capita calorie intake in Pakistan has grown from 1750-2450(kilo) calories with an average annual growth rate of 0.9%.

Sugar consumption has been showing increasing trend for last 15 years. One of the many reasons behind this increase is rise in total population. Per capita consumption data shows that it has also risen from 22.2 kg in 1995 to 25.8 kg in 2004-5. Now it is 27 kg. "Sugar crisis in Pakistan", http://www.scribd.com/doc/44581257/sugar-crisis in Pakistan

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INTERNATIONAL MARKET AND SUGAR CRISIS

Internationally the sugar production in the world declined in the year 2010. Due to bad weather production of sugar retarded in India and Brazil, this directly affected the price of sugar. It is estimated that sugar prices sour up nearly 100% in international market. According to a Britain based broker agency, Czarnikow group, during the season of 2009-10 the production of sugar decreased by 13.5 million tons. Akhtar Farooq, "Farmers, Sugar Cane, Sugar Crisis & Sugar Mill Owners". *Express,* 3 September 2011.

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RECOMMENDATIONS

1. In order to deal with these perennial sugar crisis economic managers in Pakistan especially those looking after the Agriculture sector should evolve a policy in line with the buying power of the people at the gross root level.
2. In order to prevent situation from further aggravation, Ministry of Industries and Production should devise comprehensive short term and long term policy measures, instead of leaving the issue on the market forces. The policy measures includes,

i. Appropriate import timing of raw and white sugar.

ii. Maintaining strategic reserves.

iii. Preventing smuggling of white sugar, integration of domestic market with international market through necessary tariff protection.

iv. Linking of sugarcane price with sucrose content.

v. Declaration of cane purchase receipt as a negotiable instrument.

vi. Research of high yield variety.

vii. Production of sugar cane from sugar beet.

viii. Sucrose testing facilities and monitoring mechanism.

3. Government should ensure incentives for sugarcane growers to grow cane and that they are paid adequately and speedily by mill owners.
4. Consumer education campaign should be launched advocating reduction in the consumption of sugar, which is already highest in the south asia.

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CONCLUSION

After detailed study and scrutinization of the facts and figures regarding sugar price hike and its various dimensions, it can be concluded that sugar crisis is not a resultant of single factor or particular event. Rather this havoc has emerged in Pakistan as a result of multiple causes, factors and reasons. Involvement of various sectors such as:-

- Lack of political will
- Undue Governmental intervention
- Faulty agricultural policy
- Hoarding of sugar
- Role of Public

All of the above causes are pertinent to be mentioned here in context of this crisis. The only way to bridge up this imbalance between consumption and production is to correct the fault lines between above mentioned Problem areas.

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