

Close watch on Felda's sugar profits
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What was seen as the Federal Land Development Authority's (Felda) sweet acquisition of the sugar business early this year has turned sour for Malaysians, with the retail price now up by 25 sen to RM1.90 per kg following last week's subsidy reduction.

Felda got into the business with 'Sugar King' Robert Kuok's Perlis Plantations Bhd (now PPB Group Bhd) in the late 1960s.

The parties each own a sugarcane plantation in Perlis and, as equal partners, set up a mill known as Kilang Gula Felda Perlis Sdn Bhd (KGFP) to process their joint output.

gst 110310 charles santiago When Kuok cashed out of the local sugar business for a hefty profit, Felda absorbed the costs, but passed it to consumers, claimed Klang MP and former economics lecturer Charles Santiago (right).

Having acquired PPB Group's sugar assets, said Santiago, "Felda should keep local sugar supply and price steady, and not make profit at the expense of Malaysians".

"We are now in the process of studying how hefty Felda's profit will be (after the subsidy reduction). All feedback is welcome, so that Malaysians do not continue to be fleeced by a GLC like Felda which is not effectively managed."

Last October, Felda's main commercial arm, Felda Global Ventures Holdings Sdn Bhd (Felda Global), had announced a RM1.5 billion deal to buy PPB Group's entire sugar assets in the country.

This involved the sale of PPB Group's fully-owned Prai-based refinery Malayan Sugar Manufacturing Co Bhd (MSM) for RM1.2 billion; the sugarcane farm in Perlis; the 50 percent stake in KGFP; and PPB Group's 20 percent share in Tradewinds (M) Bhd, according to a news bulletin posted on the Felda Holdings website.

syed mokhtar al bukhary Tradewinds, which is linked to tycoon Syed Mokhtar Al-Bukhary (left), controls Central Sugars Refinery Sdn Bhd and Kilang Gula Padang Terap Bhd.

The deal also turned Felda Global into a dominant player in the local industry. Only the four refineries are allowed to import raw sugar.

"It is an arrangement that contributes to the hike in sugar price in Malaysia. While the world market prices have dipped, the government has increased the price by removing part of the subsidy," he said.

"This is a monopolistic situation like Tenaga Nasional Bhd dictating the price of electricity. And, for this reason the government should allow free market forces, so that the price of sugar remains competitive and affordable to Malaysians."

Price control

Raw sugar futures prices had plunged by about 27 percent to below US22 cents per pound in March from US30 cents per pound in early February.

Despite the recent sharp decline, raw sugar prices are trading 70 percent higher compared with around US13 cents per pound a year ago.

It is estimated that Malaysia imports about 1 million tonnes of raw sugar a year, or 90 percent of its total requirement. Refiners source raw sugar through long-term contracts negotiated by the government with suppliers abroad.

"The government has no business in sugar and as long as it continues to limit the number of importers, it contributes to inefficiency and the price of sugar will continue to increase," noted Santiago.

The government sets the price of imported raw sugar. Its argument is that, by subsidising the price, it is able to maintain the domestic retail price in a volatile market.

Previous news reports put the bulk of MSM's raw sugar cost at US17.5 cents per pound until next year, regardless of the price movement in the international market. This arrangement is extended to all sugar refiners in the country.

But the sharp increase in raw sugar prices over the past year has put a strain on the government's budget. Early this year, the ceiling price of local sugar was raised by 20 sen to RM1.65 and now to RM 1.90 per kg.

Even with this, the government has projected that its sugar subsidy bill will reach RM1 billion this year, up from an estimated RM720 million last year.

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