'Foresight by gov't, sugar importers kept prices low'
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Despite the reduction in subsidies and higher sugar prices, Malaysian consumers relatively enjoy low prices, thanks largely to the government and manufacturers having the foresight to lock-in long-term import contracts for raw sugar.

For a country that imports almost all of its raw sugar to be refined into white sugar with consumption at about 1.3 million tonnes annually, this undoubtedly is a marketing feat very much unknown to the public.

With global raw sugar prices continually on the uptrend, Malaysia still remains among countries in Asean that enjoy low retail price for sugar, Tradewinds (M) Bhd Chief Executive Officer, Sugar Division, Tuan Ngah Tuan Baru, said today.

Undoubtedly, higher sugar prices have caused uneasiness among consumers, but it was a misconception to think manufacturers were chalking up windfall profits as a result, he said.

On the contrary, he stressed that manufacturers were not gaining extra profits from this move especially with the continuous increase in raw sugar prices globally over the past few years.

He said the process of locking in at competitive prices earlier on benefited Malaysia as raw sugar prices have been increasing significantly, from US$220 per metric tonne in 2008 to US$440 in 2009 and peaking at US$660 earlier this year.

Tuan Ngah said it was this ability of Malaysian companies to lock in raw sugar imports at low prices over the long term have significantly contributed to Malaysians being able to pay much lower for sugar.

Even with the reduction in subsidies and 25 sen hike in retail price of sugar per kilogramme to RM1.90 now, Malaysian are still paying very much less compared to neighbouring countries such as Singapore, the Philippines and Indonesia where the price is more than RM3 per kilogramme, he said.

“Actually sugar has never been subsidised before by the government, it just started last year because of the sudden surge in price of raw sugar, he said adding that the government had always been cognizant of keeping prices low for such a valuable commodity.

Otherwise, there would have been a big jump in prices of sugar, he said.

Malaysia imports almost all of its raw sugar requirement through four companies via import quotas set by government based on their past sales.

The four include Gula Padang Terap Sdn Bhd and Central Sugar Refinery Sdn Bhd - both owned by Tradewinds, Malayan Sugar Manufacturing Company (MSM) and Kilang Gula Felda Perlis Sdn Bhd.

He said Malaysians paid RM1.45 per kilogramme for sugar last year but if it was not subsidized, the retail price could have been about RM2.05 per kilogramme in 2009 and could shoot to RM2.45 per kilogramme this year.

The government has been providing subsidies in view of the price increase in raw sugar, otherwise the manufacturers will be out of the money, said Tuan Ngah.

Early this year, raw sugar prices in the international market shot to more than US$600 per tonne from US$440 per tonne last year, which could have easily resulted in retail sugar prices surpassing RM3 per kilogramme from the current RM1.95 per kilogramme.

Tuan Ngah said because of the long term forward contracts signed last year as well as the subsidy element, the impact of higher cost of raw sugar has been successfully mitigated.

The government managed to lock in 70 percent of the raw sugar necessity at lower prices for three years from 2009 until end of 2011.

Tradewinds Group Managing Director Bakry Hamzah that said the long term contract was a good mechanism as it ensured that Malaysians still continued to enjoy low sugar prices.

“It has been a very sound mechanism for many years because we get the best buying price (in international markets) and because of that, we kept our prices slightly lower.”

Despite the reduction in subsidy and the government gradually pushing up the price, it is still low compared to Thailand, which produces sugar.

Before 2009, although the retail price of sugar was not subsidised,
companies like Gula Padang Terap, Central Sugar Refinery, Malayan Sugar Manufacturing and Kilang Gula Felda Perlis were able to use this winning formula of low prices, ensuring price stability as well as security of supply to both domestic consumers as well industries especially food manufacturers.

CSR and Gula Padang Terap have an import quota of 45 percent each while the other two have 55 percent, with the latter two being wholly-owned by Felda Holdings Bhd.

Currently, the consumption for sugar in the country is about 1.3 million tones with production capacity to produce refined sugar of up to two million tonnes a year.

On July 16, the government announced a reduction in subsidies for sugar, petrol and liquefied petroleum gas. The retail price for sugar increased by 15.2 percent.

Asked whether sugar manufacturers would enjoy any kind of increment in profits, Bakry said it was still early to say but it will be a notion that sugar refining companies stand to profit significantly from the reduction in subsidies.

The group's corporate advisor, Dr Mohd Noor Ismail, said although they can sell sugar at a slightly higher price now, they still have to account for other capital expenditure such as upgrading machinery, labour cost and cost of production.

– Bernama