Consumer Report 004/06
Sugar Crisis (1)
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Industry passing on the buck Sugar coating the bitter facts Milling sugarcane or milling sugar consumers

Pakistan Sugar Mills Association (PSMA) has published advertisements in press counting the factors responsible for the sugar crisis and shifting the blame on government and international market. They have outlined 10 factors and appealed the President of Pakistan to judge the situation.

Similar stand was taken by Federal Minister for Commerce, whose family also owns a sugar mill, in a public forum recently. The minister decided to wear the cap of a mill owner on this occasion rather than that of an elected member of the government.

Following is the point by point rejoinder of the PSMA statement from TheNetwork for Consumer Protection. We are concerned that while the two parties toss the sugar crisis blame at each other like a hot potato, the common consumer continues to suffer. There is an urgent need to settle this blame game and bail the consumer out of this quagmire.

PSMA says that
1: Brazil the world's biggest exporter has started using its sugarcane to produce Ethanol instead of sugar in the wake of rising oil prices. There is a shortage of sugar not just in Pakistan but the entire world.

2: EU the second biggest exporter has withdrawn subsidy to the sector and has ceased to become an exporter.

3: Thailand the third biggest sugar trader has banned export after three years of failed crops.

Rejoinder from TheNetwork for Consumer Protection
How does the shortage of sugar in international market affect prices in Pakistan? Pakistan is not a big importer. Pakistan produces 93.4 percent of its demand domestically. Over the last decade Pakistan imported 2.1 million tons of sugar, of which 1.6 million was imported in just two years when the country faced similar crisis. In contrast Pakistan domestically produced 31.5 million tons of sugar during the same period. Imports have been just 6.5 percent of the total national consumption. In the international market Pakistan is an insignificant trader as Pakistani imports are around half percent of total world sugar exports.
(For details see Table 1 in the pdf attachment, click here to access the pdf document)

If at all the international factors have to have an impact on local market, then why only when the international market is high? Why is there no impact on local market when sugar in international market sells at half our local price?

For example 1999-00 price of sugar in international market was Pak rupees 10.38 per kg and Pakistan imported it at Rs 11.55 per kg. But the price of sugar in local

market remained Rs 22.85!
(For details see Table 2 in the pdf attachment, click here to access the pdf document)

The industry is playing up international factors that have no impact on our production costs. The high international prices have deprived the government of the power to threaten the industry with cheap imports. The no hold barred industry is now using the international prices as a lame excuse to indulge in massive profiteering drive.

PSMA says that
4: India, the world's largest sugar consumer, has drought and production has dropped by 14m tons.

Rejoinder from TheNetwork for Consumer Protection
Despite drop in production India is maintaining domestic sugar prices at below Rs 30 per kg and also importing it to Pakistan. How does the PSMA use the Indian factor to bail itself out?

PSMA says that
5. The government's decision to import cheap surplus sugar from India four years ago caused the sugar prices to crash artificially, as a result of which the mills could not pay higher prices to the sugarcane growers for several years, thereby discouraging overall sugarcane production.

Rejoinder from TheNetwork for Consumer Protection
This is a big lie. The sugarcane available to mills has shown an increase of 66 percent between 1999 and 2004. According to PSMA data all sugar mills crushed 28.98 million tons of sugarcane in 1999 while in 2004 it increased to 43.66 million tons.
(For details see Table 3 in the pdf attachment, click here to access the pdf document)

However, we appreciate the fact that PSMA has for the first time in its history acknowledged that they don't pay the sugarcane grower their due amounts and that there payments are a factor in determining the ups and downs of sugarcane production. The government imported 0.9 million tons of sugar in 2000-01 as production in the previous year had come down from 3.8 million tons in 1998-99 to 2.4 million tons in 1999-00. The shortfall had to be met with imports. And imports of sugar have always been at cheaper than domestic rates. How could this have discouraged the mills to pay the farmers their due amounts?

PSMA says that
6. Foreseeing the present sugar shortage and the price hike in the international market, we had been advising the government on numerous occasions to create a buffer stock for emergencies. Our advice was completely ignored.

Rejoinder from TheNetwork for Consumer Protection
It is up to the government to respond to this and recount those numerous occasions when their good selves have been forwarding nice advices. But we know from the PSMA records that on 30 November 2005 total sugar stocks at all mills and TCP were 451,000 tons. This was double the stock that was reported for the same date in year 2001, 02 and 03. The amount of stock was equal to one and half month need of the entire country. This is the time when sugar production season starts. This means when the sugar production season started there was no shortage of sugar. The price hike has no link to the actual shortage of the commodity. The shortage has been stage managed by the sugar cartel to hike price and plunder the common consumer.

PSMA says that
7. The Government Committee on Sugar failed to start importing sugar while the prices in the international market were approx. US$ 300 per ton. Currently the price stands at around US$ 500 per ton.

Rejoinder from TheNetwork for Consumer Protection
Yes, the government has been lazy in capitalizing over the international market situations. But kudos to PSMA, it has been very efficient in exploiting international market factors. Whatever may be the international price local consumers are paying PSMA USD 670 per ton for its sugar.

PSMA says that
8. The government announced a support price of Rs 45 per 40 kg (Punjab) and Rs 48 per 40 kg (Sindh) for sugarcane. The farmers refused to sell at this price and instead sold sugarcane at Rs 100 per 40 kg, resulting in a higher production cost of sugar.

Rejoinder from TheNetwork for Consumer Protection
This is white lie. The mills are known to exploit farmers and never pay even the approved support prices. The PSMA in para 5 has acknowledged that it has not been paying farmers properly since last many years discouraging sugarcane production.

Farmers do not have many choices while selling their produce. They have to sell it to the nearest mill to avoid transportation charges. Traditionally the mills have been paying the farmers less than the government set prices, how can they be suddenly forced to pay them more than double the approved price is anybody's guess.

There is no independent record of what prices sugar mills pay to farmers. All records are maintained by the sugar mills themselves. Can PSMA be trusted with this data?

The sugar support prices were initially set at Rs 45 per 40 kg in Punjab and Rs 48 in Sindh. These were later revised as Rs 58 and 63 respectively. Pakistan Sugar 2006 report of US Department of Agriculture (Global Agriculture Information Network) says that farmers on average received Rs 63 per 40 kg of sugarcane in Punjab and Rs 74 in Sindh.

PSMA says that
9. Instead of taking prompt measures to bridge the gap between demand and supply, the Committee on Sugar is busy camouflaging its won follies and its complete ignorance of the international market dynamics. It is deliberately allowing leakages in the media to malign the sugar industry and pass the blame of this crisis onto the sugar industry and has instructed numerous government departments to harass the mill owners further aggravating the crisis.

Rejoinder from TheNetwork for Consumer Protection
While the two giants fight over who should be blamed, the common consumers can only watch this horrendous game from the sidelines. But we know from our experience that PSMA's main defense strategy against all misdoings is very simple.
Strategy 1: Save the industry that is on the verge of collapse.
Strategy 2: We are being harassed.

As a foot note, we must get this registered that PSMA is trying to establish that there is a shortage resulting in price hike. No consumer has experienced any shortage. Sugar is available in abundance. Anyone can go out and buy any amount. But at an unfairly high price set by the PSMA.

PSMA says that

10. International prices have skyrocketed to US$ 500 per ton. The industry stocks are limited and cost of production has risen to Rs 40-42 per kg. Who is going to bail us out so that we may be able to clear the growers' dues, pay back the banks and other government taxes?

Rejoinder from TheNetwork for Consumer Protection

The cost of production is based on industry's own calculations. This shows that they are selling sugar at a loss and may be producing sugar only in 'the larger national interest'.

Their questioning of their ability to pay back farmers is actually a veiled threat. If the farmers are not paid back properly this time, the sugarcane production will experience a steep fall, further raising price and deepening the crisis.

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