Not-so-great expectations from sugar imports

BR RESEARCH (August 03, 2010) : If theres one thing that has put to test the patience of consumers, the ECC and the TCP alike, it is the exasperating affairs of the sugar industry. Aggravated by the fiasco of stymied sugar imports, the USC price of sugar was raised to Rs55 per kg. Perhaps this couldve been averted by a timely delivery of imported sugar, but its already too late to lament on that. Sugar stocks with the provinces and the TCP currently stand at roughly 1.1 million tons, which is deemed sufficient for the coming three months, given domestic demand of 350,000 tons of sugar every month. What happens after October is another quandary, largely dependent on timely imports of the commodity, since the next crushing season, according to data from National Fertilizer Development Centre, will begin sometime in late February or early March. However, deliveries of imported sugar (or the lack thereof) have not set a very praiseworthy example in the recent past. Earlier, a tender with Chinese firm Yunnan was cancelled because the firm failed to deliver on time, while a tender with the Dubai-based Sadat Business Group Limited for 50,000 tons of sugar, which had been on the rocks, was also cancelled yesterday for the same reason. Out of the tendered 850,000 tons of this commodity, only 264,000 has arrived so far, and the arrival of the remainder is yet to be happy news for sugar consumers. Reasons cited by the TCP for the delay in arrival of imported sugar include lengthy rules set by the Public Procurement Regulatory Authority (PPRA) that prolong the import process and the lack of funds that causes delays in issuing letters-of-credit (LCs) to exporters. Now that the finance ministry will be providing financial cover to the TCP to import the white gold, and the TCP has asked for a relaxation in the PPRA rules to accept even the 2nd lowest bidder, consumers sit in anticipation as to when the approved 375,000 tons of sugar will be tendered, imported and delivered on time. Rising prices of sugar in the international market pose another intricacy in the scenario as constrained supplies due to shipment delays in Brazil have steered up white sugar futures to $585.70 per ton, up approximately 12 percent over the previous month. Add to this freight charges, and the C&F price is likely to be even higher. If the arrival of imported sugar is not hastened up, it will probably be too late to take advantage of the price differential between local and imported sugar; exporters might not be interested in tendering sugar to Pakistan when they could get a better deal on the global market in the days to come. However, officials in the TCP are unperturbed about the upward trajectory of international sugar prices. "Even if it costs us $700 C&F to import sugar, wed be able to sell it at roughly Rs60 per kg," Chairman TCP Anjum Bashir told BR Research. With freight charges of sugar contractors currently hovering between $100-120, according to the local media, import costs currently stand at the threshold specified by the Chairman. That the C&F price may go up in the near future due to bullish trends in global sugar prices is the worrisome hitch that should not be underplayed. In order to ensure the arrival of the right quantity of sugar at the right time to prevent another price hike of the commodity, the TCP needs to be empowered to qualify bidders on criteria other than the price offered. Incentivising the private sector will also plausibly render the import process more efficient and timely, an option the government should pursue keenly to help ease the pressure.