

# MARKETS



## SUGAR INDUSTRY WEBINAR

### Webinar on Sugar Industry in Pakistan

#### TAKEAWAYS

- *REPEATED SUGAR CRISES RESULT FROM OVER-REGULATION IN SUGAR INDUSTRY*
- *RECENT CRISIS HAS ROOTS IN GOVERNMENT'S SLOW RESPONSE TO TIMELY REMOVE EXPORT QUOTAS*
- *SUPPORT PRICE FOR SUGARCANE IS NOTIONAL*

Why do we have repeated sugar shortages? Is it smuggling? Is it hoarding? Or is it something even deeper? PIDE has stimulated an academic debate by taking a closer look at the recent sugar crisis during a webinar held on 22<sup>nd</sup> 00, 2020. The purpose of the webinar was to assess the economic incentives or disincentives generated from over-regulation of the industry.

The case for regulation of sugarcane industry has been built on the premise that both buyers and sellers need protection from collusive behaviour. Sugarcane is non-storable and non-transportable, so Mandatory Crushing Laws and support prices are used to protect farmers' interests. A Licence Raj has been put in place to protect millers by securing their rights of access to sugarcane in their designated area.



These regulations are creating distortions in the market and increasing inefficiency and welfare loss. First by creating cartelization for millers because of the Licence Raj, second by ensuring that the competitive price mechanism does not work because of support price, and lastly by encouraging overproduction because of mandatory crushing law in the season of surplus sugarcane. Price and supply by structure, are not market determined so there can be surpluses and shortages of the product. Protection to the sugar industry in the form of high import tariff

further weakens the competitive price signals.

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Why such excess was produced in the first place was because the over-regulation of sugar and sugarcane industries does not let the supply and demand mechanism work efficiently.

*The regulations are creating distortions in the market and increasing inefficiency and welfare loss.*

Just as over-regulation of markets is killing the construction industry, the same is clearly being practiced in the sugar industry, and this will undoubtedly have important ramifications for us. It is due to the economic distortions that Pakistan, again and again, undergoes massive periods of subsidization for sugar. The politicization of the sugar industry is also an element to consider, but dysfunctions such as cartelization and sugar shortages have a foundation in too much regulation rather than in the political economy issues themselves.

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