



**REPORT OF  
THE COMMISSION OF INQUIRY  
CONSTITUTED BY  
MINISTRY OF INTERIOR  
TO PROBE INTO THE INCREASE IN  
SUGAR PRICES**

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### **Introduction:**

1. The Prime Minister of Pakistan vide; SPM letter No. 755/A/M/SPM/2020 dated 20.02.2020 constituted an Inquiry Committee to probe into the sugar crisis in the country. Based upon the recommendations of the Committee, the Federal Government constituted Inquiry Commission under Pakistan Commission of Inquiry Act, 2017 to probe the issue at length vide Notification No.F.5/14/2020-FIA dated 16<sup>th</sup> March 2020. The Commission comprised of the following members:

i. Mr. Wajid Zia, Director General, FIA	Chairman
ii. Mr. Goher Nafees, DG, Anti-Corruption Punjab	Member
iii. Mr. Ahmad Kamal, DDG IB	Member
iv. Mr. Bilal Rasul, Executive Director, SECP	Member
v. Mr. Majid Hussain Chaudhry, Joint Director, SBP	Member
vi. Dr. Bashirullah Khan Marwat, DG I&I FBR	Member
vii. Col. Muhammad Faisal Gul, ISI	Member

2. The following TORs were assigned to the Commission of Inquiry:
  - a. Whether the production, this year, was low as compared to past years? Was low production the primary reason for increase in prices?
  - b. Was the minimum support price sufficient?
  - c. Did the Mills purchase sugarcane at exorbitantly higher prices than the minimum support price? If yes, then reasons thereof;
  - d. Reasons for mills not purchasing sugarcane, for a limited period of a few weeks, from the farmers and its impact, if any, on sugar prices;
  - e. Basis for determination of Ex-Mill price? Reasons for increase in Ex-Mill price;
  - f. Market manipulation/cartelization by sugar mills, if any;
  - g. Impact of forward contracts on the prices of sugar and whether any malafide is involved;
  - h. Whether margins between Ex-Mill and retail prices increased, compared to previous years, or otherwise. If yes, reasons thereof and potential beneficiaries;
  - i. Impact of tax increase on sugar prices at Ex-Mill/Retail level;
  - j. Hoarding at whole sale/Retail level and within sugar mills vis-a-vis stocks of last year;
  - k. Was export of sugar justified? Any subsidy given on export and its impact, with potential beneficiaries;
  - l. Basis for determination of retail price of sugar;
  - m. Role of various stakeholders, including government institutions and private sector in increase in sugar prices, including timely/preventive/



- pre-emptive remedial measures to control sugar prices and malafide, if any, of any stakeholder; and,
  - n. Verification of the sale of sugar to find out malpractices of hoarding and manipulation of supply to the market to maximize profiteering,
  - o. Physical verification of stocks to find whether there is any excess/shortage of stock as shown in the books and verification of the genuineness of the sales record,
  - p. The Role of Competition Commission of Pakistan in this crisis,
  - q. Benami transactions and profits (approximately) earned during the sugar crisis,
  - r. the Commission shall submit the report to the Prime Minister within 40 days after issuance of this notification,
  - s. Any other issue, deemed appropriate, related to the increase in recent sugar prices;
3. In order to inquire into the sugar crisis as per the TORs, the Inquiry Committee held a series of meetings/briefings with the relevant Federal Government stakeholders such as the Ministry of National Food Security, Ministry of Industries & Production, Ministry of Commerce & Trade, Utility Stores Corporation, Federal Board of Revenue, Agriculture Policy Institute, and others. Record of all the meetings is available for perusal.
  4. Meetings were conducted and the record was also sought from the relevant provincial departments i.e., agriculture, food department, Cane Commissioners, PCSIR etc., through their concerned Chief Secretaries to obtain details about the growth, production, enforcement, reporting mechanism of sugarcane growth and production and sales of sugar. In addition, the Provinces were also asked to provide their input regarding the TORs.
  5. The meetings were also conducted with the PSMA, Representative bodies of farmers from all over the country and the private experts concerned with the sugar sector.
  6. In addition, the Commission also interviewed Mr. Shahid Khaqan Abbasi, Former Prime Minister of Pakistan, Mr. Khurram Dastagir, Former Federal Minister, Mr. Asad Umer, Federal Minister for Planning and Development, Mr. Abdul Razak Dawood, Advisor to Prime Minister on Commerce and Industries, Mr. Shoukat Ali ACS Punjab, Mr. Usman Buzdar, Chief Minister Punjab.
  7. The CEOs/their representatives were also called to discuss the findings of the audit teams.
  8. The Commission of Inquiry selected following ten mills and constituted 09 teams to carryout forensic audit.
    - i. Alliance Sugar Mills, Ghotki
    - ii. JDW 1, 2, & 3 Sugar Mills RY Khan and Ghotki
    - iii. Al-Moiz 1 Sugar Mills DI Khan
    - iv. Al-Moiz 2 Sugar Mills Mianwali
    - v. Al-Arabia Sugar Mills Sargodha
    - vi. Hamza Sugar Mills RY Khan
    - vii. Hunza 1 & Hunza 2 Sugar Mills Faisalabad & Jhang

9. Despite the limited time available to the Commission and the resource constraint, a reasonably large representative sample of total sugar industry in form of above-mentioned sugar mills was selected. These mills produce about 26% of the total sugar production in Pakistan and are located in three provinces of the country. Out of these selected sugar mills, 07 sugar mills are in Punjab, 02 in Sindh and 01 in KPK.
10. Each team comprised of the officers from the following departments:
  - i. Federal Investigation Agency
  - ii. Cyber Crime Wing, FIA
  - iii. Anti-Corruption Establishment, Punjab
  - iv. Securities and Exchange Commission of Pakistan
  - v. State Bank of Pakistan
  - vi. Auditor General of Pakistan, DG Commercial Audit
  - vii. Federal Board of Revenue
  - viii. Intelligence Bureau
  - ix. ISI



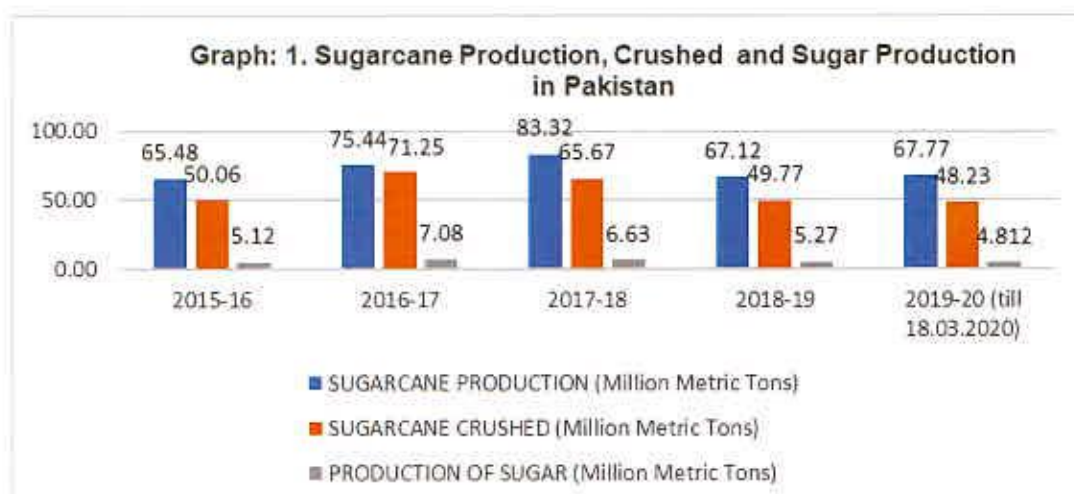
*a. Whether the production this year was low as compared to past year?  
Was low production the primary reason for the increase in price?*

11. The total area under cultivation of sugarcane in the country has slightly decreased by 2.68% as compared to the previous year; however, the production of sugarcane has increased by 1% due to better yield as per figures reported by provinces. Contrarily, the country produced 4.812 Million Metric Tons of sugar during current year (2019-20) as against 5.268 Million Metric Tons of sugar production during previous crushing season showing a decrease of 0.456 Million Metric Tons or 8.66% as per data provided by the Provincial Governments. Year-wise comparison of cultivation area, sugarcane production & crushing and production of sugar during last 5 years is given below;

**Table: 1. Area under cultivation of sugarcane and sugarcane produced in Pakistan**

CRUSHING SEASON	CULTIVATION OF SUGARCANE (000 Acres)	SUGARCANE PRODUCTION (Million Ton)	SUGARCANE CRUSHED (Million Ton)	PRODUCTION OF SUGAR (Million Ton)
2015-16	1743.426	65.482	50.056	5.123
2016-17	1922.439	75.438	71.247	7.080
2017-18	2123.482	83.322	65.669	6.631
2018-19	1756.390	67.123	49.768	5.268
2019-20	1709.403	67.769	48.23	4.812

Source: Data provided by the Provincial Governments & FBR



12. The above graph shows the substantial difference in quantity of sugarcane produced and the sugarcane crushed by the sugar mills throughout the country during last 5 years. Province-wise analyses of the gap in the sugarcane production and crushing for the last 3 years is given in table below;

**Table 2: Area under cultivation of sugarcane and sugarcane produced in Pakistan**

Province	Crushing Season	Sugarcane Production (MMT)	Sugarcane Crushed (MMT)	Difference	
				Quantity (MMT)	Percentage
Punjab	2017-18	55	40	15	27.27%
	2018-19	45	30	15	33.33%
	2019-20	44.13	31.43	12.7	28.78%

KPK	2017-18	7.61	4.514	3.096	40.68%
	2018-19	5.532	3.726	1.806	32.65%
	2019-20	5.624	2.94	2.684	47.72%
Sindh	2017-18	20.61	21.63	-1.014	-4.92%
	2018-19	16.69	15.93	0.76	4.55%
	2019-20	18.01	14.28	3.73	20.71%

Source: Data Provided by the Provincial Governments

13. As can be seen in the above table, the highest difference in percentage terms was in KPK which might be due to the fact that certain amount of sugarcane is crushed for the production of "Gurr" in the province; however, this production of "Gurr" is not verifiable as there is no record of the quantities of "Gurr" produced. There are other consumptions at local level including the sugarcane used as seed but those are minor quantities. The gap of about 30% in Punjab is inexplicable in terms of consumption except that sugarcane is being crushed but is not been shown by the sugar mills. According to evidence collected by the forensic audit teams, sugarcane is also purchased *off-the-books* by the sugar mills and resultantly *off-the-books* sugar is produced and sold in the market. Further, evidences of weight recording below the actual weight and unjustified weight deductions were also collected by forensic audit teams This phenomenon is discussed in detail in TOR (s). These alleged practices are not only a loss to the Government exchequer in terms of GST, but is also not accounted for towards the GDP of the country. It is the responsibility of the Cane Commissioner to ensure that all sugarcane purchased is documented and FBR to ensure that all sugar produced and sold is properly recorded.
14. The area under cultivation of sugarcane, and the quantity of sugarcane produced, started increasing since 2015-2016. The years 2016-2017 and 2017-2018 were peak years and record quantities of sugarcane were produced. Resultantly, quantity of sugar produced was much higher than the national requirement. Moreover, the prices of sugar remained low due to abundant quantity of sugar despite substantial exports. Since, the production of sugar was more than the national requirement, the carryover stocks in the pursuing years were also high. However, the production of sugarcane and sugar substantially decreased during the year 2018-19 and 2019-20 by 20.55% and 19.44% respectively compared to 2017-2018.
15. During the current year, the area of cultivation decreased and the production of sugarcane actually increased marginally as compared to last year. However, actual production of sugar has decreased by 8.66%. The gap between sugarcane produced and sugarcane crushed still remained at 28.83 which points towards the possibility of off-the-book procurement of sugarcane and off-the-book production of Sugar. Further, the perception created by rumors about lesser area of cultivation, low carryover stocks due to continuous exports and less production of sugarcane & sugar did contribute to the increase in purchase prices of sugarcane and ultimately increased cost of production of sugar.



### Findings:

16. This year, the production of sugar is 4.812 MMT; 8.66% lower than the previous year. Keeping in view the claimed carryover stocks of about 0.5 MMT, the quantity of sugar produced would be barely equal to the estimated annual national consumption of more than 5.2 MMT (as per data of national consumption provided by Statistics Bureau of Pakistan).
17. The retail price of sugar increased from Rs. 55.99 per kg in December 2018 to Rs. 74.64 per kg in January 2020. However, the major portion of the increase was between the period December 2018 to June 2019 when it rose from Rs. 55.99 to Rs. 71 per kg. This price hike was well before the production cycle of current year.
18. Less production this year did contribute a little but it is not the only factor of increase in sugar prices. Other factors like market manipulation, hoarding and practice of "Satta" were also responsible for price hike; which shall be discussed in latter parts of this report. The difference between sugarcane produced and crushed is significant. Significant quantity of this gap can be attributed to the off-the-book purchase of sugarcane and resultant off-the-book production of sugar. This factor is amply supported by the evidence gathered during the forensic audit of most of the sugar mills under audit. Although, modus-operandi of sugar mills under audit is different which is discussed in detail in later part of the report, the quantity of sugar, which is produced and sold off-the-book, is neither counted towards the GDP nor any tax is paid on this quantity. The cost of production of this unaccounted-for quantity is, however, counted towards the cost of sugar produced and shown on-the-books. Resultantly the cost of sugar production and the ex-mill price of sugar is shown to be higher than the actual and, therefore, the profit is shown less than the actual. This exaggerated cost of production also lays down the basis for the exaggerated claims of subsidy for export.

### Recommendation:

19. The Government needs to devise a reliable mechanism to ensure accuracy of estimation of cultivation area and sugarcane production.
20. A comprehensive study by the experts needs to be conducted about increasing yield of sugarcane crop, mapping and regulating specific areas for cultivation of sugarcane as per the requirements of country, appropriate and effective support price mechanism.
21. Similarly, a study needs to be conducted to ascertain the differences between the sugarcane produced and the sugarcane crushed. Appropriate measures and checks by the cane commissioners and provincial governments also need to be taken for minimizing this difference and ensuring that no off-the-book production is carried out.

**(b) Was the minimum support price sufficient?**

22. The support price was increased to Rs. 180 per 40 Kg in 2015-2016 and remained the same till the start of the current crushing season. The Provincial Governments of Punjab and KPK announced the enhancement of the support price to Rs. 190 while the Sindh Government increased the support price to Rs. 192. The announcement was made just before the start of the crushing season on 29-10-2019, by Punjab, on 04-12-2019 by KP and on 09-12-2019 by Sindh. A comparison of support prices of all the three sugarcane producing provinces for the last 5 years is given below;

**Table 3: Support price of sugarcane per 40 Kg in Pakistan**

CRUSHING SEASON	Support Price of Sugarcane (Per 40 KG)		
	Punjab	KP	Sindh
2015-16	180	180	172
2016-17	180	180	182
2017-18	180	180	182
2018-19	180	180	182
2019-20	190	190	192

*Source: Data Provided by the Provincial Governments*

23. The support price of sugarcane is fixed by the Provincial Governments to protect the interests of the farmers. Another purpose of increasing the support price is to encourage the farmers to cultivate more sugarcane. As per procedure, the Agricultural Policy Institute (API) uses an elaborate system of calculation of support price and sends its non-binding recommendations to the Provincial Governments. However, as shown in above table, the support price had not been enhanced since 2015-2016 whereas, during current year, the announcement to enhance support price was made at a very late stage in 2019 when the sugarcane harvesting had started instead of upfront enhancement at the start of the crop season.
24. Sugarcane Control Board is established in each province under the Sugar Factories Control Act 1950. These Boards are composed of all the stakeholders, including the representatives of the growers, and decide the support price. According to the reports from the Provincial Governments of Punjab, Sindh and KP, all the stakeholders were taken on board and agreed upon the current support price.
25. As per the responses sent to The Commission by the Provincial Governments, the support price was sufficient which has also been endorsed by the API. However, the representatives of the farmers' associations from all over the country, in the meeting with The Commission did not agree about the sufficiency of support price as they claim that the minimum support price should be Rs. 250 per 40 Kg. They insisted that the cost of real inputs like the



fertilizers, seed, labour etc. have increased substantially since 2015-16 which was not catered for while increasing support price this year as the calculations made by API and Provinces do not reflect the reality on the ground and the estimates are far below the actual cost incurred by the farmers. They also claimed that the Sugarcane Boards do not include the real representatives and instead hand-picked farmers are included.

26. The farmers representative also raised the issue that they did not get the minimum support price for the sugarcane. They claimed that the sugar mills procured the sugarcane below the minimum support price during the previous years and were also applying illegal deductions during the weighing and payment process.
27. During the forensic audit, the Audit Teams have collected ample evidence that the sugarcane was procured by the sugar mills below the minimum support price during the crushing season of 2017-18 and undue deductions were also made. The details are discussed in TOR (s).

#### **Findings:**

28. The API calculated the cost of production of sugarcane at Rs. 139.54 per 40 Kg. for self-cultivated land and Rs. 186.74 for rented land at mill gate for Punjab. For Sindh, this cost was worked out as Rs. 147.59 per 40 Kg. and Rs. 192.63 per 40 Kg. for self-cultivated and rented land at mill gate, respectively. The last increase in the support price was in 2015-2016 when it was fixed at Rs. 180 per 40 Kg and remained the same till the start of the current crushing season where it was increased to Rs. 190/192 per 40 Kg. The Commission has also considered the fact that the support price remained stagnant at Rs. 180 per 40 kg. for four years and was increased only to the extent of Rs. 10 per 40 kg or 5.56%.
29. The current support price does not seem sufficient to cater for the inflation and increase in the prices of other inputs.

#### **Recommendations:**

30. The Commission is of the view that there should be a comprehensive study to ascertain the actual cost of production of sugarcane and the resulting minimum support price by a committee of relevant Government departments, experts from API and representatives of farmers.
31. The cost calculations and assessments should be made every year and agreed support price should be announced well before the start of cultivation season each year.
32. The government should also consider proper calculations to earmark the target area for sugarcane cultivation in line with the requirements of our country. A cycle of less production, like this year, of sugarcane resulting in higher prices followed by excess production resulting in low prices is not good for the price stability of sugar and gives room to speculative activities.
33. Government needs to establish an effective mechanism to ensure that the minimum support price is paid to farmers; without any price or weight deductions. In this regard, the current procedures of monitoring by cane

commissioners and complaints handling needs to be completely revamped as it has become redundant and ineffective.



**c. Did the mills purchase sugarcane at exorbitantly higher prices than the minimum support price? If yes, then reasons thereof:**

34. There are differences in day to day purchase price of sugarcane of every sugar mill during the current season. Some sugar mills have purchased sugarcane at higher price while the purchase price of other sugar mills is comparatively low. The average seasonal purchase price of sugarcane for the whole of Pakistan is Rs. 226 per 40 Kg. The support price was Rs. 190 per 40 Kg in Punjab and KP and Rs. 192 per 40 Kg in Sindh. The sugarcane was purchased at about 19% higher than the support price in whole of the country. The province-wise details of the data are shown in table below.

**Table 4: Seasonal average purchase price per 40 Kg:**

Province	Support Price Rs. per 40 Kg	Seasonal Average Purchase Price Rs. Per 40 Kg	Difference Rs. Per 40 Kg	Percentage Increase
Punjab	190	224.0	34.0	17.89%
KP	190	211.37	21.37	11.25%
Sindh	192	233	43.0	22.40%

*Source: Data Provided by the Provincial Governments*

35. The national average procurement price of sugarcane is Rs. 226 per 40 kg.
36. Speculation of low area of cultivation and low production of sugarcane meant that farmers were expecting prices higher than the support price. During the previous crushing seasons of 2016-2017 & 2017-2018, the production of sugarcane and sugar was much higher than the national requirement but the production of sugarcane has been decreasing since then. There was competition amongst the mills to purchase the sugarcane in this crushing season and due to low availability, as compared with the bumper crop years, the mills were willing to pay higher prices.

**Findings:**

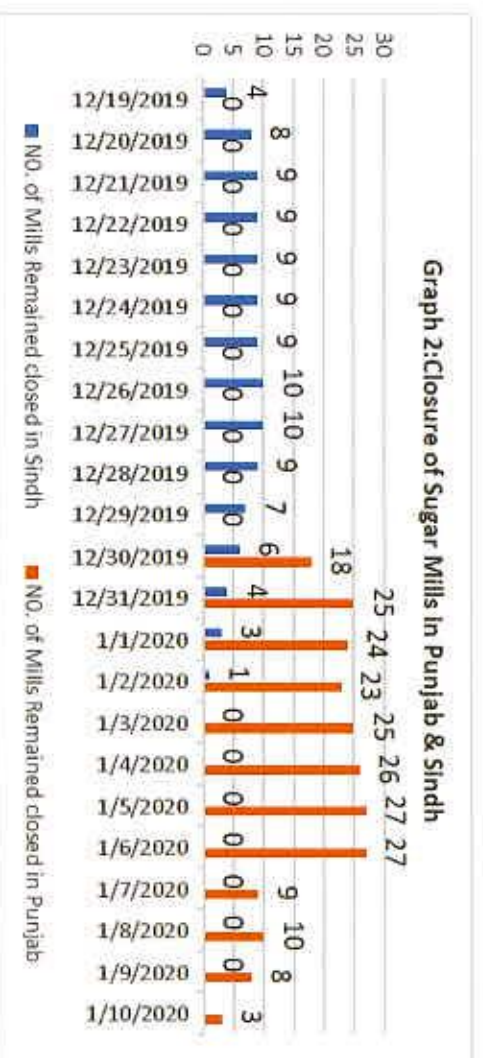
37. National average procurement rate for the sugarcane was Rs. 226 per 40 kg.
38. The actual production of sugarcane increased marginally this year as compared to the previous year. As mentioned earlier 28.83% sugarcane produced did not reach the Mills for crushing. The production of sugarcane was marginally higher than the previous year. Therefore, the reason for the increase in the price of about 19% above the support price can only be attributed to the perception in the market about low production of sugarcane and, therefore, unwillingness of the growers to sell it at the support price.

**Recommendations:**

39. Over-production of sugarcane leads to the procurement below the minimum support price, whereas low production results in higher procurement prices. There is a fine balance that needs to be maintained.

*d. Reasons for mills not purchasing sugarcane, for a limited period of a few weeks, from the farmers and its impact, if any, on sugar prices?*

40. Sugar mills in Sindh started the closure of mills on the call of sugar mills association, citing low cane availability as the reason. They started the closure on 19<sup>th</sup> December 2019 and continued till 1<sup>st</sup> January 2020. While, the stoppage of purchase of sugarcane began in Punjab on 30<sup>th</sup> December 2019. Out of a total number of 39 sugar mills, which are operational in Punjab, the maximum number of 27 participated in the strike on 5<sup>th</sup> and 6<sup>th</sup> of January. The Pakistan Sugar Mills Association (PSMA) was engaged by the Punjab Food Department on 30<sup>th</sup> and 31<sup>st</sup> December and on 2<sup>nd</sup> and 3<sup>rd</sup> January to call off the closure of the mills but in vain. Finally, the Cabinet Committee on Sugar Sector held a meeting with PSMA on 06-01-2020 and it was resolved that the sugar mills shall resume the operations. This meeting had a positive effect, the number of mills closed was reduced but all mills were finally opened on 11<sup>th</sup> January 2020. No sugar mills were closed in KP during the strike period.
41. It is pertinent to mention here that, as per report of Punjab Government, "no provision exists under the current set of laws on sugar sector that can be invoked in case of crushing operation is temporarily stopped by the sugar mills". Same Sugar Factories Control Act of 1950, with few amendments, is also in vogue in Sindh.



Source: Data Provided by the Provincial Governments

42. Reason put forth by the PSMA during the meetings with the Punjab Food Department and the Cabinet Committee on sugar sector for temporary closure of crushing operation was low cane supplies as it was causing increased overhead expenses and losses of sugarcane juice in the mills' system. Sindh Government stated that the reason for mills closure was late harvesting by the farmers. But this doesn't seem plausible as the harvesting season and the crushing season starts early in Sindh and the sugar mills were operational till 19<sup>th</sup> December due to the availability of the sugarcane. Also, only 10 out of 32 sugar mills closed their operations in Sindh this year.



43. The PSMA stated, during the meeting with the Commission, that the sugar mills did not go on strike. The reason for the closure of the mills was the low supply of cane.

**Table 5: Average purchase price of sugarcane before, during and after the strike**

Period of purchase of sugarcane	Average purchase price of sugarcane: Rs. Per 40 Kg	
	Punjab	Sindh
30-11-2019 to 19-12-2019 (before mills closure)	200.73	198.58
20-12-2019 to 01-01-2020 (During mills closure in Sindh only)	200.73	211.36
30-12-2019 to 10-01-2020 (during the mills closure in Punjab only)	203.83	243.29
11-01-2020 to 25-02-2020 (after the mills closure)	229.48	243.29
30-11-2019 to 25-02-2020 (Seasonal Average)	217.90	226.52

*Source: Data Provided by the Provincial Governments*

44. As can be seen in the table, the average purchase price of sugarcane before the closure period of sugar mills in Punjab was Rs. 200.73 per 40 Kg and in Sindh it was Rs.198.58. This price was above the support price which in the past had not been the case. In fact, the farmers had to sell their produce below the support price in the past. This seems to be the major reason for the mill owners to go on strike in a bid to bring down the sugarcane prices as closures puts pressure on the farmers.
45. The sugar mills in Punjab remained closed from 30-12-2019 to 10-01-2020 while in Sindh from 20-12-2019 to 01-01-2020. The average purchase price for sugarcane during this closure period, for the sugar mills that remained operational in Punjab was Rs. 203.83 per 40 Kg and in Sindh Rs.211.36. This indicates clearly that the farmer was not ready to sell the sugarcane at a lower price despite the strike. In fact, the average purchase price for sugarcane after the strike in Punjab increased to Rs.229.48 per 40 Kg and in Sindh it went up to Rs. 243.29. This seems to be the result of intense competition amongst the sugar mills to entice the farmers for sugarcane purchase.
46. According to the report of Government of Punjab, the average ex-mill price on 29-12-2019 was Rs. 68.30 per Kg while it was Rs. 69.58 per Kg on 11-02-2020. Therefore, the impact of temporary closure of cane crushing on sugar price was Rs. 1.28 per Kg in Punjab.

### Findings:

47. The sugar mills ceased operations citing the low availability of sugarcane which is not plausible as sugarcane was available in ample quantities, as the production of sugarcane this year is marginally higher than the previous year, before and after the closure of the mills. Apparently, it was an attempt to bring down the prices of sugarcane. The average procurement price, in the country, of sugarcane is Rs. 226 per 40 kg as compared to the support price 190/192 per 40 kg. The increase is about 19% higher than the support price.

48. The cost of sugarcane is the major component in the cost of production of sugar. Hence, the higher procurement price of sugarcane has resulted in higher cost of production as calculated by the PSMA and the sugar mills. The Commission, however, has worked out the cost of production of sugar in the next TOR(e) which explains fully the actual calculation formulae of cost of production.



*e. Basis for Determination of Ex-Mill Price? Reasons for increase in Ex-Mill Price:*

49. The ex-mill price can be defined as the price of a product at the gate of the mill and does not include any subsequent expenses. Components of ex-mill price are as follows:
- i. Cost of production of sugar only,
  - ii. Margin of the company - which usually covers all other costs (finance, salaries, administrative, selling, depreciation, etc.) and profit; and
  - iii. Sales tax.
50. The margin is determined by the company based on its operating and financial expenses, corporate taxes as well as competition in the market – in anticipation of making enough profit to sustain future operations and dividend payments. Sales tax is prescribed by the tax authority and is beyond the control of the company. The cost of production of sugar includes several expenses that are incurred and recorded by the management according to international principles and best practices of accounting.
51. Upon analysis, the Commission has noted that the subjectivity in calculating the cost of production is a precursor to misreporting and misrepresentation which requires minute scrutiny. Prior to delving into the complete findings, it is appropriate to present an academic view of the components of cost of production.

**Cost of Production- components, recognition, measurement and presentation**

52. The cost of production of sugar has never been accurately calculated by any authority in Pakistan. The Competition Commission of Pakistan (CCP) and the Ministry of Industries & Production have attempted to calculate (rather have validated) the cost of production of sugar of the mills based on figures provided by the PSMA and the sugar mills themselves, which renders the entire exercise futile. Therefore, the Sugar Inquiry Commission has undertaken a full-fledged exercise to lay down a comprehensive template for use by the government authorities for calculation of the cost of production in future (**Annexure 1**).
53. In the analysis of the financial statements and other record obtained from the six sugar companies (10 sugar mills), it was noted that the calculation of the cost of production of sugar is invariably **overstated** by all the mills. The cost, as reported by the mills, includes expenses that have not been incurred for the production of sugar and should not have been included. The accounting standards and principles of the International Financial Reporting Standards (IFRS), that lay down the presentation and requirements with respect to the components of 'cost of goods sold' with respect to the sugar industry, are given in **Annexure 2**. Based on these principles, the following **expense-heads constitute cost of goods sold** of a sugar manufacturing mill having its own power generation facility and agriculture produce:

- i. **Procurement of sugarcane cost** (inclusive of other costs necessary in bringing the material to condition and present location wherein it can be used in production process e.g. transportation, government duties);
  - ii. **Fair value of own agriculture produces** (including other cost necessary in bringing the material to condition and present location);
  - iii. **Chemicals and other consumables cost** (oil lubricants used in the production process for production of main product or joint product or by-product);
  - iv. **Insurance cost** relating to raw material and production facilities;
  - v. **Salaries and related benefits cost** of staff working directly in the production process or related to production process;
  - vi. **Depreciation of production facilities-** only plant and machinery, factory building other capital asset used in production;
  - vii. **Repair and maintenance cost** for maintenance of production facilities;
  - viii. **Energy Cost;**
  - ix. **Packing material cost;**
  - x. **Any written down in cost of inventories and consumable items** held for production process; and
  - xi. **Other petty costs** related to operation of production facilities (e.g. stationary, telephone, petty factory related expenses).
  - xii. ***By-products- Bagasse, mud and molasses, are deducted from the cost of production on a net realizable value basis***
54. Apart from the items stated above, any other cost incurred during the production process related to production activity needs to be evaluated with respect to the principles of cost of inventories in order to be classified as a cost of goods manufactured. The cost of own-produced products used for internal consumption is also determined on the same principles as discussed in ***Annexure II***, in order to calculate the cost of other specific products in production of which that own produced product is used.
55. The PSMA was given the opportunity to present itself before the Commission and respond on the major issues highlighted by the Commission especially the Cost of Production of Sugar which forms an integral part of the Inquiry. The Cost of Production as computed by the Sugar Inquiry Commission which is based on the principles of IFRS (Annexure II) was shared with PSMA along with the template at Annexure I.
56. The PSMA in its reply dated May 13, 2020 expressed its reservations regarding the treatment of Bagasse and exclusion of certain costs. The PSMA considered both of these as irrational but has not given a defined basis of its discontent or any reference to the IFRS in support of their contention.
57. The creation of an arbitrary asset as mentioned by PSMA in its reply is also without any basis, as the determination of NRV takes into consideration the



purpose for which inventory is held, so that inventory should not be carried in excess of amounts expected to be realized from their sale or use. Therefore, question of recognizing arbitrary asset does not arise.

58. Furthermore, considering the immateriality of by-product as compared to main product, NRV basis for adjustment of cost of conversion/cost of production is used, as detailed cost analysis of the by-product outweighs the benefits of doing so.
59. The PSMA also put forward its point of view on the intrinsic costs relating to running a business and that to include cost such as the administrative and other related expenses such as interest / financial, taxes etc. in the determination of cost of production. However, the Commission strictly objects this point on the basis of accounting principles which clearly defines that the intrinsic costs related to running the business are not part of the cost of sales /cost of production and therefore are required to be accounted for and presented separately from cost of sales /cost of production.

#### Major Discrepancies in the calculations of the cost of production of sugar

60. Major discrepancies in the calculations of the cost of production of sugar by the sugar mills that were noted are:

- i) Inclusion of finance costs;
- ii) Inclusion of market committee fee;
- iii) Inclusion of selling expenses;
- iv) Overstating depreciation costs;
- v) Overstating salaries, wages and admin expenses;
- vi) Understating the net realizable value of by-products;
- vii) Inclusion of brokerage and commission; and
- viii) Inclusion of other income.
- ix) Inclusion of GST\*

\*The PSMA has in its calculations included the sales tax in the cost of production and then charged profit on it. This is a deliberate attempt to overstate the calculation of the ex-mill price and charge extra amount of Rs. 1 per kg. (Table 6 below). This is tantamount to taking undue and illegal advantage from consumers, presenting untrue and unfair financials and indulging in manipulation and profiteering.

Table 6: Cost of Production; Tax-Margin discrepancy

Sugar Commission Calculation	R s/Kg	PSMA Calculation	R s/Kg
Cost of Production (A)	40.0	Cost of Production (A)	40.0
Margin (B = A x 10%)	4.0	Sales Tax (B)	10.2
Sales Tax (C)	10.2	Margin C =(A + B)x10%	5.02
Ex-Mill (A + B + C)	54.2	Ex-Mill (A + B + C)	55.22
Margin	10%	Actual Margin	12.55%
		Excess Margin Rs.	1.02

## Comparison of Cost of Production of PSMA with the Calculation by the Commission

### 61. Table 7: Comparison of the cost of production calculated by PSMA and the Commission

Calculation of Cost of Production of Sugar

	Sugar Inquiry Com. Sample (6) Sugar Cos. 2019-2020		PSMA Punjab - Sugar Cos. 2019-2020		Sugar Inquiry Com. Sample (6) Sugar Cos. (190/10%) 2019-2020	
Cane Crushed (Kg)	3,282,717,239	Price	215.21	190.00	3,282,717,239	Price
Sugar production (Kg)	336,289,448	Recovery Ratio	10.24%	10.00%	328,271,724	Recovery Ratio
Quantity of Molasses as by-product (Kg)	143,663,524	Molasses Ratio	4.38%	4.25%	143,663,524	Molasses Ratio
Quantity of Bagasse as by-product (Kg)	943,886,819	Bagasse Ratio	28.75%	N/A	943,886,819	Bagasse Ratio
Quantity of Mud as by-product (Kg)	96,476,766	Mud ratio	2.94%	3.00%	96,476,766	Mud ratio
Sale Price of Molasses (Rs./Kg)	15.00				15.00	
Sale Price of Bagasse (Rs./Kg)	4.00				4.00	
Sale Price of Mud (Rs./Kg)	1.00				1.00	
Cost of sugarcane	Cost (Rs.)	Rs./Kg	Cost (Rs.)	Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	17,661,835,734	52.52	1,040,000,000	47.50	15,592,906,884	47.50
Roadways	83,530,355	0.25	24,000,000	0.38	83,530,355	0.25
Sugar cane handling, freight & development expenses	20,187,580	0.06	32,000,000	0.50	20,187,580	0.06
Market Committee Fee	-	-	6,400,000	0.23	-	-
	17,765,553,669	52.83	1,102,400,000	48.48	15,606,604,819	47.82
Conversion Cost - Fixed						
Depreciation (SUGAR MILL & BUILDING)	619,547,416	1.84	242,628,835	3.79	619,547,416	1.89
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	1,375,253,794	4.09	162,556,981	2.54	1,375,253,796	4.19
Repair & maintenance (SUGAR MILL & BUILDING)	120,462,166	0.38	71,038,904	1.11	120,462,166	0.37
Stores and spares (PRODUCTION PROCESS)	379,657,983	1.13	30,871,313	0.48	379,657,983	1.16
Other expenses (ONLY PRODUCTION RELATED)	201,628,683	0.60	23,459,261	0.37	201,628,683	0.61
	2,606,548,044	8.02	336,554,294	8.29	2,606,548,046	8.23
Conversion Cost - Variable						
Padding material (SUGAR PRODUCTION)	168,488,088	0.50	36,512,985	0.57	168,488,088	0.51
Chemicals (SUGAR PRODUCTION)	119,975,044	0.36	26,227,270	0.32	119,975,044	0.37
Oil and lubricants (SUGAR PRODUCTION)	66,123,423	0.20	7,743,836	0.12	66,123,423	0.20
	354,586,554	1.05	64,484,091	1.01	354,586,556	1.08
Direct Costs of Electricity used for Production of Sugar						
Cost of Steam						
Electricity (TOTAL UNITS CONSUMED x Kw/h Rate)	796,751,062	2.38	-	-	796,751,062	2.43
	796,751,062	2.38	-	-	796,751,062	2.43
Others						
Insurance expenses (SUGAR PRODUCTION)	26,680,871	0.08	-	-	26,680,871	0.08
Brokerage & commission	-	-	-	-	-	-
Other expenses	-	-	4,138,248	0.06	-	-
Other income	-	-	(14,116,730)	(0.22)	-	-
	26,680,871	0.08	(9,958,482)	(0.16)	26,680,871	0.08
TOTAL DIRECT COST OF SUGAR PRODUCED	21,442,099,404	11.53	3,607,479,843	9.14	19,573,170,543	11.81
Revenue From By-Products						
Less : Sale of Total Molasses (from crushing of sugarcane this year)	2,154,952,855	6.41	328,400,000	5.10	2,154,952,855	6.54
Sale of Total Bagasse (from crushing of sugarcane this year)	3,775,563,277	11.23	69,745,265	1.09	3,775,563,277	11.50
Stock of Bagasse	-	-	-	-	-	-
Sale of Total Mud (from crushing of sugarcane this year)	87,035,882	0.26	12,096,000	0.19	87,035,882	0.27
	6,017,552,014	17.89	408,241,265	6.38	6,017,552,014	18.33
Allocated Cost on the Basis of Sugar Production						
Financial expenses	-	-	462,210,115	7.22	-	-
Salaries & Wages (Admin expenses)	-	-	186,619,003	3	-	-
Admin expenses	-	-	648,849,118	10.14	-	-
	-	-	1,297,678,236	20.36	-	-
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	15,634,547,390	46.46	3,928,067,696	62.38	13,555,618,549	41.29
ADD: MARGIN @ 15%	6.97		9.21		6.19	
ADD: SALES TAX	16.20		16.20		16.20	
EX - MILL PRICE	63.63		80.79		57.69	

Note: the sugar mills sell electricity to the Government at the rate of Rs. 10.40 per unit (KWH) which has been used in these calculations.

62. The difference in the ex-mill price calculated by the PSMA i.e., Rs. 80.78 versus that calculated by the Commission i.e., Rs. 63.13 is quite apparent. Despite the fact that the Commission used a higher cost of sugarcane procured e.g., Rs. 215 per 40 kg., the weighted average of 6 mills (representing the groups of the major producers of sugar in Pakistan – 26%) is significantly lower. In the event the support price rate of sugarcane of Rs. 190 is applied, the cost of production diminishes further to Rs. 57.69 as can be seen in the second comparison. The fundamental difference that occurs is in the incorrect treatment of the value of by-products as well as loading of financial costs by the sugar mills.



63. The working of the weighted average cost of production as calculated by the Commission for the last three years is shown in the tables below.

**Table 8: Cost of production Calculated by the Commission 2019-20**

Weighted Average Cost of Production by the Commission 2019-20				
Sugar Mill	Sugar Production	Weight	Cost of Production	Weighted Factor
JDW	548.22	0.48	45.65	21.99
Hamza	189.48	0.17	47.11	7.84
Hunza	138.41	0.12	52.17	6.34
Alliance	97.07	0.09	49.31	4.21
Al-Moiz	127.69	0.11	50.21	5.63
Al-Arabia	37.18	0.03	63.00	2.06
Total/Weighted Average	1,138.05	1.00		48.08

**Table 9: Cost of production Calculated by the Mills 2019-20**

Weighted Average Cost of Production by Mills 2019-20				
Sugar Mill	Sugar Production	Weight	Cost of Production	Weighted Factor
JDW	548.22	0.48	59.00	28.42
Hamza	189.48	0.17	60.00	9.99
Hunza	138.41	0.12	71.00	8.63
Alliance	97.07	0.09	76.00	6.48
Al-Moiz	127.69	0.11	65.00	7.29
Al-Arabia	37.18	0.03	81.00	2.65
Total/Weighted Average	1,138.05	1.00		63.47

**Table 10: Cost of production Calculated by the Commission 2018-19**

Weighted Average Cost of Production by the Commission 2018-19				
Sugar Mill	Sugar Production	Weight	Cost of Production	Weighted Factor
JDW	640.28	0.46	37.01	16.97
Hamza	231.01	0.17	36.57	6.05
Hunza	123.10	0.09	44.48	3.92
Alliance	127.81	0.09	34.77	3.18
Al-Moiz	205.66	0.15	42.99	6.33
Al-Arabia	68.55	0.05	47.91	2.35
Total/Weighted Average	1,396.39	1.00		38.81

**Table 11: Cost of production Calculated by the Mills 2018-19**

Weighted Average Cost of Production by Mills 2018-19				
Sugar Mill	Sugar Production	Weight	Cost of Production	Weighted Factor
JDW	640.28	0.46	47.00	21.55
Hamza	231.01	0.17	50.00	8.27
Hunza	123.10	0.09	58.00	5.11
Alliance	127.81	0.09	53.00	4.85
Al-Moiz	205.66	0.15	52.00	7.66
Al-Arabia	68.55	0.05	57.00	2.80
Total/Weighted Average	1,396.39	1.00		50.24

**Table 12: Cost of production Calculated by the Commission 2017-18**

Weighted Average Cost of Production by the Commission 2017-18				
Sugar Mill	Sugar Production	Weight	Cost of Production	Weighted Factor
JDW	888.71	0.49	35.14	17.06547295
Hamza	382.50	0.21	35.41	7.401399915
Hunza	144.74	0.08	42.48	3.359878555
Alliance	115.93	0.06	35.87	2.272394435
Al-Moiz	251.83	0.14	37.15	5.112376009
Al-Arabia	46.26	0.03	41.15	1.040236223
Total/Weighted Average	1,829.97	1.00		36.25175809

**Table 13: Cost of production Calculated by the Mills 2017-18**

Weighted Average Cost of Production by Mills 2017-18				
Sugar Mill	Sugar Production	Weight	Cost of Production	Weighted Factor
JDW	888.71	0.49	45.00	21.85397839
Hamza	382.50	0.21	46.00	9.614828067
Hunza	144.74	0.08	58.00	4.587419848
Alliance	115.93	0.06	53.00	3.35760524
Al-Moiz	251.83	0.14	53.00	7.293559648
Al-Arabia	46.26	0.03	52.00	1.314519099
Total/Weighted Average	1,829.96	1.00		48.02191029

64. As can be seen from the above calculations, the cost of production calculated by PSMA is overstated by about 25-30% each year (2017-2018, 2018-2019 & 2019-2020).



### Cost of Production Calculated by the Sugar Mills

65. Since 2017, cost accounts are not prepared and submitted to the SECP as would be explained later in this TOR. In this regard, the Commission has conducted its own assessment of cost of production of the companies. The following is a comparison of the cost of production calculated by the sugar companies and that by the Sugar Inquiry Commission for the years **2017-2018, 2018-2019 and 2019-2020:**

**Table 14: Cost of production Analysis 2017-18**

2017-2018					
Company	Cost of Production Rs. Per Kg.		Difference Rs. Per Kg. (A)	Sugar Production Kg. (B)	Overstated Cost Rs. (C=AxB)
	Sugar Commission	Sugar Cos.			
JDW	35.14	44.64	9.51	888,710,550	8,449,268,680
Hamza	35.41	45.63	10.22	382,495,000	3,907,267,068
Hunza	42.48	57.85	15.37	144,738,750	2,224,678,612
Alliance	35.87	53.04	17.17	115,930,000	1,990,722,089
Al Moiz	37.15	52.53	15.38	251,829,200	3,872,195,464
Al Arabia	41.15	51.55	10.40	46,260,000	481,125,799
Total					20,925,257,713

Note: Detailed calculations of the cost of production for 2017-2018 are at Annexures 1A, 2A, 3A, 4A, 5A and 6A

66. In 2017-18 the difference in the cost of production as calculated by the companies ranges from approximately Rs. 9 to Rs. 17. The advantage gained by the companies by overstating the cost of production runs into Rs. 20.93 billion.

**Table 15: Cost of production Analysis 2018-19**

2018-2019					
Company	Cost of Production Rs per Kg.		Difference Rs. Per Kg. (A)	Sugar Production Kg. (B)	Overstated Cost Rs. (C=AxB)
	Sugar Commission	Sugar Cos.			
JDW	37.01	46.98	9.96	640,277,000	6,380,225,536
Hamza	36.57	49.55	12.98	231,006,000	2,997,909,775
Hunza	44.48	58.39	13.91	123,095,000	1,712,820,801
Alliance *	34.77	52.62	17.84	127,810,000	2,280,409,957
Al Moiz	42.99	52.25	9.26	205,659,500	1,904,380,367
Al Arabia *	47.91	57.41	9.50	68,545,000	651,252,916
Total					15,926,999,351

\*Unaudited accounts; Detailed calculations of the cost of production for 2018-2019 are at Annexures 1B, 2B, 3B, 4B, 5B and 6B

67. In 2018-19 the cost of production calculated by the companies is also inflated, ranging from approximately Rs. 9 to Rs. 17, making way for a windfall of Rs. 15.93 Billion.

**Table 16: Cost of production Analysis 2017-18**

2019-2020					
Company	Cost of Production Rs. Per Kg.		Difference Rs. Per Kg. (A)	Sugar Production Kg. (B)	Overstated Cost Rs. (C=AxB)
	Sugar Commission	Sugar Cos.			
JDW	45.65	58.67	13.02	548,219,000	7,139,837,927
Hamza	47.12	59.65	12.53	189,478,920	2,374,945,941
Hunza	52.17	71.33	19.16	138,405,000	2,651,434,177
Alliance	49.31	65.32	16.01	97,070,000	1,554,156,440
Al Moiz	50.21	65.42	15.21	127,694,500	1,942,054,308
Al Arabia	63.00	81.09	18.10	37,180,000	672,878,951
Total					16,335,307,745

Data as collected from the companies as on March 31, 2020.

Detailed calculations of the cost of production for 2019-2020 are at Annexures 1C, 2C, 3C, 4C, 5C and 6C

68. Similarly, on the basis of information collected from the companies (as audited financial statements are not due) the cost of production calculated by the companies ranges from approximately Rs. 12 to an astounding Rs. 26. The proceeds that accrued to these companies by overstating the cost of production over the last three years is aggregated in the table below:

**Table 17: Overstated Cost of Production**

Company	Overstated Cost of Production Rs.			
	2017-2018	2018-2019	2019-2020	TOTAL
JDW	8,449,268,680	6,380,225,536	7,139,837,927	21,969,332,143
Hamza	3,907,267,068	2,997,909,775	2,374,945,941	9,280,122,785
Hunza	2,224,678,612	1,712,820,801	2,651,434,177	6,588,933,589
Alliance	1,990,722,089	2,280,409,957	1,554,156,440	5,825,288,486
Al Moiz	3,872,195,464	1,904,380,367	1,942,054,308	7,718,630,140
Al Arabia	481,125,799	651,252,916	672,878,951	1,805,257,665
	20,925,257,713	15,926,999,351	16,335,307,745	53,187,564,808

Note:

- Rates of sale value of Molasses, Bagasse and Mud based on Market Rates and PSMA Annual Report 2019;
- Ex-mill prices and Cost of Production based on the information obtained from the Companies; and
- Electricity rate Rs. 10.4075 Kw/h based on Upfront Tariff of CCPA, 2013

69. The above table illustrates the overstating of costs by the companies vis-a-vis the Commission's calculations. It can be seen that the difference between the two calculations are significant and translate directly into more than Rs.53 billion in profits for the companies. Since these profits are hidden in the overstated costs, they are not reported and remain evaded from the tax



authorities. An unreported profit of Rs. 53 billion should have generated about Rs. 18 billion in corporate taxes.

## Other Major Factors influencing Cost of Production

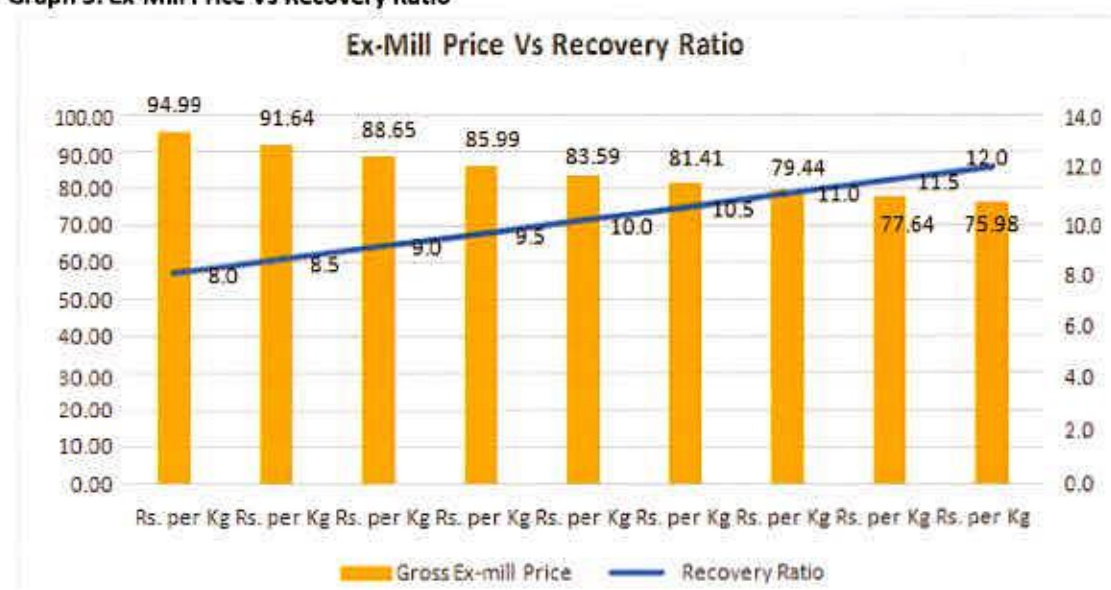
### Procurement of Sugarcane

70. The procurement cost of sugarcane as calculated by the Commission constitutes, on the average about 90% of the cost of production of sugar. Though the sugar mills claim that the increase in support price of sugarcane significantly affects the cost of production of sugar, and resultantly the ex-mill price of sugar, the reality is much different. The Commission has collected evidence that farmers were paid lower than support price and illegal deductions on the weight of sugarcane procured were made in the previous years, especially 2017-2018. Details have been covered under TOR (r). The sugarcane is also procured off-the-book and the extra sugarcane is processed into sugar that is sold 'off-the-books'. The proceeds of the extra production are also not taxed. Nevertheless, **the unaccounted-for sugar production, when added to the total (reported) production, reduces the per kilogram cost of production.**

### Sugar Recovery Ratio

71. Recovery ratio is the vital factor in calculating the amount of sugar produced and the cost at which the sugar is produced. A 1% change in sugar recovery ratio translates into 10% change in the amount of sugar produced. The recovery ratio is determined through laboratory testing and reported by the sugar mills and there is no independent way of ascertaining whether the report is correct or not. There are differences in the recovery ratio of the sugar of the same region where similar variety of sugarcane is cultivated. During the discussion with different sources, it had come to notice that the sugar mills allegedly manipulate the recovery ratio and the sugar produced, by showing the reduced recovery ratio, and the entire sugar so produced is sold off the book.

Graph 3: Ex-Mill Price Vs Recovery Ratio



72. There is no government mechanism to ascertain the sugar content of sugarcane other than a mobile sugar lab in Punjab. The entire system of calculating the sugar recover ratio is based on a lab report prepared by the sugar mills themselves. No verification mechanism exists and therefore there is no way to check if the mills are understating the recovery ratio and thus concealing the actual production. Since the crushing season had ceased at the time the Commission's inspection teams visited the 10 mills (6 companies) it was not possible to conduct sugar recovery tests. However, the Commission came across evidence from one Mill establishing that the Mill understated and manipulated the recovery ratio and hid production as is explained in TOR(s).
73. There is a need to put in place an independent system of verification of the recovery ratio by the Provincial Government through surprise Mobile Lab Testing at frequent intervals to eliminate the possibility of under reporting of the recovery ratio.

#### **Understated Production & Sales of Sugar**

74. As discussed above, it is a foregone conclusion that the 'Sales' figure reported in the Profit and Loss Account of the company lacks veracity. The actual production figures of the mills are understated. In certain instances, the inspection teams of the Commission have unearthed 'off-the-books' procurement of sugarcane and off-the-book production and sales of sugar, as discussed in TOR(s). This purports that the financial accounts of the companies do not portray accurate information. Hence, the analysis of the cost of production of sugar by the mills is further compromised due to a lack of 'true and fair' information. It would be naïve to consider that the overstatement of cost and understatement of production is done without collusion of the authorities and auditors. The affairs are grossly misrepresented and the mills are seldom held accountable for irregularities and manipulation.

#### **Effects of Sales Tax**

75. The Government's sales tax on sugar is structured in such a manner that it is an inducement for the sugar mills to inflate the cost of production which consequently affects the ex-mill price. The imposition of 17% sales tax on a notional Rs. 60/kg. and higher, regardless of a lower cost of production, is a counterproductive measure for controlling the rising price of sugar.

#### **Constant Ex-Mill Price/Retail Price**

76. The cost of production in the sugar industry should not vary throughout the year as production ceases at the end of March of every year. This means that the ex-mill price is also already determined by this time since no further production costs will be incurred. There may be insignificant incremental costs such as carrying and administrative costs but these are too insignificant to cause a large change in the per kilogram cost of sugar. However, to the contrary, the monthly average ex-mill price of sugar in 2018-19, as reported in Table 3 of the PSMA Annual Report, 2019, varies significantly from month to month:



**Table 18: Constant Ex-Mill Price/Retail Price**

**Table-3 Month wise Average Ex-Mill, Wholesale & Retail Price of Sugar Rs. /kg**

Month	Ex-Mill Prices			Wholesale Price	Difference B/w Wholesale & Ex-Mills	Retail Price	Difference B/w Retail & Wholesale
	Punjab	Sindh	Average				
October, 2018	49	48.8	48.9	51.41	2.51	54.78	3.37
November, 2018	49.81	49.5	49.65	51.36	1.705	54.87	3.51
December, 2018	51.39	51.5	51.44	52.61	1.165	55.63	3.02
January, 2019	54.34	53	53.67	55.83	2.16	58.47	2.64
February, 2019	54.63	55	54.81	55.42	0.605	59.13	3.71
March, 2019	57.12	57	57.06	58.33	1.27	61.15	2.82
April, 2019	61.34	62	61.67	62.52	0.85	65.63	3.11
May, 2019	63.44	62	62.72	64.98	2.26	67.99	3.01
June, 2019	63.96	63	63.49	68.9	5.42	70.83	1.93
July, 2019	66.53	66	66.26	68.11	1.845	72.38	4.27
August, 2019	70.53	69	69.76	70.78	1.015	75.38	4.6
September, 2019	69.52	69	69.26	70.91	1.64	75.02	4.12
Percentage change from Oct 18 to Sep19	41.88%	41.39%	41.64%	37.91%		36.95%	

Source: PBS & Cane Commissioners

77. The changes in the ex-mill price by approximately Rs. 20 over the course of the year are completely unfounded. PSMA claims that this phenomenon is caused by “the forces of demand and supply”. This argument is not tenable as
- The total supply in the country meets the total demand,
  - The production of sugar is finite and
  - The demand for sugar is inelastic (being an essential item)

**The final analysis of the cost of production of sugar:**

78. **For every extra rupee of cost overstated, the sugar mills of Pakistan earn approximately Rs. 5.2 million x 1000 (total production of 5.2 million tons) which equals Rs. 5.2 billion – all at the expense of the consumers.** These are the windfalls that the sugar mills enjoy before the sugar has even left the gates of the factory.

## Real Hidden Margins of the Mills

79. The margins and windfalls realized between the rising ex-mill prices and cost of production of sugar have also been analyzed by the Commission. The cost of production, as calculated by the Commission appears in column labelled 'A' of the tables for the last three years in relation to the ex-mill prices, which indicates that the **real margins** of the sugar mills are much above those claimed:

### JDW SUGAR MILLS LIMITED

2017-2018

		Cost of Production		Tax -11% @	Margin	Margin
Month / Year	Sugar Produced Kg	Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Rs. 60 (C)	Rs/Kg (D=B-A-C)	% (D/Ax100)
Oct-17		35.14	46.12	6.60	4.38	12.48%
Nov-17			42.71	6.60	0.97	2.76%
Dec-17	180,257,500		46.04	6.60	4.30	12.25%
Jan-18	210,080,000		46.08	6.60	4.35	12.37%
Feb-18	191,392,500		40.37	6.60	-1.37	-3.89%
Mar-18	205,555,000		46.65	6.60	4.91	13.98%
Apr-18	100,383,750		48.42	6.60	6.68	19.02%
May-18	1,041,800		46.58	6.60	4.85	13.79%
Jun-18			48.50	6.60	6.76	19.24%
Jul-18			50.02	6.60	8.29	23.58%
Aug-18			48.80	6.60	7.07	20.11%
Sep-18			47.61	6.60	5.87	16.72%
TOTAL PRODUCTION IN KGS			888,710,550			

2018-2019

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax @ 11% - Rs. 60 (TY 2019) 17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-18		37.01	47.37	6.60	3.75	10.14%
Nov-18			47.54	6.60	3.92	10.60%
Dec-18	131,535,000		49.26	6.60	5.64	15.25%
Jan-19	225,680,000		52.96	6.60	9.35	25.25%
Feb-19	181,832,500		53.97	6.60	10.35	27.97%
Mar-19	101,229,500		54.75	6.60	11.14	30.09%
Apr-19			57.93	6.60	14.32	38.68%
May-19			56.85	6.60	13.24	35.77%
Jun-19			65.90	6.60	22.28	60.20%
Jul-19			69.02	10.20	21.80	58.90%
Aug-19			68.42	10.20	21.21	57.30%
Sep-19					10.20	
TOTAL PRODUCTION IN KGS			640,277,000			

2019-2020

	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -17% @ Rs. 60 (C)	Margin Rs/Kg {D=B-A-C}	Margin % (D/Ax100)
Month / Year						
Oct-19		45.65	63.78	10.20	7.93	17.37%
Nov-19	765,000		62.52	10.20	6.66	14.60%
Dec-19	164,075,000		63.91	10.20	8.06	17.66%
Jan-20	167,970,500		72.50	10.20	16.65	36.47%
Feb-20	180,334,500		76.05	10.20	20.20	44.24%
** Mar-20	35,074,000		76.76	10.20	20.91	45.80%
TOTAL PRODUCTION IN KGS			548,219,000			

\* The Margin covers up the Operating and Administrative Expenses

\*\* As on March 21, 2020

80. In 2017-18 the cost of production that the Commission calculated was Rs. 35.14 and the ex-mill price commanded by the JDW Sugar Mills Limited yielded an average margin of 18%. During 2018-19, the year with the most volatility in sugar prices, the margins that the company managed to make ranged from 10%



to almost 60%. As per the data received up to March 31, 2020 the JDW's margin ranges from 17% - 45%.

## HAMZA SUGAR MILLS LIMITED

2017-2018

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -11% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-17		35.41		6.60		0.00%
Nov-17				6.60		0.00%
Dec-17	66,593,500		48.00	6.60	5.98	16.90%
Jan-18	77,056,900		47.50	6.60	5.49	15.50%
Feb-18	69,823,950		45.56	6.60	3.55	10.02%
Mar-18	84,874,000		45.45	6.60	3.44	9.71%
Apr-18	79,515,550		48.50	6.60	6.49	18.33%
May-18	4,631,350		47.87	6.60	5.86	16.54%
Jun-18			51.94	6.60	9.93	28.03%
Jul-18			52.00	6.60	9.99	28.20%
Aug-18			51.85	6.60	9.84	27.78%
Sep-18			52.00	6.60	9.99	28.20%
TOTAL PRODUCTION IN KGS			382,495,250			

2018-2019

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax @ 11% - Rs. 60 (TY 2019) 17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-18		36.57	52.00	6.60	8.83	24.15%
Nov-18			52.00	6.60	8.83	24.15%
Dec-18	49,663,150		51.69	6.60	8.52	23.30%
Jan-19	83,375,350		53.49	6.60	10.32	28.22%
Feb-19	71,147,650		54.00	6.60	10.83	29.62%
Mar-19	26,819,850		54.79	6.60	11.62	31.79%
Apr-19			56.99	6.60	13.83	37.81%
May-19			57.54	6.60	14.38	39.31%
Jun-19			58.19	6.60	15.03	41.09%
Jul-19			65.00	10.20	18.23	49.86%
Aug-19			67.00	10.20	20.23	55.33%
Sep-19			67.00	10.20	20.23	55.33%
TOTAL PRODUCTION IN KGS			231,006,000			

2019-2020

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-19		47.12	66.66	10.20	9.34	19.82%
Nov-19			65.33	10.20	8.01	17.00%
Dec-19	59,223,500		63.50	10.20	6.18	13.12%
Jan-20	56,122,400		70.00	10.20	12.68	26.92%
Feb-20	63,585,370		72.00	10.20	14.68	31.17%
** Mar-20	10,547,648		76.13	10.20	18.81	39.93%
TOTAL PRODUCTION IN KGS			189,478,918			

\* The Margin covers up the Operating and Administrative Expenses

\*\* As on March 21, 2020

81. Hamza Sugar Mills also made substantial gains in 2017-18 posting margins between approximately 9%-29%. The maximum margin realized by the mill was approximately 55% in 2018-19. The company continues to reap large margins in the current year despite a higher cost of production.

## HUNZA SUGAR MILLS (PRIVATE) LIMITED

2017-2018

		Cost of Production		Tax -11% @	Margin	Margin
Month / Year	Sugar Produced Kg	Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Rs. 60 (C)	Rs/Kg (D=B-A-C)	% (D/Ax100)
Oct-17		42.48	57.81	6.60	8.73	20.56%
Nov-17			58.25	6.60	9.17	21.59%
Dec-17	32,925,000		59.94	6.60	10.86	25.57%
Jan-18	38,715,000		59.91	6.60	10.83	25.50%
Feb-18	38,340,000		56.18	6.60	7.10	16.72%
Mar-18	32,630,000		56.97	6.60	7.89	18.58%
Apr-18	2,128,750		58.66	6.60	9.58	22.56%
May-18			58.35	6.60	9.27	21.83%
Jun-18			59.54	6.60	10.46	24.63%
Jul-18			58.49	6.60	9.41	22.16%
Aug-18			59.83	6.60	10.75	25.31%
Sep-18			59.77	6.60	10.69	25.17%
TOTAL PRODUCTION IN KGS			144,738,750			

2018-2019

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax @ 11% - Rs. 60 (TY 2019) 17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-18		44.48	59.41	6.60	8.33	18.73%
Nov-18			59.83	6.60	8.75	19.67%
Dec-18	22,565,000		59.11	6.60	8.03	18.05%
Jan-19	42,580,000		59.06	6.60	8.88	19.96%
Feb-19	38,455,000		59.92	6.60	8.84	19.87%
Mar-19	19,495,000		59.95	6.60	8.87	19.94%
Apr-19			62.40	6.60	11.32	25.45%
May-19			63.10	6.60	12.02	27.02%
Jun-19			65.23	6.60	14.15	31.81%
Jul-19			71.94	10.20	17.26	38.80%
Aug-19			72.74	10.20	18.06	40.60%
Sep-19			72.79	10.20	18.11	40.72%
TOTAL PRODUCTION IN KGS			123,095,000			

2019-2020

		Cost of Production			Margin	Margin
	Sugar Produced	Rs/Kg	Average Ex-Mill	Tax -17% @	Rs/Kg	%
Month / Year	Kg	(A)	Rs/Kg (B)	Rs. 60 (C)	(D=B-A-C)	(D/Ax100)
Oct-19		52.17	73.16	10.20	10.79	20.68%
Nov-19	60,000		72.53	10.20	10.16	19.47%
Dec-19	34,375,000		69.47	10.20	7.10	13.61%
Jan-20	27,850,000		70.64	10.20	8.27	15.85%
Feb-20	55,255,000		75.50	10.20	13.13	25.17%
** Mar-20	20,865,000		77.00	10.20	14.63	28.04%
TOTAL PRODUCTION IN KGS			138,405,000			

\* The Margin covers up the Operating and Administrative Expenses

\*\* As on March 21, 2020

82. Hunza Sugar Mills, though with a higher cost of production relative to the other mills, also enjoyed margins ranging from 13% to 40% over the last three years of production. Not being part of a larger group of companies, the margins are nevertheless, substantial.



## ALLIANCE SUGAR MILLS LIMITED

2017-2018

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -11% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-17		35.87	57.12	6.60	14.65	40.86%
Nov-17			57.06	6.60	14.59	40.69%
Dec-17	27,340,000		57.03	6.60	14.56	40.61%
Jan-18	31,400,000		56.15	6.60	13.68	38.15%
Feb-18	26,530,000		57.03	6.60	14.56	40.61%
Mar-18	26,455,000		57.50	6.60	15.03	41.92%
Apr-18	4,205,000			6.60		0.00%
May-18			49.41	6.60	6.94	19.36%
Jun-18			54.22	6.60	11.75	32.77%
Jul-18			58.45	6.60	15.98	44.57%
Aug-18			58.03	6.60	15.56	43.40%
Sep-18			58.17	6.60	15.70	43.79%
TOTAL PRODUCTION IN KGS			115,930,000			

2018-2019

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax @ 11% - Rs. 60 (TY 2019) 17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-18		34.77	56.77	6.60	15.40	44.27%
Nov-18			56.81	6.60	15.44	44.39%
Dec-18	23,135,000		54.64	6.60	13.27	38.15%
Jan-19	43,555,000		55.66	6.60	14.29	41.08%
Feb-19	39,755,000		55.96	6.60	14.59	41.94%
Mar-19	21,365,000		56.72	6.60	15.35	44.13%
Apr-19			61.96	6.60	20.59	59.20%
May-19			63.61	6.60	22.24	63.94%
Jun-19			64.64	6.60	23.27	66.90%
Jul-19			70.03	10.20	25.06	72.05%
Aug-19			70.24	10.20	25.27	72.65%
Sep-19			74.44	10.20	29.47	84.73%
TOTAL PRODUCTION IN KGS			127,810,000			

2019-2020

2019-2020						
Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-19		49.31	68.88	10.20	9.37	19.00%
Nov-19			65.81	10.20	6.30	12.77%
Dec-19	25,210,000		68.12	10.20	8.61	17.46%
Jan-20	30,185,000		69.31	10.20	9.80	19.87%
Feb-20	34,060,000		71.31	10.20	11.80	23.93%
** Mar-20	7,615,000		74.20	10.20	14.69	29.79%
TOTAL PRODUCTION IN KGS			97,070,000			

\* The Margin covers up the Operating and Administrative Expenses

\*\* As on March 21, 2020

83. The cost of production calculated by the Commission for Alliance Sugar Mills Limited reveals real margins to the extent of 84% (2018-19). The mill being one of the larger mills has benefited immensely from the changing ex-mill price over the years.

## AL MOIZ INDUSTRIES LIMITED

2017-2018

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -11% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-17		37.15	58.46	6.60	14.71	39.59%
Nov-17			53.26	6.60	9.50	25.58%
Dec-17	37,585,000		54.38	6.60	10.62	28.59%
Jan-18	57,055,000		53.32	6.60	9.56	25.73%
Feb-18	52,033,500		53.88	6.60	10.13	27.25%
Mar-18	55,071,500		51.65	6.60	7.89	21.25%
Apr-18	21,113,250		53.21	6.60	9.46	25.45%
May-18	21919500.00		53.24	6.60	9.48	25.52%
Jun-18	7051450.00		52.66	6.60	8.91	23.97%
Jul-18			52.68	6.60	8.93	24.02%
Aug-18			52.97	6.60	9.21	24.79%
Sep-18			52.91	6.60	9.16	24.64%
TOTAL PRODUCTION IN KGS			251,829,200			

2018-2019

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax @ 11% - Rs. 60 (TY 2019) 17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-18		42.99	52.38	6.60	2.79	6.50%
Nov-18			51.17	6.60	1.58	3.67%
Dec-18	27,221,500		51.47	6.60	1.88	4.38%
Jan-19	59,663,250		57.25	6.60	7.66	17.83%
Feb-19	49,828,750		56.86	6.60	7.27	16.91%
Mar-19	12,117,500		59.96	6.60	10.37	24.13%
Apr-19	9,163,750		61.24	6.60	11.65	27.10%
May-19	25,204,500		62.28	6.60	12.69	29.52%
Jun-19	22,173,250		64.72	6.60	15.13	35.20%
Jul-19	287,000		66.36	10.20	13.17	30.64%
Aug-19			65.26	10.20	12.07	28.09%
Sep-19			68.06	10.20	14.87	34.60%
TOTAL PRODUCTION IN KGS			205,659,500			

2019-2020

	Sugar Produced	Cost of Production	Average Ex-Mill	Tax -17% @ Rs.	Margin	Margin
Month / Year	Kg	Rs/Kg (A)	Rs/Kg (B)	60 (C)	Rs/Kg (D=B-A-C)	% (D/Ax100)
Oct-19		50.21	71.83	10.20	11.42	22.74%
Nov-19			75.94	10.20	15.53	30.93%
Dec-19	24,131,000		73.99	10.20	13.58	27.04%
Jan-20	37,845,500		74.05	10.20	13.64	27.17%
Feb-20	54,876,250		71.39	10.20	10.98	21.87%
** Mar-20	10,841,750		81.46	10.20	21.05	41.93%
TOTAL PRODUCTION IN KGS			127,694,500			

\* The Margin covers up the Operating and Administrative Expenses

\*\* As on March 21, 2020

84. Al-Moiz Industries, also one of the larger sugar producing companies, took advantage of the manipulation of ex-mill prices and passed on the higher prices to the consumers similar to other mills. The company has benefited by real margins up almost 42%.



# AL-ARABIA SUGAR MILLS LIMITED

2017-2018

2017-2018						
Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -11% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-17		41.15		6.60		0.00%
Nov-17				6.60		0.00%
Dec-17	4,500,000		59.95	6.60	12.20	29.64%
Jan-18	9,770,000		58.25	6.60	10.50	25.51%
Feb-18	12,695,000		58.72	6.60	10.97	26.65%
Mar-18	14,775,000		59.40	6.60	11.65	28.30%
Apr-18	4,520,000		59.18	6.60	11.43	27.77%
May-18			44.00	6.60	-3.75	-9.12%
Jun-18			57.07	6.60	9.32	22.64%
Jul-18			58.00	6.60	10.25	24.90%
Aug-18			59.80	6.60	12.05	29.28%
Sep-18			59.34	6.60	11.59	28.16%
TOTAL PRODUCTION IN KGS			46,260,000			

2018-2019

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax @ 11% - Rs. 60 (TY 2019) 17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-18		47.91	59.60	6.60	5.09	10.63%
Nov-18			59.61	6.60	5.10	10.65%
Dec-18	14,125,000		59.97	6.60	5.46	11.40%
Jan-19	27,625,000		59.35	6.60	4.84	10.11%
Feb-19	20,375,000		59.36	6.60	4.85	10.13%
Mar-19	6,420,000		66.01	6.60	11.50	24.01%
Apr-19			66.08	6.60	11.57	24.15%
May-19			65.28	6.60	10.77	22.48%
Jun-19			65.87	6.60	11.36	23.71%
Jul-19			68.11	10.20	10.00	20.88%
Aug-19			70.26	10.20	12.15	25.36%
Sep-19			71.52	10.20	13.41	27.99%
TOTAL PRODUCTION IN KGS			68,545,000			

2019-2020

Month / Year	Sugar Produced Kg	Cost of Production Rs/Kg (A)	Average Ex-Mill Rs/Kg (B)	Tax -17% @ Rs. 60 (C)	Margin Rs/Kg (D=B-A-C)	Margin % (D/Ax100)
Oct-19		63.00	71.49	10.20	-1.71	-2.71%
Nov-19			70.66	10.20	-2.54	-4.02%
Dec-19	12,255,000		70.30	10.20	-2.90	-4.60%
Jan-20	9,080,000		70.52	10.20	-2.68	-4.25%
Feb-20	13,650,000		73.50	10.20	0.30	0.48%
** Mar-20	2,195,000		73.27	10.20	0.07	0.12%
TOTAL PRODUCTION IN KGS			37,180,000			

\* The Margin covers up the Operating and Administrative Expenses

\*\* As on March 21, 2020

85. Al-Arabia Sugar Mills came into production after 2016 when the company was set up. The margins of the company may appear lower than the other companies but that is on account of its cost of production which remains high owing mainly to heavy depreciation of plant and machinery and inefficient production processes.

86. It can be seen that at a constant cost of production, the sugar mills have whimsically changed the ex-mill prices to increase their margins, in certain cases, up to almost 60%. **The extraordinary windfalls made by all 6 sugar mills were in 2018-19 – the time when some of these mills were also exporting.** A differential in ex-mill price and the retail price, attributed to brokerage and wholesale margins, exasperates matters further by pushing up the price for consumers. The brokerage and wholesale margins are also open to criticism as the mills are possibly colluding to enjoy additional gains. This is a matter that has been discussed in detail in the TORs (f) and (g).

#### **Cost Accounts and Cost Audit**

87. The annual financial statements submitted by companies to the Securities and Exchange Commission of Pakistan (SECP) do not report the specific costs involved in the production of sugar. Cost accounts and cost audit are essential to verify the accuracy of the accounting records maintained by a company with regard to the costs of production. Until 2017, *The Sugar Industry (Cost Accounting Records) Order, 2001* issued vide S.R.O. 97(1)/2001 on February 14, 2001 by SECP, required companies to maintain cost accounts *"...in such a way as to make it possible to calculate from the particulars entered therein, the cost of production and cost of sales of white sugar separately, during a financial year;(2) Where a company is manufacturing any other product in addition to sugar, the particulars relating to the utilization of materials, labour and other items of cost in so far as they are applicable to such other product, shall not be included in the cost of sugar."*
88. This Order was overridden by the promulgation of the Companies Act, 2017 (the Act) which requires only an audit of cost accounts if directed by the SECP. Section 250 of the Act states:

**Audit of cost accounts.** (1) *Where any company or class of companies is required under first proviso of sub-section (1) of section 220 to include in its books of account the particulars referred to therein, the Commission may direct that an audit of cost accounts of the company shall be conducted in such manner and with such stipulations as may be specified in the order by an auditor who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), or a cost and management accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966); and such auditor shall have the same powers, duties and liabilities as an auditor of a company and such other powers, duties and liabilities as may be specified.*

*(2) The audit of cost accounts of the company under sub-section (1) shall be directed by the Commission subject to the recommendation of the regulatory authority supervising the business of relevant sector or any entity of the sector.*

89. The erstwhile Order of SECP concisely prescribed the various line items that should be included/excluded in the cost accounts and was indispensable for verifying the accuracy of cost accounting records. The decision to dispense with this requirement is not prudent. The leeway



given to companies through Section 250 of the Act proves to be more detrimental than facilitating. The whimsical pricing of sugar and increase in prices, especially in 2018-19, has been a direct consequence of the reduced disclosures allowed by the new provision of the Act.

90. Moreover, sub-clause (2) of Section 250 (cited above) provides that the SECP shall invoke the requirement of audit of cost accounts "*subject to the recommendation of the regulatory authority supervising the business of relevant sector or any entity of the sector.*" It is perplexing as to whether there is any regulatory authority overseeing the sugar sector other than SECP itself, considering that it was SECP which had issued the Order in 2001.

### Findings

91. The calculation of production cost of sugar is overstated as the reported cost includes expenses on activities that have not been incurred on the production of sugar and are based on principles contrary to the principles of the International Financial Reporting Standards (IFRS).
92. Major discrepancies in the calculation of production cost results in substantial overstatement of costs to the tune of Rs.53.187 billion (only for 6 sugar manufacturing companies in sample), thereby, resulting in overstatement of margins and eventually the ex-mill prices.
93. Furthermore, the current practice as adopted by the PSMA in calculating the ex-mill price initially loads the 'sales tax' to 'cost of production' followed by margins, resulting in allowing excess margins (over the sales tax value) embedded in the resultant ex-mill price.
94. Lower payments to farmers along with deductions on the weight of sugar cane results in "off the books" purchase of sugar cane which eventually results in "off the books" production and sale. The proceeds of the extra production remain un-taxed, as well as, the unaccounted for sugar production, alters the production cost.
95. Deviations in reporting of "recovery ratio" in the same region as well as non-existence of an independent way to determine the recovery ratio results in prima facie misreporting of the same. This eventually corresponds to excess "off the books" sugar production followed by "off the books" sugar sale.
96. The existing sales tax regime on the sugar industry plays a major factor in the increase in retail price of sugar as sales tax is imposed on cost of production of Rs 60/kg and above. Resultantly the regime is a counterproductive measure for controlling the rising price of sugar.
97. The manipulated cost of production has resulted in calculation of excess margins. The calculation of actual cost of production by companies in comparison to the ex-mill prices in certain cases has almost clocked the margins of up to 60 %, clearly beyond the declared/admitted margin thresholds.
98. Lastly, the amendment in the corporate laws (Companies Act, 2017) again facilitates companies to misreport the cost of production as a result of the dispensation of the requirement for the companies on cost

accounts and its audit. The change in the law has a detrimental effect on the reporting practice on cost of production of sugar presently existing in the market questionable on pricing integrity.

### Recommendations

99. In light of the above observations of the Commission with regard to the cost of production of sugar the following recommendations are made:
  - a. Adoption of the template at **Annexure I** for the purpose of calculating the cost of production of sugar by the government authorities in future.
  - b. Amendment of Section 250 of the Companies Act 2017 for maintaining cost accounts by the sugar industry,
  - c. Declaration of ex-mill price and retail price after production period ends and standardization of brokerage commission and wholesale/retail margins to counter fluctuations during the year.
  - d. Revision of the sales tax policy of taxing production of sugar @ Rs. 60/kg.
  - e. Sugar recovery ratio should be made the basis of the value of sugarcane procured from the growers. Mechanism be devised to accurately ascertain sugar recovery ratio through establishment of sugar testing labs situated near sugarcane centers which are independent of the labs of the sugar mills.
100. As discussed earlier, that the sugar mills have been charging margins after adding the sales tax which resulted in extra charging of Rs. 1.02 per kg. This is a daylight robbery, from the pockets of the general public, to the tune of Rs. 5.2 billion every year. The Government may direct the FBR to recover this hefty amount by ascertaining the additional profits thus made by each sugar mill in the past.



*f. Market manipulation/cartelization by sugar mills, if any:*

**Market Manipulation**

101. The forensic audit conducted by the teams and the analysis of evidence collected indicated the market manipulation by few large players, Mills & brokers, who could influence the market through their larger share and stock in the market in order to gain profits which are accrued by activities like hoarding, forward selling, speculation, and "Satta" . Some of the work of the teams covering this aspect is as follow:

**Market Manipulation through "Satta"**

102. JDW audit team seized the record of Mr. Muhammad Aslam, sugar broker, and in his interview, it transpired that the sugar brokers have created a chamber called the **"Three Star Sugar Traders Group"** established by Mr. Ashraf Chawla (sugar broker) which is located in Kasur. On the basis of forensic analysis of a mobile phone seized from another broker Mr. Abad, the Team found out that this activity was carried out on a WhatsApp group in which various brokers are members. Once the brokers obtained a forward contract and/or Delivery Order (DO) from the sugar mill for a particular quantity of sugar, the brokers start trading of sugar on the WhatsApp group to make profits based on speculations. This is a continuous process and on a daily basis sugar bags related to multiple sugar mills are traded while the actual sugar is still lying in the mill's warehouse. Therefore, when this future trading takes place, an artificial demand is created which drives the price of sugar upwards. When another broker purchases on the WhatsApp group at a given rate, the next transaction is executed when he is offered a price higher than the previous price of sugar traded in the group. This cycle goes on and on and price keeps rising just because brokers are buying and selling the same stock without actual delivery. This is kind of virtual stock exchange of sugar with their own arbitrators as well. The brokers simply settle the price differential and earn profits without actually taking possession of the sugar.
103. As per the details unearthed during the inquiry, evidence was collected that established that Muhammad Aslam alone earned profits of Rs. 70,981,176 in January 2020, Rs. 78,253,800 in February 2020 and lost Rs. 279,778,600 in March 2020 due to the action by the Government against the sugar price hike and the "SATTa" dealers. This loss of Rs. 279,778,600 is related to future trading of around 11,000 trucks of sugar (aggregating to around 2.67 million bags of sugar amounting to Rs. 10,242,219,000) pertaining to all units of the JDW Company as well as Ittehad Sugar Mills. The brokers thus created artificial demand to increase price and all this time, the sugar stocks remained at the sugar mill warehouse.

104. The Team inquired from the JDW Company management about the process of determination of ex-mill sugar prices. The management informed that the Company obtains the daily wholesale price from the market (brokers) and stated that any hike was the result of market forces. As discussed earlier, this hike was artificially created through *Satta* and the Company kept increasing the ex-mill price on a daily basis. This again fueled the hawkish sentiment in the market and also the illegal *Satta* market. Side by side the Mill facilitated the brokers by providing storage space for hundreds of thousands of bags of sugar which were sold but un-lifted, which was corroborated by the brokers Rashid, Abad and Khawaja Ahmed in their statements.
105. A nexus between brokers who used digital platforms for illegal future trading of sugar was unearthed. During forensic analysis of different digital devices, hundreds of messages relating to rates of future trades/"Satta" and buying and selling in this regard. Most of the time the period of sale was more than a month in the future as compared to the date of the message. Further, various instances which showed the collusion between the brokers were identified, a few examples of messages of WhatsApp group are presented below:
- i. A broker complaining on January 21, 2020 that Mr. Haji Zameer (broker) has single handedly increased the price of sugar by Rs. 150 i.e. Rs. 1.5 per kg in one day. He further states that let's see how long can Haji Zameer hold the sugar as the "satta" may cause trouble in the future if the Government found out about it and took some steps in this regard.
  - ii. Brokers discussing in WhatsApp groups regarding initiation of action by the Government and directing others to stop using the word "SATTa" in WhatsApp groups
  - iii. On December 29, 2019, Mr. Furqan (broker) providing future rates for JDW sugar for March, April, May and June 2020 i.e. up to 6 months speculation.
  - iv. Mr. Haji Zameer (broker) sharing his written statement to be given to the Audit Team with all other brokers beforehand in the WhatsApp Group
  - v. Brokers discussing in WhatsApp groups regarding initiation of action by the Government and directing others to stop using the word "SATTa" in WhatsApp groups
  - vi. On Feb 20, 2020 Mr. Waqas Ashraf (broker) instructing others to stop future trading as it is strictly banned by FIA
  - vii. Khawaja Imran (broker) instructing other brokers to mislead inquiry commission members by informing that all data is available with the sugar mill and brokers do not have any data



viii. On January 21, 2020, a broker Mr. Asad Butt stating in a sugar traders' group that he has only done "SATTA" for four days and not even one truck of "hazir" (physical) sugar trade.

106. The statements of various brokers in respect of the modus operandi used, as described above, for the price hike and the role of future trading/speculation (SATTA) have been recorded.

#### Market Manipulation Through Forward Contracts

107. Forward Contract and "Satta" has been discussed fully in TOR (g). since one aspect of forward contract relates to the market manipulation, therefore, a brief account is given here. Another method of market manipulation was also discovered by the JDW Team that unearthed a nexus between the sugar mills and major sugar brokers who manage a system of market manipulation to increase prices of sugar. This manipulation is done through forward and future trading of sugar and hoarding of the stock at sugar mill's premises. The process of sale of sugar is as discussed below:

#### Spot Sale ("Hazir" Sale)

108. In the case of Spot sale, a broker contacts the Company and books an order for sugar in terms of number of trucks/bags of sugar at the Company's ex-mill rate and informs the Company that the respective amount for that order has been deposited in the Company's bank account. The Company then issues a Delivery Order (DO) which is sent to a transporter who transports the sugar to the parties, who have deposited the amount in Company's bank account. The broker gets a commission of Rs. 2.5 per 50 kg bag from the Company at the end of the year.

#### Forward Sale

109. Secondly, in case of Forward Sale on token payment, the broker contacts the Company and asks for a rate of sugar for a delivery in the future. This can range from 15 days to 3 months. Thereafter, the broker has to ensure that the token amount of such sale is deposited in the Company's account and contract agreement is issued. The rate in case of a forward sale is usually higher than the ex-mill rate at the date of booking depending on the time between booking and date of forward sale. The Team obtained the list of forward contracts of the JDW which shows that currently, the Company has made forward contracts for around 6,180 MT of sugar i.e., 123,600 bags (515 trucks) for the period March 31, 2020 to June 30, 2020. The total transactions of one party are presented below:

**Table 19**

Contacting Party	Date of Payment	QTY of Sugar Sold (M. Ton)	Sales Price of sugar Per Kg
Rashid Multan	10-Apr-20	60	79.75
Rashid Multan	10-Apr-20	60	77.75
Rashid Multan	15-Apr-20	60	80.00

Rashid Multan	15-Apr-20	60	78.00
Rashid Multan	20-Apr-20	60	80.25
Rashid Multan	20-Apr-20	60	78.25
Rashid Multan	25-Apr-20	60	80.50
Rashid Multan	25-Apr-20	60	78.50
Rashid Multan	30-Apr-20	60	80.75
Rashid Multan	30-Apr-20	60	78.75
Rashid Multan	5-May-20	60	81.00
Rashid Multan	5-May-20	60	79.00
Rashid Multan	10-May-20	60	81.25
Rashid Multan	10-May-20	60	79.25
Rashid Multan	15-May-20	60	81.50
Rashid Multan	15-May-20	60	79.50
Rashid Multan	20-May-20	60	81.75
Rashid Multan	20-May-20	60	79.75
Rashid Multan	25-May-20	60	82.00
Rashid Multan	25-May-20	60	80.00
Rashid Multan	30-May-20	60	80.25
Rashid Multan	31-May-20	60	82.25
Rashid Multan	5-Jun-20	60	82.50
Rashid Multan	10-Jun-20	60	82.75
Rashid Multan	15-Jun-20	60	83.00
Rashid Multan	20-Jun-20	60	83.25
Rashid Multan	25-Jun-20	60	83.50
Rashid Multan	30-Jun-20	60	83.75
<b>Total</b>		<b>1,680</b>	

*Source: Data provided by the JDW Sugar Mills*

110. It may be noted from the above schedule that minimum forward contract price during the period April 2020 to June 2020 was Rs 77.75 per kg (April 10, 2020) whereas maximum forward contract price was Rs 83.75 per kg (June 30, 2020). The difference works out to be Rs 6 per kg in a period of 3 months. Hence, forward contracts also contribute to the increase in price in markets. Further, forward contracts were priced differently for different brokers which may be due to the relationship and frequency / quantum of business with the company. Further, recording of statement of broker (Rashid Multan) also confirmed that brokers enter into forward contract with the mills. These contracts are further sold in the market without actual delivery of stock which also contribute to the increase in price of sugar.
111. It is evident from the record of the company and statement of brokers that the company offers forward contracts to the brokers the rate of which is usually higher than the spot rate and hence it contributes to increase in price of sugar. Further, these contracts are further traded amongst the brokers without actual delivery of stock which further contributes to increase in prices of sugar.



## Cartelization

112. The definition of cartelization (prohibited agreements) and parameters that make Competition Commission of Pakistan (CCP) construe a collective act as cartelization is given as: "Cartelization (prohibited agreements) means that no undertaking or association of undertakings shall enter into any agreement or, in the case of an association of undertakings, shall make a decision in respect of the production, supply, distribution, acquisition or control of goods or the provision of services which have the object or effect of preventing, restricting, or reducing competition within the relevant market."
113. In Pakistan, six groups control about 51% of the production of sugar as shown in Table below. These groups have the capacity to manipulate the market by joining hands for cartelization and subsequent manipulation. The control of so few, mostly with political background, of the sugar industry shows the strong influence they can exercise on Policy and Administration.

**Table: 20. Percentage Share of Big Groups in National Production In 2018-19**

Sr. No.	Name of Group	No. of Mills	Production (Tons)	Recovery Ratio %age	%age of Total National Production
1	JDW Group	6	1,040,382	11.15%	19.97%
2	RYK Group	5	637,691	10.67%	12.24%
3	Al-Moiz Group	5	354,231	10.26%	6.80%
4	Tandlianwala Group	3	255,375	9.43%	4.90%
5	Omni Group	10	86,394	10.50%	1.66%
6	Sharif Family Mills	9	236,717	9.64%	4.54%
7	All Other	51	2,599,960	10.39%	49.90%
	<b>Grand Total</b>	<b>89</b>	<b>5,210,750</b>	<b>10.47%</b>	<b>100.00%</b>

Source: PSMA Annual Report 2019

114. As defined in the Competition Act, 2010, "dominant position" of one undertaking or several undertakings in a relevant market shall be deemed to exist if such undertaking or undertakings have the ability to behave to an appreciable extent independently of competitors, customers, consumers and suppliers and the position of an undertaking shall be presumed to be dominant if its share of the relevant market exceeds forty per cent. With just three groups controlling about 40% of sugar production in Pakistan, there is a good chance that they can assume the dominant position and behave like a cartel.
115. In case it is observed that any of the violations of cartelization (prohibited agreements), abuse of dominance and deceptive market practices is being done by any undertaking, the CCP is empowered to initiate suo moto enforcement actions starting with calling of preliminary information, then conducting inquiries, entering and searching premises, exercising forcible entry, if needed, calling witnesses with record and evidences, issuing show cause notices, passing interim or/and final orders and imposing penalties. The purpose is to ensure to fulfillment of its objective to engender free competition

- in all spheres of commercial and economic activities, enhance economic efficiency, and to protect consumers from anti-competitive behavior.
116. As has been observed in case of subsidy on sugar export, the PSMA holds negotiations with the Government on the following agenda points:
- i. Not starting crushing season unless the Government agrees to their demand of export and subsidy,
  - ii. Demand of same amount of subsidy for all the sugar mills;
117. It is pertinent to note that although the cost of production of all sugar mills is different, the PSMA calculates and presents a uniform cost of production for all the mills. This is despite the fact that the cost of production varies from mill to mill.
118. The concrete evidence of cartelization was collected in the past by The Competition Commission of Pakistan which took *suo moto* cognizance in 2009 of the possibility of collusive behavior of sugar mills and conducted a search and inspection of the PSMA offices in the country to determine violation of the Competition Ordinance, 2007 (the Ordinance). The Inquiry Report of the inspection dated October 21, 2009 concluded that there was ***"extensive institutionalization of collusive behavior in the refined sugar industry...the sugar mills, rather than competing in the open market prefer a closed and protected market which is managed collusively and collectively by PSMA. PSMA apart from being in breach of its mandate appears to be acting in violation of Section 4(1) of the Ordinance by acting as a front runner for a cartel in the sugar industry."*** The inspection report was quite categorical and put direct blame on the PSMA for manipulation and cartelization. Consequently, the CCP initiated legal proceedings against the PSMA by issuing a show-cause notice dated October 23, 2009 under Section 30 of the Ordinance for collusive behavior and price fixing. PSMA and the member sugar mills obtained a restraining order from the Sindh High Court which is still pending. No further action has been taken by CCP to check the cartelization of this industry since then.

#### Findings:

119. There is ample evidence of market manipulation for profiteering by certain sugar mills through forward contracting, non-lifting of sold sugar and facilitation to the selected brokers who indulge in "Satta".
120. Although there are clear indicators that cartelization exists but the main regulators i.e. CCP has remained a silent spectator since its report on cartelization in 2009.
121. Forward contracts are used in "Satta" and the detailed findings and recommendations are therefore discussed in TOR (g).



*g. Impact of forward contracts on the prices of the sugar and whether any malafide is involved:*

**Forward contract**

122. Forward Contract is the advance sale of sugar by the sugar mills and buyers purchase the sugar to be lifted at some point in future. There are multiple reasons for sugar mills for adopting this practice. Forward contract fetches business capital for the sugar mills without having to deliver sugar immediately. According to the discussion with different stakeholders, there are two kinds of forward contracts:
- a. The buyer, who is normally a whole sale dealer, stockists or investor, buys the sugar to be lifted at a later time as per agreement. The payment is made in advance and normally the rate is set lower as compared to the current rate. In this situation the buyer makes profit if the sugar price goes up. This kind of forward contract seems justifiable as the money is paid in advance for a small discount. The large companies normally buy sugar from the mills through forward contract and they pay as they lift.
  - b. The buyer enters into an agreement, written or verbal, with the sugar mill to purchase sugar. The sugar is to be lifted at a later stage of time but no payment or only token payment is made. In this case the rate is normally set higher than the current rate. In this situation, again the buyer would make profit if the price of the sugar goes up. This kind of contract lends itself to the possibility of "Satta" which is explained below.

**Satta (imaginary/virtual advance sales)**

123. "Satta" is the speculative sale and has become common practice in sugar market throughout Pakistan. No actual investment or sale or lifting of sugar is involved in SATTA. It is simply a form of gambling.
124. Forward contracts and more so SATTA sales affect the market. Speculation about the increased or decreased rates of Satta in the market affects the price accordingly. The upward speculation results in perception of increased demand against the supply which will result in price hike.
125. The commission has collected the evidence of "Satta" as detailed below.
126. During the audit of **Hunza Sugar Mills**, it has been found that the forward contracts and "Satta" lead to illegal gains which are ultimately shown as advance from brokers/ dealers. This is an illegal earning and is an outcome of malpractices in sugar sale by the sugar mills and its ultimate beneficiary is the sugar mill. There are multiple forms of this kind of transaction and one such kind is "Biyana" from the dealers. The team found evidence that the quantum of advance amount (Biyana) is

usually Rs. 200 per 100 Kg Bag. This is basically the initial advance paid to the mill for forward contract of sale of sugar; mostly from the buyers who are involved in "SATTA". If the buyer does not lift the sugar from the mill after a certain time period, the said amount "Biyana" is forfeited and is portrayed as "advance from sugar dealers". This forfeited amount is converted into "Other Income" and recorded in their books of accounts. The detail of amount confiscated by the Mills and recorded as Other Income is as under:

127. As shown in the table below, such advances appearing in the book of accounts of the mill amount Rs. 298 million.

Sr. no.	Particulars	As on September 30, 2019
1.	Advance received against forward contracts against sugar sales	149,651,406
2.	Advance received against forward contracts against sugar sales	48,065,332
<b>Sub-total</b>		<b>197,716,738</b>
Sr. no.	Particulars	As on September 30, 2018
3.	Advance received against forward contracts against sugar sales and forfeited (Balances written back 2011-12)	100,564,663
<b>Total forfeited Amount on account of forward contracts against sugar sales</b>		<b><u>298,281,401</u></b>

128. Brokers buy sugar from Hunza Sugar Mills on forward contracts and sell these in the sugar market to other dealers/brokers. Upon the maturity of the forward contract, if the broker is making profit, he takes delivery of the sugar. However, in the event of loss, the "Biyana" of the broker is forfeited to the sugar mill if he does not lift the sugar.
129. The evidence collected shows that one such broker Shahzad Faisal made forward contract of 6,300 M.T (525 Trucks) for the month of March and April 2020. He paid advance amount (Biyana) of Rs. 11,250,000 for 4800 M.T of sugar to Mill.

**Table: 21 – Detail of "Biyana" payment of Shahzad Faisal to Hunza Sugar Mills**

	Amount Rs.
Amount Paid for March 2020 for Forward Contract (215 Trucks)	5,460,000
Amount Paid for April 2020 for Forward Contract (185 Trucks)	5,790,000
	<b>11,250,000</b>

*Source: Cash book of Shehzad broker*

130. Further, Broker Shahzad Faisal sold 360 trucks of sugar to sugar dealer namely Sheikh Manzoor Ahmed alias Sh. Heera of Faisalabad against advance amount of Rs. 9,840,000/-. The details are given in the below mentioned table:



Table: 22 – Detail of payment of Shahzad Faisal to Mills		
Heera (Broker) (Forward Contract with Shahzad Faisal) (4320 M.T)		
Truck	M. Ton	Rate per 100 Kg
<b>March Forward Contract</b>		
10	120	7800/7600
100	1200	7925/7700
100	1200	7900/7700
<b>210</b>	<b>2520</b>	<b>Total</b>
<b>April Forward Contract</b>		
100	1200	8075/7850
50	600	8225/7925
<b>150</b>	<b>1800</b>	<b>Total</b>
<b>360</b>	<b>4320</b>	<b>Grand Total</b>

*Source: Record seized from broker Shahzad Faisal*

131. Heera Broker in his statement admitted that the stock of sugar was not lifted by him on the maturity of forward contract i.e. 31-03-2020 due to decrease in prices of sugar in the market resulting in forfeiture of his "Biyana" by the Mill and he suffered a loss of Rs. 9,840,000/- while the Mill has illegally earned the said amount. Further, the Mill has total forfeited a total amount of Rs. 298,281,401 "Biyana" and shown it as "advances from sugar dealers" as of September 30, 2019.
132. The Audit Team of **JDW Sugar Mills** found some additional information about "SATTa" from interviews as well as forensic analysis of mobile/computers of renowned sugar brokers of Punjab. During his interview with the Team, broker Mr. Aslam stated that during the month of March 2020, he has executed forward trades of around 11,135 trucks amounting to Rs. 10,242,219,000 with the JDW Company and Ittehad Sugar Mills. He further shared data of forward contracts which he has in turn made with other brokers of the market for the months of March and April for around 4,174 trucks at rates of up to Rs. 79.50 per Kg. As per Mr. Aslam, the persons with whom he has made these forward contracts are either investors themselves or they have black money to hide in the form of investment. These brokers then trade further with other brokers multiple times and the rate of sugar keeps rising as eventually the last person who has the forward contract at the time of maturity of the contract has to deposit payment in the sugar mill's bank account. The investors meanwhile settle their trades on positive/negative margins whatever the case may be as speculation business may go either way. This process goes on simultaneously in the

market for multiple mills and is happening on daily basis which creates perception of higher demand for sugar which in reality is much less.

133. Another such broker is Mr. Abad Ali who purchased 54,000 bags of sugar (225 trucks) amounting to Rs. 174,225,000 from JDW during the current year. Further, during the years 2018-19 and 2017-18 Mr. Abad purchased 451,200 bags of sugar aggregating to Rs. 1,133,625,000 and 150,034 bags aggregating to Rs. 345,537,600 respectively. Mr. Abad further corroborated the Team's earlier finding that his sales are recorded by the Company in the following fictitious names:

Table 23:

Original Buyer	Do Issued in Name Of	Dealer
Abad Ali	Mustafa	Ijaz Traders
	W. Khan	Wali Khan
	Musa Khan	Mustafa Traders
	Umer Traders	Umer Traders
	Murad Khan - Gujranwala	Musa Bahi - Sibbi

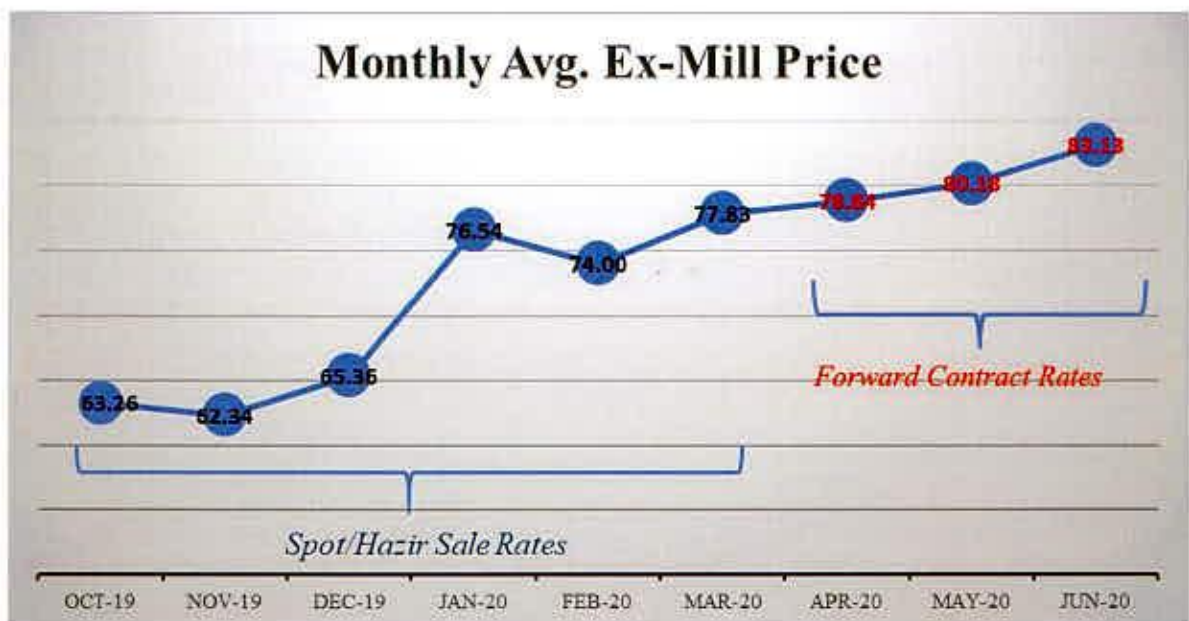
134. Mr. Abad also shared that ***the Company itself also engages in forward contracts***. The rate is higher by Rs. 50 per 100 kg bag for 15 days contract whereas it is higher by Rs. 100 per 100 kg bag for 30 days. Mr. Abad further stated that when investors invest in forward contracts, speculation starts while the stock remains lying at the mill's warehouse. However, he stated that this business is carried out mostly orally and no documentation is maintained.
135. Another such broker is Mr. Malik Majid who is working as a sugar broker for the last 25 years. According to Mr. Majid, the sugar mill conducts sale transaction mainly in four different ways:
- Genuine Buyer places demand with the broker who then informs the buyer about the bank account details of the mill. Once the buyer has deposited the amount, he shares the details with the broker on SMS or WhatsApp message and the broker confirms the same from the mill. After confirmation, a DO is issued to the buyer if he requires immediate delivery.
  - In case the buyer requires a delayed delivery, the DO is dispatched to the mill's goods transport agent. According to Mr. Majid, some sugar mills like Hamza, Shahtaj and Shakarganj Sugar Mills insist that the buyer lift the sugar within 15-20 days however others do not emphasize on lifting. He was of the view that this **un-lifted sugar is one of the major reasons for the sugar "SATTA"**. Further, according to Mr. Majid, the mill also benefits from this arrangement as the sugar is usually pledged with the bank and as long as the sugar is not lifted the pledge is not released, therefore, the mill utilizes the sale proceeds of such sold but un-lifted sugar for its working capital requirement. However, Mr. Majid stated that this



arrangement causes loss to the public as apparently sugar has been sold but once it does not reach the market, an artificial shortage is apparent and the mill owners and brokers earn profits by increasing the sugar price.

- iii. He also shared that the mill also executes forward contracts on the basis of token money "BIYANA" wherein the mill takes deposit of Rs. 2 to Rs. 3 per Kg for forward contracts of one to three months. This means that for 100 kg sugar bag, the mill sets the rate at Rs. 100 to Rs. 125 per 100 kg bag per month higher than the market rate. However, in the current season, mills fixed the rates up to Rs. 150 to Rs. 200 per 100 kg bag per month higher than the market rate. He reiterated that the sugar remains in the mill's godowns all the time.

136. The trend line of monthly ex-mill prices, given below, also corroborates the fact that these forward contracts enabled the increase in ex-mill rates by Rs. 5.3 per kg for June 2020 as compared to March 2020.



137. The above graph of ex-mill prices clearly shows a rising trend over the period where the monthly average ex-mill prices surged by Rs. 20.8 per kg or 33.3% from November 2019 to June 30, 2020, whereas, the average ex-mill rates surged by 23% in January 2020 from Nov 2019, in a span of just 2 months. Furthermore, as per the sales data provided by JDW Sugar Mill for the period from Oct 2019 to March 2020, the minimum ex-mill price was Rs. 60.75 on November 30, 2019 (sale to Haji Zameer, DO 77) while maximum price was Rs. 83.75 on January 31, 2020 (sale to Mr. Rashid, DO 445), reflecting a gap of Rs. 23 per kg or 40% increase in ex-mill price, in a span of just 2 months. This exceptional rise in ex-mill prices cannot be considered justified even after taking into consideration the higher price of sugarcane this year.

#### Findings:

138. Apart from genuine sale to registered corporate users, sugar brokers are abusing forward contracts to cover the speculative "Satta" sales.

The sugar mills are not only facilitating such speculative sales by providing storage spaces for longer durations and increasing ex-mill prices without any justifications but they are also major beneficiaries of "Satta" through advance payments, forfeiture of advances against such forward contracts in cases of non-lifting and through artificially increased sugar prices.

139. Many of the brokers have been found involved in "Satta" and operate the business and the "Satta" from the same office. The use WhatsApp has facilitated this activity and no restriction of space and time is applicable. Even they have their arbitrators as well who settle the disputes that arise.
140. There is no specific law prohibiting the speculative business of "Satta" on sugar and other commodities. The online gambling activity whether on a gambling site or done through any social media, like WhatsApp groups, is not covered under the Prevention of Electronic Crime Act 2016. Therefore, the law enforcement agencies can only apply Prevention of Gambling Act, 1977 which does not in any way provide for stringent punishment commensurate with the gravity of the offence. To deter the players involved in "Satta" on sugar and other commodities, the governments have therefore resorted to application Maintenance of Public Ordinance, 1960.

**Recommendation:**

141. The Commission recommends to formulate a legal framework for regulating and monitoring the activity and transactions of forward contracts in sale of sugar to ensure that it is not abused and is properly documented and executed.
142. The Government should consider bringing in new legislation specifically dealing with the form of gambling, whether physical or online, for "Satta" on sugar and other commodities.
143. Till the time new legislation is brought, the Provincial Government should take strict action according to the existing laws to control "Satta". The information about the place and persons involved in this speculation business is available with the Special Branch and Intelligence Agencies.



*h. Whether margins between Ex-Mill and Retail prices increased, compared to the previous years, or otherwise. If yes, reasons thereof and potential beneficiaries:*

144. The details of ex-mill and retail prices were obtained from the Provincial Governments and the Pakistan Bureau of Statistics. The data was then averaged out over the year and period under consideration.



Source: Data provided by PBS and Provincial Governments Punjab & KP

145. As can be seen there is a difference of about Rs. 5-7 per kg between the ex-mill price and the retail price. The margin is at the lower side, at about Rs. 5 per kg, for the current year. The bulk of the margin, however, goes to retailer who has to bear the cost of packing and loss during the sale.

146. The actual profits are made in the process of speculation by dealers and brokers by raising the retail price of sugar. The mill subsequently increases its ex-mill price according to market and gap between the ex-mill and retail price remains in traditional range of Rs. 5-7.

#### **Finding:**

147. The difference is of about Rs. 5-7 per kg between the ex-mill price and the retail price.

*i. Impact of Tax increase on sugar prices at Ex-Mill/Retail level:*

148. GST in the financial year 2018-2019 was 8% for the registered and 11% for the non-registered persons on sale of sugar from the sugar mills. But since majority of the buyers were non-registered so the GST was charged at 11% in majority of the cases. In the current financial year 2019-2020 the Government has increased the GST to 17% across the board. The same increase is transferred to the consumers ultimately as it is included in the ex-mill price calculations of PSMA.
149. Furthermore, the FBR has notified the minimum ex-mill price of sugar at Rs. 60 per Kg. for calculating sales tax irrespective of the fact that it may be lower or higher. Hence the GST on sugar was Rs. 10.20 per Kg at the rate of Rs. 60 per kg ex-mill price. However, after the ex-mill price increased above the Rs.60 benchmark of FBR after June 2019, the sugar mills continue to pay sales tax at Rs.10.20 per kg (i.e. considering ex-mill price of Rs.60). Hence, substantial amount of Sales Tax was being evaded by the sugar mills.
150. When the GST rate was 11%, the tax impact at the ex-mill price of Rs. 60 per kg was Rs. 6.6 per kg. The change in Finance Act 2019 increased the rate of GST to 17% across the board. The total impact, thus increased to Rs. 10.2 per kg.
151. The prices of sugar had started to increase from December 2018. The retail price of sugar in December 2018 was Rs. 55.99 per kg and started to increase with every passing month and reached to Rs. 71.44 per kg in June 2019. It is pertinent to mention here that there was no increase of GST at that time. As can be seen the real increase in the retail price happened between December 2018 to June 2019 when it went up by about Rs. 16 per kg. Similarly, the major increase in ex-mill price occurred between December 2018 to June 2019 when it increased by almost Rs. 12 per kg which is from Rs. 51.64 to Rs. 63.59 per kg. This period saw no increase in sales or other taxes and the price of sugarcane, the major input, was also stable. The increase in retail price between July 2019 to January 2020 is from Rs. 71 per kg to Rs. 74.64 per kg. The data, therefore, does not show any major effect of GST on retail price.

**Table: 24. Comparison of Ex-Mill & Retail Prices of Sugar 2019**

Sr. No	Months	Ex-Mill Price PKR	Retail Price PKR	Difference
1	Nov-18	50.05	55.47	5.42
2	Dec-18	51.64	55.99	4.35
3	Jan-19	54.30	59.30	5
4	Feb-19	54.73	59.37	4.64
5	Mar-19	57.46	61.15	3.69
6	Apr-19	60.49	65.03	4.54
7	May-19	62.48	67.31	4.83
8	Jun-19	63.59	71.44	7.85
9	Jul-19	65.73	71.93	6.2



10	Aug-19	68.62	75.14	6.52
11	Sep-19	68.56	75.39	6.83
12	Oct-19	68.30	74.46	6.16
13	Nov-19	67.42	73.26	5.84
14	Dec-19	67.48	71.71	4.23
15	Jan-20	69.14	74.64	5.5
16	Feb-20	71.56	79.86	8.3

*Source: Data Provided by Pakistan Bureau of Statistics and Provincial Governments  
(Incomplete Data was provided by Sindh Government)*

#### **Finding:**

152. The increase in tax impact is Rs. 3.6 per kg due to the increase in rate of GST to 17%, after 1<sup>st</sup> July 2019.
153. The real increase in the retail price occurred between December 2018 to June 2019 when it went up by about Rs. 16 per kg. Similarly, the major increase in ex-mill price occurred between December 2018 to June 2019 when it increased by almost Rs. 12 per kg which is from Rs. 51.64 to Rs. 63.59 per kg. This period saw no increase in sales or other taxes and the price of sugarcane, the major input, was also stable. The increase in retail price between July 2019 to January 2020 is from Rs. 71 per kg to Rs. 74.64 per kg. the data, therefore, does not show any major effect of GST on retail price.

#### **Recommendation:**

154. Matter needs to be referred to FBR with the instructions to recover the sales tax evaded by the sugar mills during last one year on additional amount of ex-mill price exceeding FBR threshold of Rs.60 per kg.
155. Further, FBR should take steps to immediately start collecting sales tax on actual prevailing ex-mill rates instead of benchmark rates of Rs. 60 per kg.

*j. Hoarding at whole sale/ Retail level and within sugar mills vis-a-vis stocks of last year:*

156. Normally, the sugar is purchased by the whole sale dealers, through the Mill agent/brokers. Other industrial buyers mostly buy directly from the mills. The sold sugar mostly remains stocked within the sugar mills and is lifted as per the requirement of the buyer. The sugar is also stocked in other godowns by the brokers/stockists in some of the cases.
157. Stocking of sugar in both the above-mentioned cases, is not being monitored despite the law, in Punjab and Sindh, which requires the registrations of godowns for essential items. The provincial governments seemed to be unaware of the provisions of these legislations with the result that no record of stockists of essential commodities like sugar was available with the governments when the matter was raised by the Sugar and Wheat Inquiry Committees 2020. Since then the Government of Punjab has taken the initiative of mapping and registration of all the godowns of essential items and started application of this law in a phased manner.
158. The Commission believes that the warehouses of the mills should also be brought under the purview of this law. This is essential not only for ascertaining the real stocks available in the country but also for determining whether the strategic reserves actually are available. The current total reliance on PSMA for assessment of the stock position in the country is neither prudent nor advisable as the Commission has found that in certain cases even the stocks pledged with the banks, which is overseen by the Muqaddams, have been found to be short. The absence of accurately verifiable data about the stock position leads room for the manipulation of sugar prices in the local market. Needless to say, that the unreliability of data about the real stocks position leads to erroneous decision-making about subsidy and export etc.
159. The audit teams have worked on the stocks and sales analysis which shows how the sugar mills are involved in keeping the sold stocks hoarded in their godowns for unusually long period of time.
160. As an example, sale and lifting patterns of **JDW Company** are shown in the table below. The brokers, or the investors through the brokers, buy sugar from the sugar mills around the crushing season when the prices are usually low. Instead of supplying the sugar in the market at the prevalent rate, the sugar is stored in the warehouse; thus, creating shortage of supply and is finally lifted when undue and abnormal profits can be made. This phenomenon coupled with "Satta", as has already been explained in the TOR (g), leads to profiteering by the investors/brokers in connivance with the mills at the expense of general public. The table below shows the time lag in sale contract and actual lifting for delivery in the market.



Table 25						
Year	Name of Broker	D.O. No.	Sugar Sold (Bags)	Forward Contract Date	Lifting Completion Date	Time Lag in Contract and Lifting of Sugar Bags (Days)
2017-18	Mushtaq Paracha	16	12,000	1-Dec-17	25-Sep-18	298
2017-18	Mushtaq Paracha	18	7,200	1-Dec-17	19-Sep-18	292
2017-18	Mushtaq Paracha	72	12,000	23-Dec-17	30-Sep-18	281
2017-18	Mushtaq Paracha	24	1,200	1-Dec-17	4-Sep-18	277
2017-18	Mushtaq Paracha	82	12,000	30-Dec-17	30-Sep-18	274
2017-18	Mian M. Anwar Khursheed	231	12,000	11-Nov-17	2-Aug-18	264
2017-18	Mushtaq Paracha	85	4,800	17-Jan-18	18-Sep-18	244
2017-18	Mushtaq Paracha	174	6,000	3-Feb-18	30-Sep-18	239
2017-18	Mian M. Anwar Khursheed	230	12,000	11-Nov-17	6-Jul-18	237
2017-18	Mian M. Anwar Khursheed	291	6,000	1-Dec-17	21-Jul-18	232
2017-18	Mushtaq Paracha	97	10,800	20-Jan-18	18-Aug-18	210
2017-18	Haji Zameer	107	21,600	29-Jan-18	27-Aug-18	210
2017-18	Mian M. Anwar Khursheed	229	12,000	11-Nov-17	29-May-18	199
2017-18	Mushtaq Paracha	91	6,000	20-Jan-18	28-Jul-18	189
2017-18	Mushtaq Paracha	329	6,000	9-Apr-18	26-Sep-18	170
2017-18	Mushtaq Paracha	324	6,000	9-Apr-18	24-Sep-18	168
2017-18	Mushtaq Paracha	96	1,200	20-Jan-18	5-Jul-18	166
2017-18	Mushtaq Paracha	60	19,200	6-Dec-17	10-May-18	155
2017-18	Kh. Imran	359	6,000	10-Apr-18	12-Sep-18	155
2017-18	Haji Zameer	63	24,000	9-Dec-17	12-May-18	154
2017-18	Haji Zameer	280	12,000	6-Apr-18	6-Sep-18	153
2017-18	Mushtaq Paracha	59	12,000	6-Dec-17	5-May-18	150
2017-18	Mushtaq Paracha	391	12,000	7-May-18	30-Sep-18	146
2017-18	Kh. Imran	64	24,000	9-Dec-17	3-May-18	145
2017-18	Mian M. Anwar Khursheed	228	12,000	26-Nov-17	20-Apr-18	145
2017-18	Haji Zameer	371	12,000	10-Apr-18	30-Aug-18	142
2017-18	Kh. Imran	55	24,000	6-Dec-17	13-Apr-18	128
2018-19	Haji Zameer	519	6,000	6-Mar-19	16-Sep-19	194
2018-19	Haji Zameer	560	6,000	26-Mar-19	28-Sep-19	186
2018-19	Haji Zameer	443	12,000	4-Mar-19	3-Sep-19	183
2018-19	Kh. Imran	687	6,000	3-Apr-19	28-Sep-19	178
2018-19	Haji Zameer	99	6,000	23-Nov-18	17-May-19	175

2018-19	Kh. Imran	686	6,000	3-Apr-19	25-Sep-19	175
2018-19	Kh. Imran	688	6,000	3-Apr-19	25-Sep-19	175
2018-19	Kh. Imran	131	6,000	25-Dec-18	17-Jun-19	174
2018-19	Haji Zameer	559	6,000	26-Mar-19	14-Sep-19	172
2018-19	Kh. Imran	685	6,000	3-Apr-19	21-Sep-19	171
2018-19	Haji Zameer	522	6,000	6-Mar-19	23-Aug-19	170
2018-19	Haji Zameer	558	6,000	26-Mar-19	12-Sep-19	170
2018-19	Mushtaq Paracha	642	6,000	2-Apr-19	14-Sep-19	165
2018-19	Rashid	720	3,600	18-Apr-19	30-Sep-19	165
2018-19	Mushtaq Paracha	329	6,000	19-Feb-19	2-Aug-19	164
2018-19	Kh. Imran	684	6,000	3-Apr-19	13-Sep-19	163
2018-19	Haji Zameer	557	6,000	26-Mar-19	2-Sep-19	160
2018-19	Haji Zameer	521	6,000	6-Mar-19	8-Aug-19	155
2018-19	Rashid	719	3,600	18-Apr-19	20-Sep-19	155
2018-19	Haji Zameer	520	6,000	6-Mar-19	7-Aug-19	154
2018-19	Haji Zameer	555	6,000	26-Mar-19	23-Aug-19	150
2018-19	Mushtaq Paracha	193	6,000	26-Jan-19	21-Jun-19	146
2018-19	Rashid	718	3,600	18-Apr-19	11-Sep-19	146
2018-19	Haji Zameer	518	6,000	6-Mar-19	27-Jul-19	143
2018-19	Kh. Imran	267	6,000	6-Feb-19	29-Jun-19	143
2018-19	Mushtaq Paracha	643	6,000	2-Apr-19	22-Aug-19	142
2018-19	Rashid	717	3,600	18-Apr-19	7-Sep-19	142
2018-19	Mushtaq Paracha	727	2,400	27-Apr-19	15-Sep-19	141
2018-19	Haji Zameer	508	6,000	6-Mar-19	23-Jul-19	139
2018-19	Kh. Imran	292	6,000	6-Feb-19	24-Jun-19	138
2018-19	Haji Zameer	517	6,000	6-Mar-19	21-Jul-19	137
2018-19	Kh. Imran	297	12,000	6-Feb-19	22-Jun-19	136
2018-19	Kh. Imran	683	6,000	3-Apr-19	16-Aug-19	135
2018-19	Rashid	24	6,000	17-Oct-18	26-Feb-19	132
2018-19	Rashid	249	12,000	6-Feb-19	17-Jun-19	131
2018-19	Haji Zameer	334	12,000	19-Feb-19	29-Jun-19	130
2018-19	Haji Zameer	514	6,000	6-Mar-19	12-Jul-19	128
2018-19	Haji Zameer	516	6,000	6-Mar-19	12-Jul-19	128
2018-19	Haji Zameer	344	24,000	19-Feb-19	26-Jun-19	127
2018-19	Kh. Imran	682	6,000	3-Apr-19	8-Aug-19	127
2018-19	Mushtaq Paracha	641	6,000	2-Apr-19	6-Aug-19	126
2018-19	Rashid	582	6,000	27-Mar-19	29-Jul-19	124
2018-19	Mushtaq Paracha	60	6,000	11-Nov-18	14-Mar-19	123
2018-19	Mushtaq Paracha	71	3,600	14-Nov-18	16-Mar-19	122

161. The JDW Company management responded as follows: “we would highlight correction in terminology viz sales transactions with brokers, in that only lifted stocks are “sold stocks” – stocks for which payment has been received in advance from brokers and which may have been earmarked/identified internally only for sake of fiscal prudence (colloquially the un-lifted stocks), as per legal and accounting requirements continue to remain stocks of company until lifted”. This



explanation provided by the Company is not tenable as per accounting principles and tax laws.

162. Another instance of hoarding was detected in the analysis of the sugar stock data pertaining to **Hunza Sugar Mills** for the period from October 2017 to March 2020. It was observed that Unit – I of the mills was mostly dealing in local market sales and Unit – II only sold 9.62% of available stock in 07-months period between May 2018 and November 2018, despite sufficient inventory being available in the godowns of Mills. The mill then exported 74% of its production in 2019, thus, saving on the sales tax, getting subsidy and also contributing to the perception of low stocks in the country leading to rise in price of sugar in the local market.

#### **Findings:**

163. There is sufficient evidence of hoarding of sugar at the level of sugar mills in connivance with brokers/investors.
164. The sugar mills facilitate keeping the sold stocks hoarded in their godowns which leads to undue profiteering.
165. Despite the availability of relevant laws (Registration of Godowns Acts in Punjab and Sindh), no data of stocking of the sugar, by the stockists or the sugar mills, is being maintained by the Provinces.
166. The current total reliance on PSMA for assessment of the stock position in the country is neither prudent nor advisable.
167. There is no mechanism to ascertain the real stocks or the strategic reserves available in the country. The unreliability of data about the real stocks position may lead to erroneous decision-making about subsidy and export etc.

#### **Recommendations:**

168. The warehouses of the mills should be brought under the purview of Registration of Godowns Act and strict implementation by the Provincial Governments to ensure that no hoarding is possible.
169. There is no authority to monitor the Forward Contracts, which are also being used for hoarding and “Satta”. The Provincial governments should make it mandatory for the mills to provide the forward contract reports on a daily basis, specifying the quantity of sugar, its booking price and maximum lifting time. The Provincial Governments need to strengthen their inspection regime which should also include verifying that no sugar remains un-lifted after the expiry of the forward contract.

*k. Was the export of sugar justified? Any subsidy given on export and its impact, with potential beneficiaries:*

170. Pakistan has been exporting sugar since last many years. From 2014-2015 to to-date, Pakistan has exported more than 4.0 Million Metric Tons of sugar and paid more than Rs. 29 billion to the sugar mills in terms of sugar export subsidy. Exporting sugar with subsidy means that we are exporting on the international rates which are lower than the cost of production claimed by sugar mills and the differential cost is being paid from the tax payers' hard-earned money. The Commission analyzed the sugar exports from 2014-2015 to to-date and each sugar export scheme, with or without subsidy, during this period has been examined in detail.

**Sugar Export Subsidy Scheme 2014-15 (Scheme of 2015 without Subsidy):**

171. A meeting of the inter-ministerial committee was held in Ministry of Commerce on 06-11-2014, with Secretary of Commerce in chair, to deliberate the export of sugar as per the demands of PSMA. PSMA undertook to start the crushing season for the next year provided that the Government of Pakistan agrees to:
- i. Imposition of 25% import duty on import of sugar
  - ii. Permission to export 0.5 MMT of sugar
  - iii. Revival of SRO 77(I)/2013 be extended export by land route in dollar terms to Afghanistan and beyond to provide subsidy on export of sugar.
172. On 07-11-2014, Ministry of Commerce forwarded the same proposals to the ECC, although the Revenue Division opposed the revival of the SRO 77 of 2013. The ECC in its meeting held on 12-11-2014 decided to:
- i. Allow sugar export of 0.5 MMT
  - ii. Imposition of 20% regulatory duty on import of sugar through the SRO
  - iii. Allowed export of sugar to Afghanistan and beyond via the SRO 77 of 2013

**Sugar Export Subsidy Scheme 2014-15 (Scheme of 2015 with Subsidy):**

173. Another meeting of the same Inter-Ministerial Committee, with Secretary of Commerce Mr. Shahzad Arbab in chair, was held with PSMA on 22-12-2014. After discussion with the PSMA, the Committee recommended:
- i. Quota for the sugar export may be increased from 0.5 to 0.65 MMT
  - ii. Regulatory duty to be imposed on the import of sugar
  - iii. Minimum price for export to Afghanistan may be fixed at US\$ 450 per MT
  - iv. Inland freight subsidy of Rs. 2 per kg may be allowed. This will cost Rs. 1.3 billion.
  - v. Cash subsidy on sugar export of Rs. 8 per kg may be allowed. This will cost Rs. 5.2 billion.



- vi. The total cost of subsidy will be Rs. 6.5 billion which shall be shared equally by the Federal Government and the respective Provincial Government.
174. On 23-12-2014, Secretary of Commerce forwarded the same proposals to the ECC. On 24-12-2014 the ECC agreed with the summary and approved the proposal.

**Observations:**

175. PSMA demanded from the Government, right before the start of the crushing season, to allow export as they have to pay to the farmers otherwise, they will not be able to start the crushing season. As has been observed in the analysis of the next subsidy schemes, this is the pattern adopted by the PSMA at the start of every crushing season. They claim to have excess sugar which is more than the domestic requirement and that they can only pay the dues of the farmers and procure the sugarcane if export is allowed. Non-starting of crushing season on time, puts the Government under immense pressure from the farmers. In this scheme, the Government allowed the export without the subsidy but later changed the decision after about a month and allowed payment of subsidy of Rs. 6.5 billion with enhanced quota.
176. On 12th November 2014, the export of sugar was allowed without any subsidy and on 24th December 2014, the same stock of sugar was allowed a subsidy of Rs. 6.5 billion. This export subsidy was allowed for the export on the rate calculated based upon the cost of production provided by PSMA and no independent calculations were made. The second summary and approval from the ECC was completed within three days and all the demands of the PSMA were approved. During this short period, from 12th November 2014 to 24th December 2014, there was no major change in the stock of sugar, cost of production of sugar or international price of sugar but still the decision to provide subsidy of Rs. 6.5 billion was made in the favor of PSMA and as a result, 0.542 MMT of sugar was exported. Two reasons were cited, in the summary, for allowing the export subsidy; low international price of sugar, at the time, at US\$ 380 per MT and higher cost of production.
177. At that time, the concept of sliding scale was not in vogue and therefore, subsidy was not granted on sliding scale. Subsidy was granted at a flat rate of US \$ 396 per MT in December 2014. Incidentally, the average unit export price of Pakistan's sugar export from January 2015 to July 2015 was US \$ 444 per MT.
178. It is also worth mentioning that during the period of export from December 2014 and onwards the price of sugar increased in domestic market for local consumption. As per the data compiled by the Pakistan Bureau of Statistics, the price of sugar in December 2014 was Rs. 54.12 per kg whereas in October 2015 the average price increased to Rs. 61.55 per kg; showing an increase of 13.7%.

### **Sugar Export Subsidy Scheme 2015-16 (Scheme of 2016):**

179. On 20th November 2015, PSMA met the Prime Minister and made a representation highlighting the problems being faced by the sugar mills and the sugarcane growers in the country. On 25-11-2015, Prime Minister of Pakistan constituted an Inter-Ministerial "Committee to Examine the Problem of Sugar Mills in Pakistan" to examine the issue. The meeting of this Committee was held on 30-11-2015, and 03-12-2015, with Secretary Commerce Mr. Shahzad Arbab in Chair.

- i. Secretary NFS&R Mr. Seerat Asghar argued that as per statement of PSMA there is abundance of sugar in the country but still the prices of sugar in Pakistan is amongst the highest in the world. He stated that while we have scarce financial resources to spend on agriculture, it is inappropriate to spend billions on sugar subsidies; this is bleeding of financial resources and must stop.
- ii. Representative of Ministry of Industries reported that the net export surplus at the end of the year would be 0.63 MMT. He also lamented that despite the multiple tenders issued by the Utility Stores Corporation (USC), no sugar mill is willing to supply sugar to USC depriving it of its role as price stabilizing agent for the domestic market.
- iii. The Committee recommended the export of 0.25 MMT till March 2016. The committee also recommended the subsidy of Rs. 10 per kg on the export of sugar as decided by the ECC last year.

180. On 06-12-2015, a meeting was held in Ministry of Commerce with Secretary Commerce Mr. Shahzad Arbab in chair. After deliberation on the minutes of the inter-ministerial committee and discussion with the PSMA, it was recommended;

- i. To allow export of 0.5 MMT of sugar
- ii. Cash freight support of Rs. 13 kg for export of sugar be allowed and shall be shared equally by the Federal Government and the respective Provincial Government
- iii. Minimum price for export to Afghanistan may be fixed at US \$ 450 per MT
- iv. The cash support may be disbursed through State Bank of Pakistan

181. On 7th December 2015, ECC of the Cabinet allowed the recommendations of the Committee.

### **Observations:**

182. Right before the start of the crushing season, the PSMA started pressurizing the Government to allow the export of sugar along with the subsidy. The Government, under pressure for commencing the crushing season, allowed the export along with the subsidy. The practice of the previous year on relying on the figures provided by the PSMA and without any independent evaluation of calculation of cost of production and availability of stocks was followed. There seems to be haste in



making such important decision as the whole process of granting the subsidy was completed just within 17 days.

183. No sugar mill participated in any of the multiple tenders which were floated for supply of sugar to USC but rather insisted to allow for the export with subsidy.
184. Inter-Ministerial Committee recommended the export of 0.25 MMT with a subsidy of Rs. 10 per kg but Ministry of Commerce, within 15 days, recommended the export of 0.5 MMT with a subsidy of Rs. 13 per kg. No reason is available on record to justify the increase in quantity of sugar to be exported and the enhancement of subsidy from Rs. 10 to Rs. 13 per kg. This despite the fact that, in December 2014, the international price of sugar was US\$ 397, whereas it rose to US\$ 409 per MT in December 2015, meaning that the amount of subsidy should have, in fact, been reduced instead of being increased. The international prices mentioned above are quoted from the PSMA annual report 2019. Total outlay required to be paid for subsidy came to be Rs. 6.5 billion.
185. No independent calculation of cost of production was done to reach the amount of subsidy.

**Sugar Export Subsidy Scheme 2016-17 (Scheme of 2017 without subsidy):**

186. On 19-12-2016, a meeting of SAB was held in the Ministry of NFS&R which recommended the export of 0.3 MMT of sugar surplus without any subsidy. Ministry of Commerce, on this summary, recommended 0.225 MMT of export to the ECC. The ECC in its meeting held on 28-12-2016 approved the recommendation of Ministry of Commerce and allowed the export of 0.225 MMT of sugar, without subsidy. The international price of sugar at this time was US \$ 524 per MT.
187. On 16-03-2017, a meeting of SAB was held on the request of Ministry of Commerce to consider the request of further export of 0.5 MMT of sugar, but SAB recommended 0.4 MMT. Ministry of Commerce, in its summary for the ECC dated 17-03-2017, recommended 0.2 MMT of sugar to allow to be exported without subsidy. The ECC in its meeting held on 28-03-2017 approved the recommendations of the summary. The international price of sugar at this time was US \$ 577 per MT.
188. On 17-05-2017, a meeting of SAB was held, with Mr. Khizar Hayat Gondal Secretary Mo I&P in chair. After consultation with PSMA and other stakeholders, SAB recommended that since the total surplus sugar by the end of the season will be 1.884 MMT; therefore, it will be safe to recommend export of 1.20 MMT without making it time bound. Ministry of Commerce in its summary dated 07-07-2017 proposed export of 0.6 MMT but the ECC in its decision dated 18-07-2017 allowed export of 0.3 MMT without any subsidy. The international price of sugar at this time was US \$ 434 per MT.
189. These three schemes allowed 0.725 MMT of sugar to be exported without any subsidy in 2017. The sugar to be exported was

manufactured in the crushing season from December 2016 to March 2017.

#### Sugar Export Subsidy Scheme 2017-18 (Scheme of 2017 with Subsidy):

190. On 07-09-2017, a meeting of SAB was held, with Mr. Khizar Hayat Gondal Secretary I&P in chair. The PSMA demanded that 2.0 MMT of sugar be allowed to be exported with a subsidy of Rs. 18 per kg. After consultations, SAB recommended export of 1.5 MMT and observed that Mo I&P may assist Ministry of Commerce & Textile in working out the subsidy.
191. According to MOI&P's U.O.No. 1(6)/2016-CAO, dated 08-09-2017 sent to Secretary to the Prime Minister by the Secretary of Commerce; *"The Prime Minister of Pakistan also held a meeting in the Prime Minister's office with PSMA on 07-09-2017 in which among other directives, Ministry of Industries and Production was directed to work out production cost of sugar which can be made basis for deliberating on the demand of PSMA for grant of subsidy for export purpose, today positively."* In pursuance of the directions, an exercise was undertaken in the Mo I&P and cost was worked out as Rs. 52.46 per kg.
192. **The cost of production calculated by Mo I&P 2017** and the resulting subsidy was calculated by Mr. Muhammad Yasir Iqbal, Grade 17 cost accounts officer Mo I&P who was given a time of less than 24 hours to calculate it. The following were the calculations.

#### Factors:

Sugar Recovery % age	9.87
Molasses Recovery %age	4.40
Sales Price of Molasses Rs. /Kg	12.00
Manufacturing Profit Rs. /Kg before Tax	-

#### Cost of Production of Sugar:

1	Price of Sugar Cane (Raw Material Cost)	Rs. Per 40 Kg	181.0
2	Sale of Molasses	Rs.	21.12
3	Net Cost of raw Material	Rs.	159.88
4	Development Cess	Rs.	1.50
5	Market Committee Fee	Rs	0.30
6	Freight	Rs.	2.00
7	Total Cost of Raw material	Rs.	163.68
8	Sugar Obtained from 40 Kg of Cane	Kgs	3.95
9	Cost of Raw material per Kg of Sugar	Rs. /Kg	41.46
10	Processing cost & other overheads	Rs. /Kg	11.00
11	Total Manufacturing Cost	Rs. /Kg	52.46

#### International Prices of Sugar London Board Dated 07-09-2017

376.6\$/Ton, Premium = 20\$

376.6\$/Ton + 20\$= 396.6\$

PKR 41.80 (396.6\$ @ Rs. 105.40/\$/1000)

Source: Sugaronline.com

#### Price differential between international price and domestic cost of production

Rs. 52.46- Rs. 41.80 = Rs. 10.7



193. This cost was presented in the meeting of Inter-Ministerial committee held on 11-09-2017, with Mr. Mohammad Pervaiz Malik Minister for Commerce in Chair. In this meeting, it was decided to recommend the export of 1.5 MMT of sugar to the ECC with a subsidy of Rs. 10.7 per kg.
194. On the next day, 12-09-2017, a meeting was held in the Ministry of Commerce, with Mr. Mohammad Yunus Dagha secretary of Commerce in chair. The recommendations of inter-ministerial committee were forwarded to the ECC. The ECC in its meeting held on 14-09-2017, decided to;
- a. Allow 0.5 MMT export of sugar
  - b. Maximum Subsidy of Rs. 10.7 per kg. on the sliding scale between the international price of US\$ 376 per MT (as on 08-09-2017) and US\$ 499 per MT (US\$ 499 is the international sugar price which equals with the cost of production as calculated by the Mo I&P)
  - c. Subsidy shall be shared equally by the Federal Government and the respective Provincial Government.
195. Again on 27-11-2017, secretary commerce Mr. Mohammad Younus Dagha moved a summary to the ECC to allow additional export of sugar. On 28-11-2017, the ECC decided to:
- a. Allow export of additional 1.5 MMT of sugar subject to the conditions of the decision of the ECC dated 14-09-2017.

**Observations:**

196. On 28-03-2017 the ECC allowed the export of 0.4 MMT of sugar. At that time, the international price of sugar was US\$ 577 per MT. This price was much higher than the cost of production as stated by the PSMA. It was the end of March and the crushing season was almost over and the Government and the PSMA had very fair idea of the excess production of the current year and the carryover stocks of the previous year. If the export of 2.0 MMT was allowed at that time, the country would have earned huge amount of foreign exchange and the Government could have saved more than Rs. 20 billion which were later allocated to the sugar mills as the export subsidy.
197. On 07-07-2017 Commerce Ministry proposed export of 0.6 MMT but the ECC in its decision dated 18-07-2017 allowed export of 0.3 MMT without any subsidy. The international price of sugar at this time was US\$ 434 per MT. This international price of sugar was lower than US\$ 499 (US\$ 499 price was used as equivalent to the cost of production calculated by the Mo I&P to grant the subsidy). But no subsidy was granted while allowing the export of sugar.
198. There was no change in the cost of production and no major change in the international price of sugar from 18-07-2017 to 14-09-2017 yet the decision to export without subsidy was changed and a subsidy of more

- than Rs. 5.0 billion was allocated in the first instance and further Rs. 15 billion were also allocated later.
199. Subsidy is the differential between the international price and the cost of the production of domestic sugar. Calculation of cost of production was done by a grade 17 Cost Accounts Officer who had no experience of the cost accounting in sugar industry. He was given less than 24 hours to calculate the cost of production and on these superficial calculations, a subsidy of more than Rs. 20 billion was allocated from the public exchequer to the sugar mills.
  200. It is worth mentioning here that the ECC allowed export of 0.5 MMT of sugar with subsidy on 14-09-2017 on the basis of cost of production calculated by the Mo I&P. However, when the ECC allowed further export of 1.5 MMT with the same subsidy, then Mo I&P was also directed to get the cost of production validated through a third party (Annexure 4).
  201. Mo I&P wrote to the Finance Division (CF-C Section) for validation of cost of production. Finance Division, in letter dated 10-01-2018, raised serious observations about the cost of production calculated, as reproduced below: (Annexure 5)
    - i. *Sugar recovery ratio appears on the lower side, which drives cost on the higher side,*
    - ii. *Development Cess and Market Fee are allowable expenditures under the Income Tax Ordinance 2001, therefore inclusion in the cost of production is not justified as the same is recovered subsequently,*
    - iii. *Processing cost and other overhead contain the aspect of depreciation and other post gross profit expenditure and therefore, their inclusion in the cost sheet need to be relooked. The cost of production is likely to reduce substantially in this way.*
    - iv. *Off-setting by other income (e.g. electricity generation from Bagasse) will further decrease the cost of production.*
    - v. *Only considering the point b, the cost of production decreases by Rs. 5.10 per kg.*
  202. In this export scheme of 2017-2018, Rs. 10.7 per kg subsidy was granted by the ECC only for export of 2.0 MMT of sugar (Sindh granted additional subsidy of more than Rs. 4 billion). A decrease of Rs. 1.0 per kg of subsidy meant the saving of more than Rs.2.0 billion. Even if all the observations of Finance Division were ignored and only adjustments of Rs. 5.10 per kg were considered, this would have saved more than Rs. 10 billion. The major export and subsidy availed was after January 2018. Therefore, timely intervention could have saved billions of rupees for the national exchequer.
  203. On the analysis of Finance Division, Mo I&P endorsed the calculations of Finance Division and prepared an implementation report and submitted it to the Cabinet Division for consideration on 27-02-2018 (Annexure 6). On 14-03-2018, the Cabinet Division requested Mo I&P to submit the



requisite report of Finance Division to the ECC in the form of summary in its next meeting (Annexure 7). However, this summary was never submitted as on 19-03-2018, the ECC issued a corrigendum directing the Mo I&P to get the cost of production validated through a third party. Following was added in the ECC decision *"As demand for subsidy by the sugar industry, inter-alia, is based upon the differential between cost of production of sugar and prices in the international market, the Ministry of Industries and Production was directed to get the cost of production (as mentioned in para 18) validated through a third party"*. At Annexure III is the summary of Secretary Commerce, Mr. Khizar Hayat Gondal, dated 08-09-2017.

204. **The entire matter, of not putting up the summary in the ECC based on the reduced cost of production as proposed by the Finance Division, resulted in loss of more than Rs. 07 billion, and requires a detailed inquiry and legal proceedings.**
205. It took more than a year for Mo I&P to decide and finally ask the CCP on 25 June 2019, for validation (Annexure 8). On 19 November, 2019 the CCP finalized the calculation and replied to the Mo I&P that cost of production was Rs. 51.93 per kg which was close to the figure Rs. 52.46 as calculated by the Mo I&P. But this calculation by the CCP was also based on the audited financial statements and cost audit reports of the sugar mills for that year.
206. Mr. Shahid Khaqan Abbasi, former Prime Minister of Pakistan, and Mr. Khurram Dastagir, former Federal Minister, made a voluntary appearance before the Commission. Mr. Shahid Khaqan Abbasi explained that for the first time the system of sliding scale was introduced for calculating the subsidy to be paid in light of the varying international price of sugar and thus ensuring that the amount of subsidy paid was according to the real international price. He further explained that also for the first time, the cost of production was not approved based on the calculations made by PSMA and instead were calculated independently by Mo I&P.
207. He was asked why the cost of production was calculated hurriedly despite the fact that this is an annual requirement and such calculations could be got done by the experts if given proper time. He said that Secretary Commerce Mr. Dhaga was asked to prepare the cost of production and the calculation that he made were far lower than the subsidy demanded by PSMA.
208. He also contended that the subsidy was not the main issue as regards to the price hike in wake of the export of sugar by the current government in 2018-19. According to him the real issue was that the export was allowed by the government when the stocks were not sufficient and this resulted in profiteering by the mill owners who made profits in excess of Rs. 100 billion by increasing prices. He also said that he himself used to chair all the ECC meetings.



209. The Commission is of the view that as per the documentary evidence available as discussed in the Paras above, the calculation of subsidy based on the cost of production in 2017-2018 was not done with due diligence while approving the subsidy of Rs. 20 billion. Mr. Shahid Khaqan Abbasi could not provide satisfactory answers or documentation to explain and justify the subsidy procedure. Moreover, a grade 17 officer was given less than 24 hours to calculate the cost of production and also did not possess the requisite qualification and experience of cost accounting.
210. The notified support price of sugarcane, i.e. Rs. 180 per 40 kg, was used to calculate the cost of production. The Commission has discussed all the evidence in TOR(s) which clearly shows that the sugar mills have been procuring sugarcane well below the support price in 2017-2018. The Commission believes that if the calculations of the cost of production were done properly and the data used was verified this subsidy and the previous subsidies of more than Rs. 25 billion could have been avoided.

**Sindh Government Sugar Export Subsidy Scheme 2017-18 (Additional Subsidy of Rs. 9.30 per kg):**

211. On 22-11-2017, Secretary Agriculture Government of Sindh moved a summary for the grant of subsidy on export of sugar (Annexure 9). The summary was discussed in the Cabinet meeting dated 04-12-2017 as agenda item-2. The Minister for Agriculture apprised the Cabinet that *"the PSMA has requested to consider the additional support subsidy of Rs. 9.30 per kg in addition to Rs. 10.70 per kg which was already sanctioned by the Federal Government. If additional support is given to the PSMA, it will be in the best interest of the public and growers"*.
212. The Minister for Industries apprised the Cabinet that whenever support is given to PSMA, its effects do not trickle down to the growers and growers are least paid for their crop. The additional cash freight shall be given if it is ensured that growers are paid Rs. 182 per 40 kg of sugarcane. The Minister for Food endorsed the point. The Minister for Agriculture added that sugarcane from Punjab is sold on prices of Rs. 110-120 per 40 kg in three districts of Sukkur, Ghotki and Kashmore-Kandhkot.
213. Secretary Finance apprised the Cabinet that if additional cash freight support of Rs. 9.3 per kg is translated into money terms its financial impact would be huge. The budget 2016-2017 was presented with deficit of Rs. 13 to Rs. 14 billion. If additional support is given on sugar export, it will decrease the development budget's share in coming election year.
214. However, the Cabinet approved the additional cash freight support of Rs. 9.3 per kg of sugar in addition to its 50% share in the cash freight support of Rs. 10.70 per kg allowed by the Federal Government on following terms and conditions.



- i. The Agriculture department may reach an agreement with the Sindh Bank Limited (SBL) and deposit the full amount of cash freight support in SBL.
- ii. No mill shall claim a cash freight support of Rs. 9.3 per kg for any quantity greater than 20,000 MT.

**Observations:**

215. As shown in the table below, 26 sugar mills have been paid Rs. 4.123 billion against the reported export of 443,347 MT; while the claims of few sugar mills are still pending. This subsidy was not disbursed through the State Bank of Pakistan, rather through Sindh Bank Limited.

Sindh Cash Freight Support on export of Sugar Position as on 20.6.2019/ For the Year 2018				
S No	Name	SUGAR MILLS	Qty Paid (M.T)	Subsidy Paid (Millions)
1	OMNI GROUP	LARR	15,986.00	148.67
2		ANSARI	19,590.00	182.19
3		TANDO ALLAHYAR	15,542.00	144.54
4		BAWANY	19,362.00	180.07
5		NAUDERO	14,730.00	136.99
6		NEW DADU	19,740.00	183.58
7		SAKRAND	6,547.00	60.89
8		CHAMBER	19,950.00	185.54
9		KHOSKI	17,997.50	167.38
	Group Total		149,444.50	1,389.83
10	JDW	J.D.W-III (GHOTKI)	19,998.00	185.98
11		AKT (Gulf)	Claim Pending	Reportedly Rs. 186 million Paid later
12		DEHARKI	18,235.00	169.59
	Group Total		38,233.00	355.57
13	R.Y.K.	ALLIANCE	19,796.00	184.10
14	Others	MIRPURKHAS	19,989.00	185.90
15		AL-ABBAS	19,986.00	185.87
16		AL-NOOR	19,972.00	185.74
17		FARAN	19,952.00	185.55
18		SINDH ABADGAR'S	19,892.00	185.00
19		ARMY WELFARE	19,892.00	185.00
20		SHAHMURAD	19,890.00	184.98
21		MEHRAN	19,862.00	184.72
22		HABIB	18,830.00	175.12
23		RANIPUR	17,290.00	160.80
24		BANDI	16,880.00	156.98
25		KHAIRPUR	14,638.00	136.13

26		SANGHAR	8,800.00	81.84	
	Others Total		235,873.00	2,193.62	
	Grand Total		443,346.50	4,123.12	

Source: Figures provided by the Sindh Government

216. There is no justification of additional subsidy from the Provincial Government when the Federal Government had already granted the subsidy of Rs. 10.70 per kg. There were no calculations of cost of production by the Sindh Government and even the calculations of the cost of production and the subsidy made by the Federal Government were also ignored. The whole scheme was decided, and the additional subsidy of Rs. 9.30 per kg granted arbitrarily, based on the figures presented by the PSMA and more than Rs. 4 billion subsidies allocated. The proceedings recorded in the summary show that no one was in favor of the subsidy but still the subsidy was granted.
217. Subsidy was granted on a flat rate instead of sliding scale.
218. OMNI Group is the largest beneficiary of this scheme. No mill was allowed to claim export subsidy on export of more than 20,000 MT, irrespective of their production and export potential. This clearly meant that the group with the greater number of sugar mills was bound to gain more share from the subsidy scheme. That is the reason that out of total subsidy of Rs. 4.123 billion, the OMNI Group was paid Rs. 1.389 billion.
219. The Chief Minister of Sindh, Mr. Syed Murad Ali Shah, was requested by the Commission to brief the Commission on this subsidy scheme, but he chose not to appear citing the reason that the Commission did not have authority to call him as this matter was not covered in the TORs of the Commission.

#### **Sugar Export Subsidy Scheme 2018-19 (Scheme of 2018 without subsidy by the Federal Government):**

220. On the request of Commerce Division, a meeting of SAB was held on 11-09-2018. The agenda proposed by the Commerce Division was to review the overall availability and stock position of sugar and to workout exportable surplus, if any. The Secretary Mo NFS&R explained that due to water shortage, low production of sugarcane was expected in the upcoming season. After consultation of all the stakeholders, it was concluded that total surplus sugar availability by the end of the season will be 1.962 MMT. After deducting the strategic reserves of two months i.e. 0.866 MMT, there would be net surplus of 1.096 MMT, therefore it would be safe to recommend export of 1.00 MMT without making it time bound. SAB also recommended a Monitoring Committee, headed by Joint Secretary (PSD) Mo I&P to ensure the availability of sugar in the country on monthly basis.



221. On 28-09-2018, Commerce Division forwarded their recommendations to the ECC. The ECC, in its meeting held on 02-10-2018 decided to: (Annexure 10)
- Allow export of 1.0 MMT of sugar,
  - No freight or financial support to be provided to millers/exporters by the Federal/Provincial Governments,
  - The Inter-Ministerial Committee will meet fortnightly to review sugar stock, export and price situation
  - In case of any abnormal increase in domestic price of sugar, the Committee would recommend to the ECC of the Cabinet for discontinuation of further exports.
  - The export quota shall be monitored and implemented through SBP
222. According to the summary of Commerce Division dated 03-12-2018, the PSMA and representatives of Kissan Ittehad met with Minister for NFS&R and Advisor to the PM on Commerce on 28-11-2018 and 29-11-2018. They demanded that the conditions for the export of 1.0 MMT of sugar may be relaxed and further 0.1 MMT may be allowed to be exported. They also demanded that the Federal Government should immediately release Rs. 2.0 billion of outstanding subsidy claims to SBP. They also demanded that the provinces may be asked to pay freight support as sugar policy is their domain. These demands were forwarded to the ECC. (Annexure 11)
223. Para 2 of the same summary pointed out that in previous year freight support on export of sugar was given on sliding scale based on differential between the domestic cost of production of sugar, which was provided by the Mo I&P, and the international price of sugar. Last year, 2 MMT of sugar was allowed to be exported, but the provision of freight support is not justified. **The Cost of Production calculations by Mo I&P 2018** are shown in the table below.

**Table 26 : Estimated Ex-Mill Price of Sugar from Sugarcane Prices During Crushing Season 2018-19**

	<i>Punjab notified Price of Sugarcane Rs. 180/40Kg</i>	<i>Punjab Actual Payment of Sugarcane Paid by Mills Rs. 150/40Kg (2017-18)</i>	<i>Sindh notified Price of Sugarcane as Ordered by Sindh High Court Rs. 160/40 Kg</i>	<i>Sindh Actual Payment paid by Mills Rs.140/ 40 Kg (2017-18)</i>
<i>Average Sugar Recovery %Age</i>	9.96%	9.96%	9.96%	9.96%
<i>Average Molasses Recovery %Age</i>	4.36%	4.36%	4.36%	4.36%
<i>Sales Price of Molasses and Baggasse Rs. / Kg (9+1)</i>	10/Kg	10/Kg	10/Kg	10/Kg
<i>Price of Sugarcane (Raw Material Cost)</i>	Rs. 180/40 kg	Rs. 150/ 40 Kg	160/ 40 Kg	140/ 40 Kg
<i>Sale of Molasses &amp; Bagasse</i>	(17.44)/40 Kg	(17.44)/40 Kg	(17.44)/40 Kg	(17.44)/40 Kg

<b>(4.36%*40Kg =1.74/Kg)</b>				
<b>Net Cost of Raw Material</b>	162.56/ 40 Kg	132.56/ 40 Kg	142.56/ 40 Kg	122.56/ 40 Kg
<b>Freight</b>	Rs.2.00	Rs.2.00	Rs.2.00	Rs.2.00
<b>Total Cost of Raw Material</b>	164.56/40 Kg	134.56/40 Kg	144.56/40 Kg	124.56/40 Kg
<b>Cost of Raw Material per Kg of Sugar (9.96%* 40 Kg = 3,98/Kg)</b>	41.34/Kg	33.80/Kg	36.32/Kg	31.29/Kg
<b>Processing cost &amp; Other Overheads</b>	7.7/Kg	7.7/Kg	7.7/Kg	7.7/Kg
<b>Total Manufacturing Cost without Tax</b>	49.04	41.50	44.02	38.99
<b>International Prices of Sugar (London Board)</b>				
<b>Price of International Sugar (AAs on 28-11- 2018) \$349/T in PKR 46.75/Kg</b>	46.76	46.76	46.76	46.76
<b>Price Differential B/W International Price and Domestic Cost of Production</b>	(2.28)	5.25	2.73	7.76
<b>If Added Premium of \$20 in International Cost, then Cost is \$369/ T and PKR Rs. 49.44/Kg</b>	49.44	49.44	49.44	49.44
<b>Price Differential B/W International Price and Domestic Cost of Production after Premium</b>	0.4	7.94	5.42	10.45

Source: Calculations of cost of production by Cost Accounts Officer, Mo I&P 2018

224. On 04-12-2018, in the ECC meeting, following were allowed:(Annexure 11)
- Export quota to be enhanced by 0.1 MMT, without any freight support,
  - Since the entire issue of freight support arose due to varying procurement prices of sugarcane fixed by the Provincial Governments, therefore, the freight support may be determined/paid by the respective Provincial Governments, if deemed appropriate.
  - The ECC directed Finance Division to release Rs. 2.0 billion for the payment of outstanding claims of freight support for sugar export, being federal share.

#### Observations:

225. Mr. Asad Umar, Minister for Planning and Development (former Finance Minister) appeared before the Commission. He explained that the country was in dire need of foreign exchange at that time and since there were sufficient stocks of sugar available in the country, the decision to export was justified. Moreover, he stated that the crushing season was about to start and therefore, there was no apprehension of sugar shortage and that the increase in prices in sugar in 2019 cannot be attributed to the shortage of sugar due to export as mentioned in the report of Inquiry Committee on Sugar. He was asked whether there



- was any reliable mechanism to verify the figures of stocks and the strategic reserves that are given by the PSMA. He stated that the figures are provided by the provincial governments to the Ministry of Industries and therefore, there was no reason to doubt their accuracy.
226. He was also asked why the decision of not allowing any subsidy by the Federal or Provincial government in the first meeting was subsequently changed by allowing the provincial governments to decide about the freight support (subsidy) on their own, "if deemed appropriate". He stated that the matter had been discussed informally that after the 18<sup>th</sup> Amendment, the matter of such subsidy was purely a provincial matter and therefore, it was not the mandate of the Federal government to decide about it. He was further asked that the decision of the ECC did not reflect this discussion and instead it was mentioned that the reason was the varying support prices of sugarcane in different provinces. His response was that the actual reason was as earlier explained by him.
227. He added that the sugar mills were threatening that they will not start the crushing season unless export is allowed. He further stated that this increase of price was because of cartelization and collusion between different players, producers of sugar and due to their collective market manipulation to increase the price.
228. Mr. Abdul Razak Dawood, Advisor to Prime Minister for Commerce, Textile, Industry & Production and Investments also appeared before the Commission. He explained that the country was in dire straits with very low level of foreign exchange available and in this background since there were sufficient surplus stocks available therefore, export of sugar was allowed. According to him, one of the items that China had agreed to include in the list of imports that China allowed, was sugar and this added to the reasons for allowing export of sugar. When asked whether the stocks and strategic reserves position as stated by PSMA could be relied upon, he stated that all this data is provided by the cane commissioners in the meetings of the SAB and therefore, were reliable.
229. As regards the reasons for the increase in the price of sugar due to export and the shortage of stocks of sugar in the country, he contended that there was no shortage of sugar in the country at any point during the year and the stocks always remained sufficient and in fact, there were carry-over stocks available even at the end of the year. In his opinion, the linkage between exports and shortage of stocks with the increase in price was therefore, not justified.
230. Responding to another question that why the fortnightly meetings of inter-ministerial committee headed by him, as decided in the meeting of the ECC, were not held, he stated that the Inter-Ministerial Committee and the Sugar Advisory Board have the same participants and therefore, due to this overlap, the matter was regularly discussed in the meetings of the SAB which was the more appropriate forum. He was further asked that why despite the fact that the issue of rapidly increasing prices was raised in the SAB meetings by the provinces, no



decision was made to discontinue the export of sugar? He responded that they had international commitments to export sugar by May 2019 and these obligations had to be fulfilled. He further stated that since there was no shortage of stocks, the increase in prices of sugar cannot be attributed to the exports.

231. The Commission is of the view that it is correct that the country was in need of foreign exchange and there were *prima facie* sufficient stocks of sugar available for export.
232. The response of Mr. Asad Umer regarding the change of the ECC decision, about the freight support (subsidy) by placing it on the discretion of the provinces, is found not convincing by the Commission. The reason cited by him was that the lack of legal purview of the Federal Government to decide about a Provincial matter of freight support, was the reason for this change. But this reason is not reflected in the subsequent decision of the ECC at all and the reason of decision stated, therein, is completely different. Even if the explanation cited there that varying costs of sugarcane procurement in the provinces is the reason for the change of decision is considered, it is still not plausible as the cost of procurement of sugarcane was Rs. 180 and Rs. 182 in Punjab and Sindh respectively and this is a minor difference.
233. The response of Mr. Abdul Razak Dawood, regarding the continuation of export of sugar despite the price hike, was not found convincing by the Commission. The decision to export sugar was followed by an increase in price of sugar in the local market. The Commission has gathered enough evidence to establish that the export of sugar is one of the reasons for increase in price of sugar in the domestic market as well as other factors like market manipulation, hoarding, forward contracts and "Satta", by the sugar sector players. The details are discussed in TOR (f), (g) and (j).
234. The SAB should have considered that if the increase in price of sugar was not due to shortage of stocks, then the intervention of the government was necessary to counter the market manipulation. The ECC had asked the inter-ministerial committee to closely monitor stocks, price of sugar and recommend discontinuation of further exports, in case of abnormal increase in the domestic price of sugar. The contention that the export was not discontinued because export commitments to China were to be honored, does not hold much weight. The export only to China could have been allowed to continue. This intervention was required to curtail the manipulative activities and give a clear message to the market about the seriousness of the government to intervene and control the prices through ban on exports.
235. **The Commission is of the opinion that the Sugar Advisory Board failed to take a timely decision to ban the export of sugar.** The price hike and the export continued till February 2020, as shown in the graph below.





Source: Pakistan Bureau of Statistics and State Bank of Pakistan

236. The exporters of sugar gained benefit in two ways: firstly, they were able to gain subsidy and secondly, they made profit from the increasing sugar prices in the local market. There was no shortage of the sugar in the market but still the price increased from Rs. 55 per kg in December 2018 to Rs. 71.44 per kg in June 2019 although the GST increase was implemented from 1<sup>st</sup> July 2019. In the same period, the ex-mill price increased from Rs. 51.64 kg in December 2018 to Rs. 67.42 per kg in November 2019. The mills were making reasonable profits at the ex-mill price of Rs. 51.64 per kg in December 2018. With the increase in prices due to export, hoarding and market manipulation, the sugar sector earned an extra profit of Rs. 40.57 billion, as shown in the table below.

Month	Monthly local Consumption (tons)	Ex-Mill Price per kg	Ex-Mill Price per kg	Difference in Avg. Ex-mill price over Dec 2018 (July 19 onwards net of additional sale tax Figure)	Gain earned over Dec 2018 Ex-Mill price
		(Country Avg.)*	(Dec 2018)		
Jan-19	433,333.33	54.3	51.64	2.66	1,152,666,658
Feb-19	433,333.33	54.73	51.64	3.09	1,338,999,990
Mar-19	433,333.33	57.46	51.64	5.82	2,521,999,981
Apr-19	433,333.33	60.49	51.64	8.85	3,834,999,971
May-19	433,333.33	62.48	51.64	10.84	4,697,333,297
Jun-19	433,333.33	63.59	51.64	11.95	5,178,333,294
Jul-19	433,333.33	65.73	51.64	8.09	3,505,666,640
Aug-19	433,333.33	68.62	51.64	10.98	4,757,999,963
Sep-19	433,333.33	68.56	51.64	10.92	4,731,999,964

Oct-19	433,333.33	68.3	51.64	10.66	4,619,333,298
Nov-19	433,333.33	67.42	51.64	9.78	4,237,999,967
<b>Total Gain earned by Sugar Mills through increase in ex-mill price since December 2018</b>					<b>40,577,333,021</b>

*\*Increase in GST from 11% to 17% taken into account.*

#### **Punjab Government Sugar Export Subsidy Scheme 2018-19 (Subsidy of Rs. 5.35 per kg):**

237. On 27-11-2018, Secretary Food Punjab Mr. Shoukat Ali moved a summary for the Chief Minister Punjab to approve the supplementary grant of Rs. 2.961 billion to pay off the pending claims of rebates on export of sugar till date, on the scheme of 2017-2018. This was demanded by the PSMA in its meeting with the CM Punjab to start off the crushing season. The summary was approved on 01-12-2018.
238. As per minutes of the meeting dated 06-12-2018 (chaired by the CM, Punjab), the Minister for Food apprised that *"ECC while considering demands of PSMA allowed export of 1.1 MMT of sugar while reportedly burden of subsidy, as demanded by PSMA, has been passed to the provincial governments"*.
239. After detailed deliberations, the decision was made "payment of subsidy in the sugar mills of Punjab at the rate of Rs. 5.35 per kg as was approved previously (2017-2018) by the ECC as provincial share for export of sugar was approved in principle". (Annexure 12)
240. Mr. Shoukat Ali, the then Secretary Food Punjab, moved the summary for grant of subsidy on 22-12-2018 (Annexure 13). The summary was moved on the directions of the Government, but the recommendations about the subsidy were not based on any calculations of cost of production. It is pertinent to mention here that the Mo I&P had carried out an exercise for calculation of cost of production and in the light of those calculations the ECC had decided not to provide any subsidy on 04-12-2018.
241. As per the minutes of the Cabinet meeting held on 29-12-2018, para 19.1 of the minutes states that *"Secretary Food briefed the Cabinet that provision of subsidy on export of sugar was discussed in a meeting held under the Chairmanship of Chief Minister on 6th December 2018 in the light of verbal information on decision of ECC dated 04-12-2018. It was resolved that the rate of freight subsidy/export subsidy on export of sugar may be maintained at the level of share of subsidy (Rs.5.35/kg) shouldered by the Government of the Punjab during the year 2017-18. It was also resolved that total volume of export freight/subsidy shall not exceed Rs. 3.0 billion."* It was decided that the quantity for which the subsidy from Punjab would be applicable shall not exceed 52% of the total exports (1.1 MMT). It was also decided to place the matter before the Cabinet Committee on Finance and Development for its consideration and final decision. This approval, however, will be linked



- with immediate start of crushing by the sugar mills in Punjab. (Annexure 13)
242. The summary of the Food Department Punjab was approved in the minutes of 6th meeting of the Provincial Cabinet held on 29-12-2018. The Cabinet was requested to consider and approve subsidy at the rate of Rs. 5.35 per kg on a sliding scale from US\$ 343.8 per MT up to US\$ 435 per MT and subject to the condition that financial outlay shall not exceed Rs. 3.0 billion. The same was approved by the Cabinet.
  243. The export subsidy was granted by the Provincial Government on the condition that in case of abnormal increase in the domestic price of sugar, the subsidy would be discontinued. Accordingly, then Secretary Food moved a summary on 26-04-2019 to discontinue the subsidy due to increasing domestic prices. The summary was approved in the minutes of 11th meeting of the Provincial Cabinet held on 24-05-2019 and the subsidy was discontinued by the Punjab Government.
  244. The Punjab Government was providing the subsidy for export of sugar at a time when the price of sugar was increasing in the domestic market. Out of 0.762 MMT of sugar exported, 0.474 Million tons (62%) was exported before the withdrawal of subsidy and the remaining 38% was exported after the withdrawal of subsidy. It is also worth mentioning here that Rs. 3.0 Billion were allocated by the Punjab Government for the subsidy (From January 2019 to onwards) but Rs. 2.47 Billion were utilized from 1st January to 24th May 2019.
  245. Mr. Usman Buzdar, Chief Minister, Punjab appeared before the Commission and briefed about the grant of subsidy to the tune of Rs.3.00 billion by the Punjab Government. He explained that the subsidy was discussed in the meeting of Cabinet Committee on Sugar Sector on 17-12-2018 which recommended the subsidy which was approved by the Cabinet in its meeting dated 29-12-2018. He further explained that the background to this decision was that PSMA and the sugarcane growers had held a meeting with the Minister, Food Department on 06-12-2018 and had demanded the decision on subsidy before starting the crushing season.
  246. He was asked about the minutes of the meeting that he had chaired on 06-12-2018 which clearly stated that an in-principle decision to allow subsidy to the sugar mills of Punjab at the rate of Rs.5.35 per kg. was made and the matter shall be placed before Cabinet Committee on Finance & Development for a final decision. The CM, Punjab stated that he did not remember this meeting at all.
  247. The Commission also found that the in-principle decision taken on 06-12-2018 was made even before the decision of the ECC meeting held on 04-12-2018 had been received by the Punjab Government. As per minutes of the meeting of the Provincial Cabinet, dated 29-12-2018, the *"Secretary Food briefed the Cabinet that the provision of subsidy on export of sugar in a meeting held under the Chairmanship of Chief*



*Minister Punjab on 06-12-2018, in the light of verbal information on decisions of ECC dated 04-12-2018”.*

248. It was also noted that when the Secretary Food moved a summary for grant of subsidy on 22-12-2018 which was approved by the Cabinet in its meeting held on 29-12-2018, it contained a proposal of calculations to grant subsidy as allowed during 2017-18 at a rate of Rs.5.35 per kg. by the Punjab Government. However, no calculations were made by the Secretary Food regarding cost of production, international prices of sugar, currency exchange rate and the resulting differential cost.
249. It is pertinent to mention here that when the subsidy was granted in 2017-18, the US Dollar conversion rate was Rs.105 per dollar while it was Rs.138.89 per dollar at the time of making this decision of subsidy. It was the same stock of sugar. In this summary of Secretary Food Punjab, the sliding scale was applied from US Dollar 343.80 to US Dollar 435 per metric ton. The upper end of the sliding scale (which matches the cost of production as per PSMA) indicates a cost of Rs.60.42 per kg. of sugar ( $435 \times 138.89 / 1000 = \text{Rs. } 60.42 \text{ per kg}$ ). While in 2017-18, when the federal government granted the subsidy, the cost of production was calculated at Rs.52.46 per kg ( $499 \times 105.4 / 1000 = \text{Rs. } 52.60 \text{ per kg}$ ). If the amount of subsidy of Rs.5.35 per kg. was taken out from Rs.60.42, it would have resulted in Rs.55.07 per kg. This figure is still above the cost of production which had been calculated by federal government at Rs.52.46 per kg. Since, it was the same stock of sugar of 2017-18 for which the cost of production was calculated by Mo I&P at Rs. 52.46 per kg, there was no justification for providing the subsidy after the devaluation of rupee against US dollar.
250. **The then Secretary Food, Mr. Shaukat Ali, when asked about the above calculation did admit that this was something that had been overlooked and admitted his mistake.**
251. **The Commission is of the view that this subsidy granted is unjustified. The Chief Minister Punjab pleaded his case that the subsidy was granted by the Cabinet and it was a collective decision. However, keeping in view the minutes of the meeting dated 06-12-2018, which the CM Punjab claims to have forgotten, clearly indicates otherwise.**

#### **Sugar Export to Afghanistan:**

252. The data from FBR shows that Pakistan exported 2,355,613 Metric Tons of sugar to Afghanistan from January 2015 to to-date. In order to verify the export figures, the data was obtained from the Afghan Government. According to their data, Pakistan exported 1,577,232 MT of sugar to Afghanistan in the said period, with a difference of 778,381 MT.
253. The difference was so large that the Commission engaged with the FBR Customs officers for further verification and reconciliation. According to the Customs officers, the transit sugar exported to Central Asia from Afghanistan has not been included by the Afghanistan authorities in the data of sugar imported from Pakistan and thus, causing this difference.



254. The Commission, therefore, again approached the Afghanistan authorities, via Foreign Office, for provision of sugar transit data from Pakistan to Central Asia through Afghanistan.
255. The Afghanistan Government has provided the transit data which shows that 697,455 MT of sugar from Pakistan has been exported to Central Asia through Afghanistan. This leaves an unreconciled figure of 80,926 MT between the export data figures of Pakistan and Afghanistan. The data table below explains the year-wise break-up of exports from Pakistan to Afghanistan.

**Table 27: Export to Afghanistan: FBR Pakistan & Afghan Govt. Data**

Sugar Export MT as per Scheme				<b>Afghan Transit Sugar from Pakistan to Central Asia is 697,455.84 MT. The remaining difference is 80,926 MT.</b>
Schemes	FBR Pakistan	Afghan Govt.	Difference	
Scheme 15 (Jan 15 to Dec 15)	474,498	190,956	283,542	
Scheme 16 (Jan 16 to Nov 16)	218,357	187316.778	31,040	
Scheme 17 (Dec 16 to Sep 17) Without Subsidy	292,542	329,965	-37,423	
Scheme 17 (Oct 17 to Sep 18)	928,156	565,382	362,774	
Scheme 18 (Oct 18 to Feb 20)	442,060	303,612	138,448	
<b>Total</b>	<b>2,355,613</b>	<b>1,577,232</b>	<b>778,381</b>	

256. As regards export to Afghanistan;
- A gap of 80,926 MT still remains between the data of the two countries, which needs to be properly inquired. The Government may issue directions to the FBR to initiate inquiry in this matter.
  - In addition, the Commission has found documentary evidence that trucks with a registered weight carrying capacity of 15 tons, carried sugar loads of 97 tons to Afghanistan. Matter needs to be further probed.
  - In the Export Scheme of 2014-2015, over the counter deposit of foreign currency was allowed by invoking SRO 77 of 2013. This was later revoked in December 2015 and now the foreign currency payments are received through Foreign Telegraphic Transfer (FTT). The Commission is of the view, that export to Afghanistan should only be allowed against the Letter of Credit so that it can be made foolproof.

**Potential Beneficiaries of Export Subsidy:**

257. Total subsidy paid by the Federal and Provincial Governments for different sugar export subsidy schemes, from January 2015 to February 2020, is Rs.

29,226.99 Million. Group and Mill wise details of sugar export and the subsidy paid are as shown in the Table below;

SBP Position of Sugar Mills Wise Subsidy Paid								
Name of Groups	Sugar Mills	Subsidy Share (Rs. in Millions)					Total (M)	%age Share of Mills & Group
		2015 Scheme	2016 Scheme	2017 Scheme	2017 Scheme	2018 Scheme		
		(Federal + Provincial Share)	(Federal + Provincial Share)	(Federal + Provincial Share)	Freight support by Sindh Govt. in 2017	Freight support by Punjab Govt.		
R.Y.K. Group	R.Y.K.	207.18	235.69	888.31	0.00	88.81	1,419.99	4.86
	Alliance	241.55	0.00	260.07	184.10	0.00	685.72	2.35
	Etihad	0.00	121.62	373.65	0.00	183.91	679.17	2.32
	Two Star	0.00	0.00	1,181.47	0.00	179.63	1,361.10	4.66
Group Total & %age		448.73	357.30	2,703.50	184.10	452.34	4,145.98	14.19
J.D.W. Group	J.D.W.	339.25	318.63	1,622.79	185.98	556.21	3,022.86	10.34
	JK	0.00	0.00	0.00	0.00	4.83	4.83	0.02
	AKT (Gulf )	0.00	0.00	108.97	186.00	0.00	294.97	1.01
	Deharki	0.00	0.00	98.10	169.59	0.00	267.68	0.92
Group Total & %age		339.25	318.63	1,829.86	541.57	561.04	3,590.34	12.28
Hunza		423.41	455.83	1,562.00	0.00	429.84	2,871.09	9.82
Omni Group	LARR	2.60	0.00	40.46	148.67	0.00	191.73	0.66
	Ansari	107.12	0.00	22.12	182.19	0.00	311.43	1.07
	Tando Allah Yar	132.42	0.00	37.62	144.54	0.00	314.59	1.08
	Bawany	57.40	0.00	57.82	180.07	0.00	295.29	1.01
	Naudaro	46.60	0.00	70.12	136.99	0.00	253.71	0.87
	New Dadu	58.00	0.00	79.47	183.58	0.00	321.05	1.10
	Chambar	44.20	0.00	75.55	185.54	0.00	305.29	1.04
	Khoski	28.13	0.00	41.39	167.38	0.00	236.89	0.81
	Sakrand	0.00	0.00	33.52	60.89	0.00	94.41	0.32
Group Total & %age		476.47	0.00	458.08	1,389.83	0.00	2,324.38	7.95
Fatima		447.18	355.45	1,254.50	0.00	248.40	2,305.52	7.89
Al-Moiz Group	Al-Moiz	65.05	0.00	256.86	0.00	241.78	563.68	1.93
	Baba Farid	92.60	0.00	0.00	0.00	0.00	92.60	0.32
	Thal Industries	153.43	80.44	412.21	0.00	164.75	810.84	2.77
Group Total & %age		311.08	80.44	669.06	0.00	406.53	1,467.12	5.02
Sharif Family Group	Ramzan	45.50	55.25	235.68	0.00	0.00	336.43	1.15
	Chaudary	146.80	59.80	0.00	0.00	0.00	206.60	0.71



	Ittefaq	48.00	0.00	0.00	0.00	0.00	48.00	0.16
	Chanar	20.00	62.72	0.00	0.00	0.00	82.72	0.28
	Kashmir	41.35	90.62	209.05	0.00	0.00	341.02	1.17
<b>Group Total &amp; %age</b>		<b>301.65</b>	<b>268.39</b>	<b>444.73</b>	<b>0.00</b>	<b>0.00</b>	<b>1,014.77</b>	<b>3.47</b>
<b>Tandlianwala Group</b>		<b>223.20</b>	<b>429.00</b>	<b>16.05</b>	<b>0.00</b>	<b>0.00</b>	<b>668.25</b>	<b>2.29</b>
<b>Others</b>	Al-Noor	19.20	0.00	748.27	185.74	0.00	953.21	3.26
	Faran	132.53	0.00	560.65	185.55	0.00	878.74	3.01
	Mirpurkhas	0.00	0.00	555.29	185.90	0.00	741.19	2.54
	Mehran	86.00	0.00	468.60	184.72	0.00	739.32	2.53
	ShahMurad	77.50	0.00	414.44	184.98	0.00	676.92	2.32
	Sheikhkoo	30.00	200.53	372.91		56.85	660.29	2.26
	Al-Abbas	13.00	0.00	447.49	185.87	0.00	646.35	2.21
	Adam	135.80	276.63	234.10	0.00	0.00	646.53	2.21
	Sindh Abadgar	117.67	0.00	266.67	185.00	0.00	569.33	1.95
	Darya Khan (FECTO)	507.68	0.00	4.23	0.00	0.00	511.91	1.75
	Indus	0.00	0.00	216.79	0.00	148.32	365.11	1.25
	Huda	0.00	16.13	274.11	0.00	2.75	292.99	1.00
	Army Welfare	10.00	0.00	94.46	185.00	0.00	289.46	0.99
	All others (16) Mills	487.18	384.51	1,121.70	710.87	163.94	2,868.20	9.81
<b>Group Total &amp; %age</b>		<b>1,616.56</b>	<b>877.80</b>	<b>5,779.71</b>	<b>2,193.62</b>	<b>371.86</b>	<b>10,839.54</b>	<b>37.09</b>
<b>Grand Total</b>		<b>4,587.52</b>	<b>3,142.84</b>	<b>14,717.50</b>	<b>4,309.12</b>	<b>2,470.01</b>	<b>29,226.99</b>	<b>100.00</b>

Source: Figures from State Bank of Pakistan and Sindh Bank Limited.

258. During the subsidy scheme period from January 2015 to February 2020, as shown in the Table above, following are the major beneficiaries of the total subsidy of Rs. 29,226.99 Million.
- RYK Group, owning 04 sugar mills, is owned by Mr. Monis Elahi and Mr. Makhdum Omer Sheryar. They availed 14.19% of the total export subsidy amounting to Rs. 4,145.98 Million.
  - JDW Group, owning 06 sugar mills is owned and controlled by Mr. Jahangir Khan Tareen and Makhdum Syed Ahmad Mehmud. JDW Group availed 12.28% of the total export subsidy amounting to Rs. 3,590.34 Million.
  - Hunza sugar mills availed 9.87% of the total export subsidy amounting to Rs. 2,871.09 Million. Hunza sugar mills are owned by Muhammad Waheed Ch., Idrees Ch and Saeed Ch.
  - OMNI Group, owning 09 sugar mills is owned and controlled by Mr. Anwar Majeed. OMNI Group availed 7.95% of the total export subsidy amounting to Rs. 2,324.38 Million.
  - Fatima sugar mills availed 7.89% of the total export subsidy amounting to Rs. 2,305.80 Million. Fatima Sugar mills is owned by Mr. Faisal Ahmad Mukhtar and family.

- vi. Al-Moiz Group, owning 05 sugar mills is owned and controlled by Mr. Shamim Ahmad Khan and Mr. Nouman Ahmad Khan. This Group availed 5.02% of the total export subsidy amounting to Rs. 1,467.12 Million.
- vii. Sugar mills owned by Sharif family, availed 3.47% of the total export subsidy amounting to Rs. 1,041.77 Million.

#### **Conclusion on Export of Sugar:**

- 259. The export of any commodity is based upon its availability and surplus stock in the country and its competitiveness of its price in the international market. The sugar exports also require careful calculation of the stocks that are available, but in Pakistan where there is a total dependence on PSMA for calculating these stocks and strategic reserves, the situation remains very difficult for any government to decide with clarity about the exports. However, the governments tend to accept whatever figures are provided by the PSMA in making this decision.
- 260. The PSMA, however, has its own interest in making a case for exports and, therefore, in portraying the stock position as is suited to its benefit. The Commission has clear evidence that the stocks position of the mills is, in reality, much different from that which is portrayed on paper. It is imperative that the government should have a proper system for verifying stocks.
- 261. As far as the issue of subsidy is concerned, it has been amply clear from the analysis of the subsidy schemes that there is a clear pattern whereby PSMA applies pressure on the Government by threatening to not start the crushing season unless export with subsidy is allowed. Governments seem to be succumbing to these pressure tactics each year and hastily agreeing to allow export with subsidy, without proper calculations.
- 262. There seems to be a clear pattern in the sugar export schemes of 2015, 2016, and 2017 that initially, export of sugar was allowed without subsidy and subsequently, after a relatively shorter period of time, huge amounts from the public exchequer were allocated for subsidy. This clearly indicates the collusion, clout and political maneuvering of the sugar mill owners who are able to influence the decisions according to their wishes and desires irrespective of which political party is at the helm of affairs.
- 263. In the recent past, there is a visible tendency apparent in the decision-making of the Federal Government which has shied away from the policy of subsidy to the sugar mills at the federal level.
- 264. The Commission has worked out the cost of production of the sugar mills in TOR (e) and it is clear that the cost of production of sugar which is the basis of calculation of subsidy of sugar, is far lower than that portrayed by the PSMA and, therefore, in fact, sugar subsidy was never justified.



265. The subsidy, in any case, is not directed towards the growers and instead benefits the sugar mills and, therefore, the whole purpose of subsidy is defeated.
266. Another interesting aspect of analysis on subsidy is that the sugar sector, with an average annual turnover of around Rs. 350 billion, received a subsidy of more than Rs. 29 billion from January 2015 to-date. During the 2013-14 to 2018-19, they paid direct taxes of Rs. 22.37 billion; claiming a refund of Rs. 12.03 billion at the same time. Whereas the tax demand created by the FBR against the sugar industry is Rs. 13.58 billion. In other words, **the sugar industry's contribution to the national exchequer is in the negative due to the subsidy availed.** Table below shows the amount of subsidy availed and the direct taxes paid by the sugar sector:

Subsidy Received, Tax Paid and Refund Claimed by the Sugar Mills				
Group Name	Sugar Mills Name	Subsidy Received from (Jan 2015 to Feb 2020)	Tax Paid (2013-14 to 2018-19)	Refund Claimed as per Return (Company)
R.Y.K.	R.Y.K.	1,419.99	835.70	767.15
	Alliance	685.72	335.55	275.81
	Etihad	679.17	333.42	195.21
	Two Star (Kamalia)	1,361.10	189.47	69.33
	SW	0.00	31.60	31.55
Group Total		4,145.98	1,725.74	1,339.05
J.D.W.	J.D.W.	3,022.86	2,069.15	1,120.07
	JK	4.83	81.75	81.75
	AKT (Gulf)	294.97	154.71	154.71
	Deharki	267.68	417.82	48.30
Group Total		3,590.34	2,723.43	1,404.83
Hunza		2,871.09	696	696
Omni Group	LARR	191.73	55.05	42.06
	Ansari	311.43	113.35	4.35
	Tando Allah Yar	314.59	109.00	36.52
	Bawany	295.29	66.00	21.00
	Naudaro	253.71	65.85	18.78
	New Dadu	321.05	84.60	17.77
	Chambar	305.29	0.00	0.00
	Khoski	236.89	81.39	13.02
	Sakrand	94.41	73.85	26.27
	Tando M. Khan	0.00	0.00	0.00

<b>Group Total</b>		<b>2,324.38</b>	<b>649.45</b>	<b>180.20</b>
<b>Fatima</b>		<b>2,305.52</b>	<b>382.43</b>	<b>103.22</b>
<b>Al-Moiz Group</b>	Al-Moiz	563.68	1,348.48	1,294.79
	Baba Farid	92.60	85.03	30.84
	Thal Industries	810.84	898.77	434.01
	Safina	0.00	0.00	0.00
	Layyah	0.00	0.00	0.00
<b>Group Total</b>		<b>1,467.12</b>	<b>2,332.27</b>	<b>1,759.64</b>
<b>Sharif Family Group</b>	Ramzan	336.43	316.25	95.60
	Chaudary	206.60	285.50	59.17
	Ittefaq	48.00	128.56	47.45
	Chanar	82.72	220.01	92.52
	Kashmir	341.02	169.47	17.67
	Brothers	0.00	70.62	33.75
	Haseeb Waqas	0.00	44.10	40.97
	Al- Arabia	0.00	86.39	77.84
<b>Group Total</b>		<b>1,014.77</b>	<b>1,320.90</b>	<b>464.97</b>
<b>Tandlianwala Group</b>		<b>668.25</b>	<b>991.43</b>	<b>918.27</b>
<b>Others</b>	Al-Noor	953.21	582.87	203.94
	Faran	878.74	316.66	51.79
	Mirpurkhas	741.19	380.86	177.98
	Mehran	739.32	431.68	68.18
	Shah Murad	676.92	325.63	131.12
	Sheikhoo	660.29	506.64	172.61
	Al-Abbas	646.35	441.27	99.18
	Adam	646.53	157.93	74.63
	Sindh Abadgar	569.33	144.55	42.18
	Darya Khan (FECTO)	511.91	102.28	38.92
	Indus	365.11	467.97	47.77
	Huda	292.99	114.06	78.53
	Army Welfare	289.46	0.00	0.00
	All others (16) Mills	2,868.20	4,871.21	2,424.56
	18 Mills have not availed subsidy	0.00	2,705.81	1,555.01
<b>Group Total &amp; %age</b>		<b>10,839.54</b>	<b>11,549.41</b>	<b>5,166.39</b>
<b>Grand Total</b>		<b>29,226.99</b>	<b>22,371.27</b>	<b>12,032.76</b>

Source: Data provided by SBP & FBR



### *I. Basis for determination of retail price of sugar:*

267. In theory, the retail price is determined using pricing models based on cost, competition or customers. Cost-based pricing sets the price based on sugar production and its operating costs. Prices that are set according to the other competitors in the market are competition-based.
268. The retail price of sugar in the market should be set as depending mainly on the following factors:
- Ex-Mill price (TOR e)
  - Commission of Brokers/Agent
  - Transportation cost
  - Profit Margin Wholesaler or broker
  - Profit margin of retailer
269. The following table below shows the movement of the retail price in comparison with ex-mill price over the last three years. Since, the commission of broker/agent is normally Rs. 0.08 per kg., wholesaler or broker charges Rs. 0.5 to 1.0 per kg. and the margin of the retailer ranges from Rs. 2-3 per kg. Hence, the base factor setting the retail price is ex-mill price. Therefore, when the ex-mill price changes, the retail price responds accordingly. The ex-mill price, as explained in TOR (e), once calculated should not be influenced by any other market

**Table-3 Month wise Average Ex-Mill, Wholesale & Retail Price of Sugar Rs. /kg**

Month	Ex-Mill Prices			Wholesale Price	Difference B/w Wholesale & Ex-Mills	Retail Price	Difference B/w Retail & Wholesale
	Punjab	Sindh	Average				
October, 2018	49	48.8	48.9	51.41	2.51	54.78	3.37
November, 2018	49.81	49.5	49.65	51.36	1.705	54.87	3.51
December, 2018	51.39	51.5	51.44	52.61	1.165	55.63	3.02
January, 2019	54.34	53	53.67	55.83	2.16	58.47	2.64
February, 2019	54.63	55	54.81	55.42	0.605	59.13	3.71
March, 2019	57.12	57	57.06	58.33	1.27	61.15	2.82
April, 2019	61.34	62	61.67	62.52	0.85	65.63	3.11
May, 2019	63.44	62	62.72	64.98	2.26	67.99	3.01
June, 2019	63.96	63	63.49	68.9	5.42	70.83	1.93
July, 2019	66.53	66	66.26	68.11	1.845	72.38	4.27
August, 2019	70.53	69	69.76	70.78	1.015	75.38	4.6
September, 2019	69.52	69	69.26	70.91	1.64	75.02	4.12
Percentage change from Oct 18 to Sep19	41.88%	41.39%	41.64%	37.91%		36.95%	

Source: PBS & Cane Commissioners

factors. However, as shown in the table above, the ex-mill price in Pakistan is changed regularly by the mills.

270. The PSMA claims that this change is necessitated by the market forces of demand and supply; a position which the Commission finds untenable as already explained in TOR (e) pertaining to Ex-Mill price and the TOR (g) pertaining to Forward Contract.

**Findings:**

271. The margins of Brokers/agents, transportation charges and the margins of retailers are almost fixed, the change in the retail price is dependent on the ex-mill price. In Pakistan, the ex-mill price is changed without any justification in the name of demand and supply although, the ex-mill price once calculated should not be influenced by any other market factors.
272. The retail price is manipulated through a nexus of the mill owners, brokers and investors who move the prices artificially by using forward contracts, "Satta" and hoarding etc.

**Recommendations:**

273. The ex-mill price should be calculated at the end of the production and should not vary after that till the next production cycle. The whole process has been fully explained in TOR (e).
274. The actual basis of determination of retail price being the forward contracts, "Satta", hoarding etc., which have already been discussed and recommendations thereof have been made in the relevant TORs (e, f, g & j).



*m. Role of various stakeholders including government institutions and private sector in increase in sugar prices, including timely/preventive/pre-emptive remedial measures to control sugar prices and malafide, if any, of any stakeholder:*

275. There are several government organizations and institutions that are responsible for playing their legal and regulatory role for timely, preventive, and preemptive remedial measures to control malpractices and undue hike in sugar prices. The roles and responsibilities of these government organizations and departments and their response during the current crisis are discussed in detail below.

**Cane Commissioner:**

**Responsibilities:**

276. Cane Commissioners are appointed by the provincial governments to exercise and perform duties prescribed under the respective legislations e.g., the Sugar Factories Control Rules 1950. Major duties of cane commissioners include; ensuring timely payment to the farmers on or above the minimum support price, taking action on complaints by the growers, monitoring of daily sugarcane crushing by the mills, observance of crushing capacity of mills, maintenance of record, monitor and ensure the calibration of weigh machines on a regular basis and others.

**Observations / Findings**

277. During the Inquiry a large number of growers and representatives of the sugarcane growers / "Kisan" associations were interviewed, who raised many complaints against the sugar mills' managements. In addition, during the forensic audit, credible evidence was collected for payment less than the support price and illegal weight deductions by sugar mills. However, the data of complaints to the Cane Commissioner Punjab shows that the number of complaints lodged is very low.
278. The Cane Commissioner, Punjab remained ineffective to monitor and check the daily crushing of sugarcane by the sugar mills. The sugar mills have enhanced their crushing capacity without approval from the authorities (relevant departments of Industries, Commerce, Investment & Skills Development) and have been crushing sugarcane beyond their approved limit but the Cane Commissioner Office was not effective in checking this illegality.
279. No implementation or monitoring under the Sugar Factories Control Act 1950 was seen. The cane commissioners are depending on information provided / furnished by the sugar mills which puts into question the veracity of the entire sugar manufacturing and sales business data. The statistics pertaining to sugarcane cultivated, harvested and sold to the mills is highly unreliable. Similarly, the total production and cost of production of sugar is also

questionable since the Cane Commissioners did not collect the information that is prescribed under the law.

280. The Cane Commissioners are based in Lahore, Hyderabad and Peshawar with limited resources and lack the capability to establish the writ of law. As far as the authenticity of mill laboratory with regard to the hourly check of sugar recovery is concerned, it is surprising to see that Cane Commissioner and provincial government completely rely on data generated by the mill's laboratory. There is no real time monitoring mechanism. Only Punjab has a single mobile laboratory to check the recovery ratio which reportedly is non-functional. According to the law, the farmers must be paid a premium over and above the support price if they grow sugarcane of good quality with a high recovery ratio. Since, the Cane Commissioners do not have the capacity and the equipment to check the recovery ratio, there is no independent mechanism to check the recovery ratio which leads to inflated ex-mill and retail prices of sugar and the Government cannot protect the interests of the farmers and sugar consumers.

### **Deputy Commissioners as ex-officio Additional Cane Commissioners**

#### **Responsibilities:**

281. Deputy Commissioners are Ex-Officio Additional Cane Commissioners and are responsible for implementing the Sugar Factories Control Act 1950 mandated to: declare reserved area for sugarcane cultivation; appoint inspectors; maintain a register of sugarcane produced; issue permits; monitor the support price and issuance of CPRs to the farmers; monitor weigh machines / bridges; inspect godowns and confirm sugar stocks in godowns; and, check hoarding and profiteering of sugar under the Price Control and Prevention of Profiteering and Hoarding Act, 1977.
282. District Sugarcane Purchase Monitoring and Examining Committees, for the protection of the rights of sugarcane growers and redressal of problems pertaining to weight and payments, are also established in the provinces. The Deputy Commissioner / Additional Cane Commissioner of the District is the Convener and the Assistant Commissioner concerned is the Secretary of the Committee along with four members of the committee including the District Officer, Industries Department, Prices, Weight and Measures.

#### **Observations / Findings:**

283. The Commission observed that implementation and monitoring, in true spirit, was not being done by the district cane commissioners as required under the Sugar Factories Control Act 1950, the Punjab/Sindh Registration of Godowns Act 2014 and the Price Control & Prevention of Profiteering & Hoarding Act, 1977. The Department is depending on information provided / furnished by the Sugar Mills and the matters related to the sugarcane, sugar and pricing are not effectively and regularly monitored.
284. The Deputy Commissioners (DCs) are duty bound to protect the interests of the farmers and ensure that the mills are not purchasing sugarcane below the



minimum support price. The Commission noted that the DCs, in the capacity of the Additional Cane Commissioner, in most of the cases did not issue, or implement, the duty roster to monitor the sugarcane purchases and address any excesses by the mills in an effective manner. There was no record of complaints submitted to the DC office by the growers regarding issues faced by them during the sugarcane procurement process. The growers' statements are also testament to this fact.

285. The Deputy Commissioner being the executive head of the district simply does not have the luxury of time and resources to closely monitor sugarcane procurement on a continuous basis. His human resource is mostly revenue officials who are engaged in daily 'firefighting', which leaves them little time to pay attention to this seasonal task. As far as hoarding and illegal profiteering aspect are concerned, it is pertinent to mention that the DCs and price enforcement magistrates, in fact, only try to curtail hoarding of sugar in private godowns and storage spaces through raids on such premises; however, the godowns of sugar mills are not monitored by them. This was confirmed by the major brokers and dealers in conversations with the forensic audit teams. This was a prime reason that brokers and customers have started hoarding / stocking their purchased sugar at sugar mill level (which the mills readily facilitate).
286. The District Sugarcane Purchase Monitoring and Examining Committee is responsible to ensure that the scales, weighbridges and weigh machines at the purchasing centers are tested twice a week but it was observed during the inquiry that the calibration of the machines was not being done while the lifting of sugar bags was in process.
287. The owners/management of the sugar mills remained scot-free in procurement of sugarcane contrary to the provisions of Sugar Factories Control Act, 1950. They have established illegal depots, loading points, check posts for purchase of sugarcane through unregistered contractors and even through their own employees. Illegal deductions in weights are made under the pretext of poor quality, non-variety and trash materials in sugarcane. The weighbridges neither were inspected regularly nor were surprise-checks instituted. The forensic audit teams collected credible evidence, which indicates that the mills purchased sugarcane from the farmers far below the minimum support price during previous years. In case of many sugar mills, the payment of sugarcane is not made within 15 days, as required by the law. Any significant action taken by these offices has not surfaced regarding irregularities and malpractices.

**Provincial Industries, Commerce and Investment Department (Previous Punjab Industry Department)- Government of Punjab:**

288. The Industries Department has a very important role whose duties are:
  - a. Calibration of Weighing Bridges, Laboratory equipment & Scales on Bi-weekly basis.

- b. Presence of officer / official of Industries Department in weighing area on a 24/7 basis.

#### **Observations / Findings:**

289. No implementation and monitoring, in true spirit, was observed on ground. The Department is depending on information provided / furnished by the sugar mills. The District Officer Industries, Prices, Weights and Measures (DOIPWM) who is responsible to check calibration of weighbridges does not even have proper equipment to fulfil the task and is not bothered. 100 tons' weighbridges are being calibrated through 40 kg., counterweights which is absurd. The (DOIPWM) certifies the weighbridge without making any effort to calibrate the same. It has been observed that in most of the cases, the calibrations are not done and the farmers are mostly left at the mercy of the mill owners.
290. Industry Department, Government of Punjab issued a notification on 06-12-2006, in exercise of the powers conferred upon it under section 11 read with section 3 of the Punjab Industries (Control on Establishment & Enlargement) Act, 1963 stating that "No new sugar mills shall be set up and no enlargement in capacity of the existing sugar Mills is allowed in the province." Many sugar mills enlarged/ enhanced their cane crushing capacity during last few years including M/s Hunza Sugar Mills and M/s JDW Sugar Mills in violation of applicable law. M/s Hunza Sugar Mills Unit-2, Jhang enlarged its cane crushing capacity from 6000 TCD to 10500 TCD before the start of crushing season 2019-20 and an additional enlargement of capacity up to 14000 TCD is under process. Hunza Sugar Mills enlarged crushing capacity in violation of above notification. This illegitimate and unauthorized act of Hunza Sugar Mills remained unnoticed by the Industries Department. Similarly, JDW Sugar Mills Limited also enhanced its crushing capacity in violation of above notification.

#### **PESSI / Social Security Institution**

##### **Responsibilities:**

291. Registration of Permanent, Daily-Wages, Retained & Seasonal employees and their monthly collection from Company.

##### **Observations / Findings:**

292. No implementation & monitoring, in true spirit, was observed on ground under PESSI Amendment Act, 2013 and Contribution Regulations, 1967. The Department is depending on information provided / furnished by the Sugar Mills.

#### **Federal Board of Revenue (FBR)**

##### **Responsibilities:**

293. The FBR deputed its officials under the relevant provision 40B of the Sales Tax Act, 1990 to monitor the affairs of sugar Mills related to the GST whose duties are to monitor production and sales on a 24/7 basis, in the premises of the Sugar Mills. FBR also scrutinizes monthly sales tax returns and purchase



declarations submitted by the mills; and prepare a comparison of the sales record of the mills with the FBR Data / Returns filed by the Company.

294. Pakistan Customs Service is responsible for monitoring the export of sugar.

#### **Observations / Findings:**

295. During visits of the sugar Mills by the Inquiry Commission teams, it was observed that officials of FBR deputed in the sugar Mills were silent spectators. The FBR officials said that after the change in law in 2005, the powers of the inspection and supervisory functions were curtailed and therefore, they simply rely on the data provided to them by the sugar mills management. It is interesting to note that the mills' managements had reported the same data on the same format to FBR through electronic medium on a daily basis to the concerned LTU/RTO. The total production and total sales of the sugar mills is, therefore, misrepresented which means that 'off-the-books' activity goes unreported. Unaccounted for sales translate into tax losses of billions of rupees to the national exchequer.
296. The Commission also observed that fake buyers and benamidars of sugar worth billions of rupees were reported to FBR by the mills' management in their monthly sales tax returns. FBR has started taking actions by issuing notices to the fake buyers but still a lot remains to be done. The Commission has also unearthed the fictitious benamidars sales and the recommendations have been made in section on benamidars for taking action against such transactions by the mills. FBR should initiate action to identify such brokers/dealers and investors and take action against them as per law.
297. The capacity of the department to meet this challenge need to be reassessed and enhanced accordingly.

#### **Sugar Advisory Board**

##### **Responsibilities:**

298. The Sugar Advisory Board was notified in 2001 along with other Boards for the oversight of agricultural commodities. Sugar Advisory Board is the regulator of sugar industry and its mandate is to; identify issue pertaining to research and development of sugarcane, address issue faced by the farmers regarding sales, payment of sugarcane and premium on sugar recovery, matters dealing with the collection and utilization of cess funds, address liquidity and working capital problems of sugar industry, identify suitable regions and propose mechanism for promotion of sugar beet to substitute sugarcane and to assess stock of sugar and recommend to the government for import/export.

##### **Observations / Findings:**

299. The analysis of the minutes of SAB meetings show that it is predominantly occupied with one issue i.e. export of the sugar at the cost of all other responsibilities. The role of SAB has already been discussed in detail in TOR (k).

## Ministry of Commerce and Ministry of Industries and Productions

### Responsibilities:

300. The Ministry of Commerce primarily deals with the export of commodities like sugar and therefore comes into play whenever a decision related to the export of sugar is under consideration. The Mo I&P is mainly required to assess the cost of production of sugar so as to ascertain whether the subsidy is justified.

### Observations / Findings:

301. The whole process of getting approval of export and subsidy is inter related and interconnected due to cross cutting issues of sugar export and calculation of cost of production for subsidy. The interplay of both these ministries and the SAB is required before any decision of subsidy can be made by the ECC. This, however leads to a very complex system of decision making which makes it very difficult for ascertaining the role played by the individuals when decisions like subsidy are taken.
302. The issues that these ministries deal with regards to export and subsidy are the same every year but it seems that the decisions are made on ad-hoc basis and no effort is made to evolve systems and procedures can help make proper decisions. A case in point is the calculation of cost of production which is an almost annual requirement, yet no proper cost of production calculation mechanism was ever evolved and when under pressure, the cost of production is then asked to be calculated within 24 hours by the persons who are neither experts in the field nor have required actual data to perform this job. A review of how the decision-making of sugar export needs to be done.
303. There is also confusion as to who is responsible to have the cost of production of sugar calculated; federal or provincial ministry of industries department. To check the rise in the price of sugar for the domestic consumers have always been the priority of every government. But whenever, the government wants to confront the PSMA on increase in prices, they are on weaker footing as they do not have the actual cost of production of sugar. This confusion leaves ample space for the players of the sugar sector to manipulate the prices and to hide behind the exaggerated cost of production.

## Banking Institutions and State Bank of Pakistan

### Responsibilities:

304. The Banking Institutions are responsible to conduct proper due diligence of sugar mills before extending them loan facilities under the State Bank of Pakistan (SBP) Prudential Regulations (PRs). Similarly, banks are responsible for monitoring the transactions in the deposit accounts of their customers and report any suspicious activity to the Financial Monitoring Unit (FMU). SBP is responsible for monitoring the affairs of the banking institutions and take the regulatory steps to control any violations by the banking institutions.
305. SBP is also responsible for the implementation of export schemes, including quota allocation and distribution of subsidy.



### Observations / Findings:

306. The sale/ purchase of sugarcane and sugar activities are managed through bank accounts of sugar mills, their brokers, agents, dealers and other persons from their own accounts and accounts opened in the name of their employees and other associated persons. In addition, very large cash transactions were observed in the accounts of sugar mills and their brokers/ dealers. The banking institutions could not monitor such unusual accounts and transactions therein and take appropriate corrective actions under the KYC (know-your-customer) and AML/CFT regulations.
307. The audit teams found evidence in various sugar mills that pledged stocks were misappropriated or remained short of minimum required level. In various cases, pledged stocks were sold through forward contracts against full or partial advance payment but such advance payments were not adjusted against the loans from relevant banks. The banking institutions could not devise an effective monitoring mechanism to ensure that sugar mills do not sell pledged stock without proper approval from banking institution.
308. In case of Al Arabia Sugar Mills, the pledged stock was misappropriated by the mill's management; however, no immediate action was taken by the bank as per law. Upon instructions from the Commission, the bank has reported that it has written for registration of FIR against the mill.
309. Almost all the sugar mills have availed huge loan facilities from various banks and the default ratio of loans in sugar industry is almost double than the country average. Hence, the banking institutions could not safeguard the interests of their depositors and shareholders while lending to the sugar industry.
310. SBP has not defined any regulatory limit for debt-to-equity ratio for banks. Resultantly, the banks have provided huge loans to the sugar sector which in some cases are more than 80% of the equity of sugar mills. Since, the financial cost on such loans is directly included in the cost of production by the sugar mills and becomes part of sugar prices, these loans also contribute in increased ex-mill and retail prices of sugar.

### Role of Securities and Exchange Commission of Pakistan (SECP)

#### Responsibilities:

311. The SECP has investigative and enforcement powers. Its mandate is the regulation of the **corporate sector** and capital market; supervision and regulation of insurance companies, non-banking finance companies and private pensions schemes and oversight of various external service providers to the corporate and financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc.
312. SECP is responsible to ensure that all companies registered with SECP comply with the applicable provisions of the Companies Act, 2017 (previously Companies Ordinance, 1984). Beside this, the SECP also has powers to take suo moto notice and action on the deviations from the International Financial Reporting Standards and International Standards on Auditing.
313. The designated Departments of SECP namely; Corporate Supervision Department (CSD) and Corporatization & Compliance Department (CCD)



- determine and take cognizance of any noncompliance of the applicable provisions of the Companies Act, 2017 regarding financial statements of the incorporated companies that include conducting inspections and investigations.
314. It is also responsible for the performance of regulating and facilitating healthy growth of the corporate sector (private and public), and to promote good corporate governance for development of efficient management and prudent financial practices.
315. SECP is responsible for monitoring the affairs of sugar mills, their acquisitions, accounting practices, disclosures and inter-company transactions. SECP is mandated and responsible to examine, inspect and investigate the books of accounts and periodic financial statements of all registered companies.

**Observations / Findings:**

316. The record sought from SECP revealed that the books of accounts and financial statements of the Mills were not reviewed, checked, examined, inspected, or investigated by the SECP, which is a serious negligence on part of the Corporate Supervision Department and Corporatization & Compliance Department of SECP.
317. Despite the fact, that the price hike of sugar has been a nationwide concern since 2019, the SECP did not initiate any regulatory and enforcement action that could have saved the general public from continuous profiteering by all the Sugar Mills (Private and Public).
318. While conducting the forensic audit, the Sugar Inquiry Commission corresponded with SECP seeking information regarding inspection, investigation and regulatory actions taken by SECP on any non-compliances in the financial statements on the following six companies incorporated with SECP
- 1) Alliance Sugar Mills Private Limited
  - 2) Al Arabia Sugar Mills Limited
  - 3) Al Moiz Industries Limited
  - 4) Hamza Sugar Mills Limited
  - 5) Hunza Sugar Mills Private Limited
  - 6) JDW Sugar Mills Limited
319. The SECP provided the details of actions taken that were found to be insignificant or inconsequential:
- i. Al Arabia Sugar Mills Limited regarding non-maintenance of company's website and non-filing of statement of beneficial ownership by the company,
  - ii. JDW Sugar Mills Limited regarding non-placement of Urdu language version of company's website,
  - iii. Internal Note – Authorized Officer **disagreeing to proceed with an order for no further action** - JDW Sugar Mills Limited regarding **misstatement, falsification, forgery, fraud, deception etc.**
  - iv. Internal Note- Authorized Officer **disagreeing to proceed** - JDW Sugar Mills Limited **regarding investment in associated companies & undertakings (Faruki Pulp Mills)**
320. The record provided by the SECP reveals that Mr. Abid Hussain, Executive Director (CSD) after unusually delaying it for over 7 months, without any further



analysis or legal basis closed this case of misstatement and omission of material information by Companies (JDW & FPML) related to a Politically Exposed Person. He had cited "the Auditor of JDW Sugar Mills Limited issued unqualified report in this regard and the company charged the impairment in 2016. In view of above, ARN is returned with no further action".

321. Besides the aforementioned, SECP reported to have taken no regulatory action on any of these six sugar companies during 2016-2017, 2018-2018 & 2018-2019. Thus, it is evident that the SECP did not initiate or take any action invoking any of the provisions of the applicable laws including afore-stated key provisions of laws.
322. The aforementioned responses received from the SECP and analysis done in this regard revealed that Corporate Supervision Department (CSD) and Corporatization & Compliance Department (CCD) of SECP completely failed to discharge its legal obligations and duties during the time of sugar crises during 2019. These departments of SECP failed to initiate any action to determine if the sugar companies were showing true and fair financial statements or not.
323. Auditors have been seen to be ignoring;
- i. obtaining appropriate assurance that financial reports are free of material misstatement,
  - ii. ensuring accounting treatments are accurately applied, and
  - iii. addressing any deficiencies detected so that investors and other users of financial reports are not misled with regard to the quality of the information they contain.
324. The specific violations of the companies and their complete obliviousness of the issues by the auditors are highlighted in each section of the company financial analysis that follows.

#### **Recommendations:**

325. Cost accounts should be compulsorily maintained by the companies and amendment in the law should be made. This has been discussed in detail in TOR (e) i.e. Determination of Ex-Mill Price.
326. SECP should get the off-site and on-site inspection and audits conducted as per regulation,
327. SECP should improve its regulatory and supervisory control over the auditors to ensure that audits are carried out in a proper way,
328. Regulatory action on financial statements of sugar sector should be taken.

#### **Role of Competition Commission of Pakistan (CCP)**

329. The responsibilities and role of the Competition Commission of Pakistan have been discussed in detail in TOR (p).

***n. verification of the sale of sugar to find out malpractices of hoarding and manipulation of supply to the market to maximize profiteering:***

330. The components of this TOR regarding malpractices of hoarding and manipulation of supply have already been discussed in the TORs (f) and (j), respectively.



*o. Physical verification of stock to find whether there is any excess/shortage of stock as shown in the book and verification of the genuineness of the sales record:*

331. The Audit Teams started their work just after the end of the production season when the sugar mills have the highest level of stocks available in their inventory. However, the teams found the discrepancy in the stocks shown in the books vis-à-vis pledged with the banks.

**Shortage of Sugar Pledged Stock:**

332. During the audit of **Al-Arabia Sugar Mill**, the sugar stock pledged with the banks was checked on March 21, 2020 and a total of 139,098 bags were stored in the godowns. The mill management provided the information concerning pledged sugar bags as under:

Name of Bank	Name of Muqaddam Co.	Pledged Stock (Sugar Bags)	Total
National Bank of Pakistan (NBP)	Tariq Sardar	48,504	66,384
National Bank of Pakistan (NBP)	Al-Macca Enterprises	17,880	
Faysal Bank	Atlantic Surveyors	222,890	222,890
Bank of Punjab	Tristar International	329	329
<b>Grand Total</b>			<b>289,603</b>

333. Keeping in view the above, stock position analysis in the light of the information provided by the bank as well as Muqaddam and physical stock lying in the godowns of the mill is as under:

i. Total pledged stock	289,603
ii. Total Sugar Stock in Store	139,098*
iii. *Expired Sugar bags:	31,087
iv. Available Stock for Banks	108,011
v. Missing Pledged Stock	181,592 (bags)

334. The above analysis shows that Al-Arabia sugar mill has sold the pledged stock. The management of the mill was confronted with the evidence but they did not have any plausible explanation. The matter was referred to State Bank of Pakistan with request to get a joint inspection, of the three banks involved, conducted and take further legal action accordingly.

335. As per response received from SBP, a special joint inspection of the pledged stocks was carried out by relevant banks on May 07, 2020 and stock was found to be significantly short by 177,890 bags. All this shortage pertained to Faysal Bank Limited. As reported by SBP and Faysal Bank Limited an application bearing No. SHPS-5/9/2020-577 was filed for registration of FIR with relevant Police Station on 09-05-2020 for theft and misappropriation of pledged stocks. After this application, the customer approached the bank and is discussing an early and

expeditious settlement plan of entire principal together with the markup.

336. The quarterly joint inspection stock of **Alliance Sugar Mills** pledged report as per SBP PR-5 as on March 13, 2020 reflects 2.7 million bags of finished stock was short by 572,264 bags which was pledged by the Company. The financial impact (only cost) of said difference is approximately Rs. 1,868,441,960 at the rate of Rs. 65.30 per kg of sugar. The said pledged stock is alleged to be sold by the Company. However, when the audit team confronted mill's management about shortage of stock, the outstanding limits of relevant banks were adjusted by the mill till April 22, 2020 and shortfall was reported to have been made good.
337. The teams working on **JDW Sugar Mill** have also found instances that during the period from September 01, 2018 till March 2020, stocks pledged with various financial institutions to secure financing were sold and lifted. For Unit – III, the team found 191 instances or number of days when available stock in the godowns was less than the pledged stock, showing that pledged stock was sold and lifted from the mill's godowns. The explanation of the management of the mills was not found plausible. The details of some of the major instances where the available stock of JDW III was less than the pledged stocks are given in the table below.

**Table 28**

Date	Total Opening Balance (Bags) (a)	Lifted (Bags) (b)	Closing Balance (Bags) c = a – b	Total Pledged Stock (Bags) (d)	Shortage in Pledged Stock (Bags) (c – d)
28/11/2019	501,680	33,820	467,860	900,044	(432,184)
24/11/2019	594,100	19,760	574,340	1,041,238	(466,898)
23/11/2019	620,920	26,820	594,100	1,041,238	(447,138)
20/11/2019	796,040	61,540	734,500	1,190,058	(455,558)
18/11/2019	928,940	62,160	866,780	1,326,878	(460,098)
21/11/2018	1,219,230	5,280	1,213,950	1,383,964	(170,014)
26/09/2018	1,672,790	8,040	1,664,750	1,873,687	(208,937)
06/09/2018	1,747,610	5,760	1,741,850	1,959,460	(217,610)

Source: Data collected from the JDW Sugar Mills

#### Findings:

338. From the findings of the audit of the selected mills, it transpired that sugar mills are involved in practice of selling the pledged stocks without seeking approval from relevant banks. All the sugar mills mentioned above, sold the pledged stocks without getting it released from the relevant banks or adjusting the advance payments received against such sales.
339. There is evidence that forward sale contracts were also made against some of the pledged stock and full or partial payment was also received against such forward contracts. The Commission has already highlighted



the use of forward contracts in market manipulation and artificial price hike in TOR (g).

340. The non-release of pledged stock also meant continuation of financial liability and therefore added to the financial expense that the sugar mills charge to the cost of production.
341. Almost all the sugar mills were in practice of procuring loans from financial institutions against pledge of sugar stock. In a number of cases, such pledge loans are continuous in nature and are hardly adjusted/cleaned up at the end of season. Such practice provides opportunity to the mills to manipulate the market prices through forward sales and hoarding.
342. As established even the pledged stocks, which is supposed to be well monitored by the banks' Muqaddams, have been found to be short. Therefore, the reliance on PSMA data for ascertaining the stock position of sugar in the country and for determining the "Strategic Reserves" is totally unreliable.

**Recommendations:**

343. Federal Government may advise all banks to conduct special joint inspections of their pledged sugar stocks and take necessary legal actions in case of any shortfall.
344. There should be clear legal or regulatory instructions to adjust the pledged financing limit against sugar, at least 30 days before the start of new crushing season. This will not only help in minimizing the misuse of pledge financing but will also discourage hoarding and other malpractices.
345. It should be mandatory for mills to immediately repay to the banks against pledge financing, the advance payments received against forward sale contracts.

#### *p. Role of The Competition Commission of Pakistan In This Crisis*

346. The Competition Commission of Pakistan (CCP), governed by the Competition Act, 2010, is mandated to exercise its “legal and investigative instruments and powers to engender free competition in all spheres of commercial and economic activity, enhance economic efficiency, and to protect consumers from anti-competitive behavior.”
347. In the period January, 2019 to December, 2019 Pakistan witnessed a steep price hike in sugar being sold in the consumer market. In order to assess whether measures were taken by the CCP to address the issue, CCP Chairperson, and other officers appeared before the Commission on March 30, 2020. The Commission questioned the CCP team with regard to the functions, powers and mandate as well as the steps taken by the CCP in the crisis. The Commission also analyzed the documents and based its findings on the following:

#### **Powers, Functions and Mandate of CCP**

348. The Competition Act, 2010 and allied rules and regulations mandate the CCP “to ensure free competition in all spheres of commercial and economic activity, enhance economic efficiency, and to protect consumers from anti-competitive behavior by all undertakings in Pakistan regardless of their public or private ownership”. CCP’s mandate specific to taking cognizance for cartelization (prohibited agreements), abuse of dominance and anti-competitive market practices under the Competition Act, 2010, is to take enforcement action by calling information, conducting inquiries, entering and searching premises, exercising forcible entry, calling witnesses with record and evidences, issuing show cause notices, passing interim or/and final orders and imposing penalties.

#### **Past Actions & Reports pertaining to the sugar industry by CCP**

349. The dilemma in the sugar industry regarding sugar prices is not a recent phenomenon. Record shows that, in the past, the CCP has taken cognizance and/or has been involved on various occasions to critically analyze the dynamics of the industry.
350. The CCP’s actions in the past started way back in 2009 when a Policy Note was issued regarding the ‘Price Fixing Agreement’ between the All Pakistan Sugar Mills Association (APSMA) and the Ministry of Industries & Production on behalf of the Government fixing the ex-mill rate of sugar due to the threat of sugar mills to cease sugarcane crushing. The CCP recommended to the Government to terminate the Agreement on the grounds of encouraging collusive behavior.
351. The Honorable Supreme Court vide its Order dated 2-10-2009, appointed a one-man Commission to determine the cost of production of sugar and profit margins in the sugar sector. The Report of the Commission dated 15-10-2009 submitted to the Honorable Supreme Court concluded that “...a meaningful and reasonable recognition of approximate costs of production are almost impossible.”
352. The CCP took *suo moto* cognizance of the issue in 2009 and conducted a search and inspection of the PSMA offices in the country to determine violation of the



Competition Ordinance, 2007 (the Ordinance). The Inquiry Report of the inspection dated October 21, 2009 concluded that there was “extensive institutionalization of collusive behavior in the refined sugar industry...the sugar mills, rather than competing in the open market prefer a closed and protected market which is managed collusively and collectively by PSMA. PSMA apart from being in breach of its mandate appears to be acting in violation of Section 4(1) of the Ordinance by acting as a front runner for a cartel in the sugar industry.”

353. The inspection report was quite categorical and put direct blame on the PSMA for manipulation and cartelization. Consequently, the CCP initiated legal proceedings against the PSMA by issuing a show cause notice dated October 23, 2009 under Section 30 of the Ordinance for collusive behavior and price fixing. PSMA and the member sugar mills obtained a restraining order from the Sindh High Court which is pending. Proceedings of the hearings and judgment (if any) in the matter is not on record.
354. In June, 2019 the Ministry of Industries & Production requested the CCP for validation of cost audit figures for the crushing season 2016-17. The cost audit concluded in October, 2019 and approved by the CCP in November, 2019. Financial and costing information of 65 sugar mills was reviewed. It is pertinent to mention that, information collected by the CCP was based on the financial information and documents provided by the sugar mills and did not conduct a thorough and independent investigation that could have ascertained the actual cost of production. The study concluded that the estimated cost of production of sugar is Rs. 51.93/kg against the cost of Rs. 52.46 per kg as calculated by the Mo I&P.

### Findings

355. The issues prevailing in the sugar industry have been contended since 2009 and are not an unfamiliar matter. The CCP had ample prior instances that provided the queue for taking preemptive actions.
356. The last action of the CCP in respect of sugar mills was in 2009. During the price hike of sugar in 2019, no intervention was made by the CCP to address the abuse of market dominance, and/or anti-competitive marketing practices despite extensive powers conferred under the Competition Act, 2010

### Recommendation:

357. The CCP has major responsibility to ensure that there is no cartelization, abuse of dominant position and anti-competitive practices in the sugar industry. It is imperative that the CCP actively discharge its responsibility.

## *q. Benami Transactions and Profits (Approximately) Earned During the Sugar Crisis*

### **Introduction**

358. Benami Transactions (Prohibition) Act, 2017 (hereinafter referred as BTPA, 2017) imposes prohibition for entering in to benami transactions and holding property in benami, restricts right to recover or transfer property held benami and provides mechanism and procedure for confiscation of property held benami, and matters connected therewith or incidental thereof. Benami transactions are dealt with under the provisions of BTPA, 2017 and any violation therefrom warrants cognizance by the statutory authorities as designated/appointed under the said law. Inquiry Commission has conducted this inquiry keeping in view the provisions of BTPA, 2017. The objective, key definitions and important provisions as stipulated in the BTPA, 2017 are made part of this report as **Annex-A**.

### **Overview of Sugar Industry w.r.t. Benami Practice**

359. This section deals with business practices of the industry, quantum of sales transactions conducted during October, 2017 to February, 2020 and methodology adopted for inquiry / forensic audit with reference to identifying benami transactions.

### **Business practice**

360. The standard business practice in the sugar industry is that sugar is sold by the mill, mostly through designated brokers or agents, to dealers, wholesalers and retailers. Sale of sugar is affected either through "on-spot sales" or through "forward contracts". In either of the aforementioned case, the delivery of sugar is affected after receipt of payment through issuance of delivery orders (D.Os.). These delivery orders are issued to either concerned brokers directly or to the relevant goods transport companies for lifting of the given quantity of sugar. The sale is booked/recorded in the sales record of the sugar mill, sometimes in original names but mostly in the names of **benamidars**. The sales recorded to be made to registered persons in sales tax seems to be containing true particulars. However, sales recorded in the names of unregistered persons in the sales tax are mostly **benami** sales. The payment against sale of sugar is received into the given bank accounts of sugar mill either through cash deposits or through cheque or online transfers etc. from brokers/agents or end purchasers/business customers in the supply chain. The sale of sugar is considered as final when the sugar is actually lifted from the godowns of the mill against the delivery order issued in this regard. Sometimes the sugar is lifted in parts / piecemeal against a single delivery order.

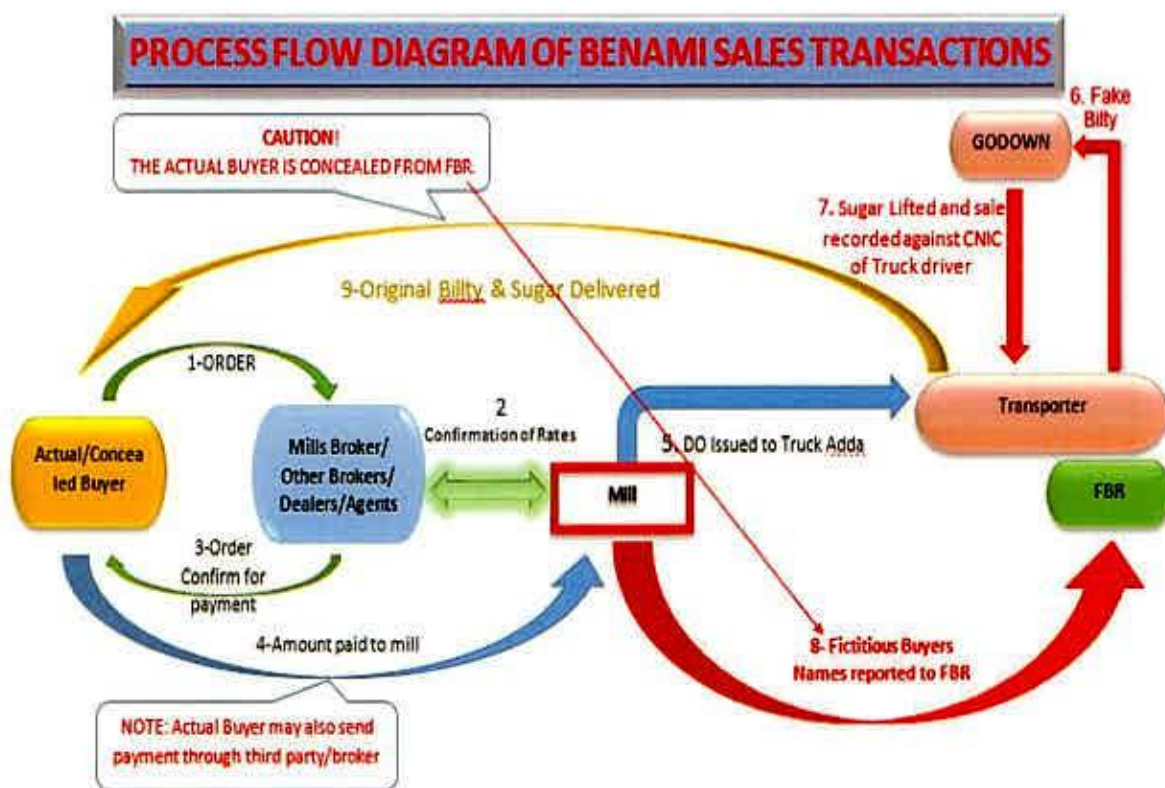
361. It is pertinent to mention here that these delivery orders are also sold in market as a mode of sale of sugar, from one hand to another, and sometimes a single delivery order is sold to several persons before sugar is lifted from the godowns of the mill. Similarly, these delivery orders are also used by the brokers / dealers etc. for settlement of their financial transactions amongst themselves. The



investors (brokers are also sometimes the investors) also buy these delivery orders from the brokers or from the market for investment purposes and sell these delivery orders in the market, when the price of sugar is increased in the market. Such investments are not channeled and do not come under the tax net and are, reportedly, made from untaxed money. Such paper transactions results in creating artificial demand of sugar which ultimately results in price hike. This phenomenon has been explained in detail in TORs (g) and (f)

#### Process of benami sale transactions

362. The process of benami sale transactions adopted by the sugar mills is illustrated through the following flow diagram:



#### Sales transactions

From October, 2017 to February, 2020.

363. Most of the sale transactions are conducted in the names of persons who are unregistered in sales tax. Largely the particulars like CNIC numbers and addresses of such unregistered persons are not maintained or made available to the tax authorities by the sugar Mills. Benami sales transactions are mostly conducted in the garb of such unregistered persons. The enormity of sales transactions declared and unregistered person involved can be ascertained from the following data declared to FBR during October, 2017 to February, 2020 by six (6) sugar mills under forensic audit:

S. No	Name of Sugar Mills	Total Unregistered Buyers	NTN Holders	CNIC Holders	Buyers without NTN & CNIC
1	JDW Sugar Mills (Unit-I, II & III)	3,680	302	3,352	26
2	Al-Moiz Industries/ Mills (Unit-I & II)	1,418	186	1,218	14
3	Alliance Sugar Mills	1,986	59	1,927	0
4	Al-Arabia Sugar Mills	1,284	8	149	1,127
5	Hamza Sugar Mills	21,250	1,065	2,154	18,031
6	Hunza Sugar Mills	911	75	835	1
		<b>30,529</b>	<b>1,695</b>	<b>9,635</b>	<b>19,199</b>

Source: Sales Tax Return Declaration to FBR by the Sugar Mills

364. The quantum of sales transactions booked/invoiced to unregistered person by 06 sugar mills under forensic audit amounts to Rs. 150,217,451,253, which is 72% of total sales value during the aforementioned period. The details are as under:

S.N o	Name of Sugar Mills	Sales Value (exclusive of S.T) in Rs.				Total Sale Value
		Sales Registered Buyers	Sales Tax Unregistered Buyers			
			NTN Buyers	Holder	CNIC Holder Buyers	
1	JDW Sugar Mills (3 Units)	28,135,636,368	1,240,665,049	22,748,209,792	47,794,370,445	99,918,881,654
2	Al-Moiz Sugar Mills (2Units)	18,966,808,253	2,273,356,923	10,623,584,112	2,689,280,037	34,553,029,325
3	Hunza Sugar Mills	1,634,247,799	227,972,065	3,933,643,584	1,080,720,000	6,876,583,448
4	Hamza Sugar Mills	6,045,359,591	3,649,426,179	2,158,044,600	29,985,101,856	41,837,932,226
5	Al-Arabia Sugar Mills	616,355,266	38,716,257	863,440,342	5,403,299,293	6,921,811,158
6	Alliance Sugar Mills	1,910,189,838	378,517,648	15,129,103,070	-	17,417,810,556
	Totals	57,308,597,115	7,808,654,121	55,456,025,500	86,952,771,631	Total Sales:207,526,048, 367
Total sales to registered buyers = Rs. 57,308,597,115			Total sales to unregistered buyers = Rs. 150,217,451,253			

Source: Sales Tax Return Declaration to FBR by the Sugar Mills

365. Out of total sales booked/invoiced of Rs. 723,491,913,194 by all the **sixty six (66) sugar Mills in the country**, the quantum of sale transactions/sales booked/invoiced to unregistered persons/buyers during the period from



October, 2017 to February, 2020 comes to Rs.517,272,368,222 (71 % of total sales value), as per FBR's data, the detail of which are as under:

Details of Buyers	No. of Transactions	No. of Entities	Sale Value in Rs. (exclusive of tax)	Percentage
Sales Tax Registered	2,609	1,169	206,219,544,971	29%
NTN Holders / Income Tax	5,032	3,519	28,644,145,040	4%
CNICs Holder/Provided	34,859	24,837	125,280,234,966	17%
No CNICs Provided / Only names of buyers provided	34,550	34,550	363,347,988,216	50%
<b>Total Buyers</b>	<b>77,050</b>	<b>64,075</b>	<b>723,491,913,194</b>	<b>100%</b>

Source: Sales Tax Return Declaration to FBR by the Sugar Mills

### From October, 2019 to February, 2020 (Current Five Months)

366. The Commission studied the pattern of declaration of sales by the six sugar mills under forensics audit after October, 2019 i.e. after the issuance of Sales Tax General Order (STGO) bearing No. 106 dated 04.10.2019 whereby all registered persons have specifically been asked to declare CNIC/NTN of the buyer in **good faith**. The analysis of sales transactions for October, 2019 to February, 2020, as represented in the tables below, depicts that same pattern of booking sales transactions to unregistered buyers is continuing in the current period as well. The details are as shown below:

S #	Name of Sugar Mill	Total Declared Unregistered Buyers	NTN Holders	Without NTN but CNIC Holders
1	JDW Sugar Mills	2944	286	2658
2	Al-Moiz Industries	181	70	111
3	Alliance Sugar Mills	419	33	386
4	Al-Arabia Sugar Mills	150	8	142
5	Hamza Sugar Mills	2607	757	1850
6	Hunza Sugar Mills	292	35	257

Source: Sales Tax Return Declaration to FBR by the Sugar Mills

367. During this brief period of five months, suspected benami transaction of Rs.20.5 Billion have been detected in case of six Mills under forensic audit. these transactions are made in the name of persons who don't have any tax record. Following is a picture of "buyer's category wise" sales declared by the entire sugar industry during the aforementioned five months period:

S #	Name of Sugar Mill	ST Registered Buyers (sales)	NTN Holders (sales)	Without NTN but CNIC Holders (sales)	Total Sales (Rs.)
1	JDW Sugar Mills	6,594,917,322	1,065,632,910	15,015,353,803	22,675,904,034
2	Al-Moiz Industries	3,454,959,668	464,691,124	869,669,754	4,789,320,546
3	Alliance Sugar Mills	494,446,561	168,993,757	1,505,106,000	2,168,546,318

4	Al-Arabia Sugar Mills	62,989,215	38,716,257	793,633,730	895,339,202
5	Hamza Sugar Mills	1,634,882,313	1,141,626,954	1,480,043,400	4,256,552,667
6	Hunza Sugar Mills	452,360,562	80,946,997	874,647,694	1,407,955,253
	<b>Total</b>	<b>12,694,555,640</b>	<b>2,960,607,999</b>	<b>20,538,454,381*</b>	<b>36,193,618,021</b>

Source: Sales Tax Return Declaration to FBR by the Sugar Mills

368. The table below shows that the entire sugar industry declared total sales of approximately Rs. 124 billion; out of this Rs. 43 billion were sold to the registered persons. If the sales made to Income Tax registered persons worth Rs. 14 billion is taken out, then the rest of Rs. 58 billion sale have been made to un-registered persons who are suspected benamidars.

Detail of Buyer	No. of Transactions	No. of Entities	Sales Value (Rs.)
ST Registered	721	1254	43,325,983,065
IT Registered	2766	3746	13,963,841,611
CNIC Holders	16672	22250	66,018,811,843
NO CNIC/NTN	22	22	1,072,257,469
<b>Total Buyers</b>	<b>20181</b>	<b>27272</b>	<b>124,380,893,988</b>

Source: Sales Tax Return Declaration to FBR by the Sugar Mills

#### Methodology adopted to unearth benami transactions

369. Sales transactions can qualify as benami transactions under the BTPA, 2017, if either of the conditions is fulfilled viz.

- the person in whose name invoice is issued / booked is a fictitious person, or
- the person in whose name invoice is issued / booked is not aware of, or denies knowledge of, such purchase, or
- where alleged benamidar is in collusive arrangement with the beneficial owner (like in cases of employees, relatives etc.) and he/she tries to own that benami transaction but evidence retrieved in investigation establish that invoice is issued (sale is booked) in the name of one person whereas consideration against such purchase has been provided/paid by some other person who has taken the benefit from sale of such sugar later on, or
- where the person providing the consideration against benami property is not traceable or fictitious.

370. In order to identify benami transactions, the investigations were first conducted regarding person in whose name sale is booked/recorded/invoiced to identify whether he/she is benamidar or otherwise. The forensic audit of the six sugar Mills to unearth benami transactions has been conducted in the following manner:

- Alleged buyers of sugar have been identified from sales record of the respective sugar mill and their sales tax returns.
- Matching of particulars of buyers declared to FBR with particulars as maintained in sales registers/record of the Sugar Mills has been done to



identify any difference/variance. In case of any such variance, the transactions become suspicious / suspected to be benami.

- iii. Recording of Statements, and physical verification, of alleged unregistered buyers and their business places, on sample basis, have been recorded to gauge their genuineness and to identify extent of benamidars therein.
- iv. Brokers and agents have been investigated, along with their record, to verify their genuineness and to probe the money trail of payments made through them to identify beneficial owners in benami transactions in sugar industry.
- v. Payment receipt record of sugar Mills have been examined to identify actual buyers/ beneficial owners, if any.
- vi. Record of Goods Transport Companies has been examined, on sample basis, to verify genuineness of sale transactions and to identify actual buyers / beneficial owners, if any.

#### **Benami Transactions by Sugar Mills under Forensic Audit**

371. This section contains the gist of practice of benami transactions conducted by the sugar Mills, under forensic audit.

#### **Benami Sales of JDW Sugar Mills (Unit I, II & III)**

372. Approximately 71% of total sales, from October, 2017 to February, 2020, have been declared to be made to unregistered buyers. A comparison of particulars of the buyers as appearing in sale data of the Company with the declared buyers as appearing in Annexure-C of the sale tax returns of the Company was made. It was found that, during the period October 2019 – January 2020, both data do not match with each other. This aspect of maintaining different records for the same transactions, alone, makes all such transactions suspected to be benami.
373. Analysis of the sales data (REPORT NO. SALES-102 - Consolidated Sugar Sales Statement) of Unit-II of the Company for the year 2019-2020 transpired that during the period November 27, 2019 and March 17, 2020, Unit II has sold a total of 1,741,880 bags (50 Kgs) of sugar aggregating to Rs. 5,831,171,000. It has been observed that for every sale transaction, a Delivery Order (DO) is issued to one person and another person is recorded as a dealer for the said sale. However, when the team extracted a separate report (REPORT NO. SALES-052 - DAILY SUGAR DESPATCH REPORT) the persons mentioned as "Customer" have been found to be mentioned as "Brokers" therein. In order to clarify the discrepancy, the team investigated GM Sales of the Company, who conceded that most of these are "made up" names. As per the provisions of BTPA, 2017 booking of sales in made up names/fictitious names constitute benami sale transactions. He shared a list of **actual brokers** and the benami / fictitious names being used against those brokers. The list is as follows:

JDW SUGAR MILLS LIMITED SUGAR DEALER/BROKERS DETAIL				
DEALER/BROKER NAME	CONTACT NO.	SUB DEALER	CUSTOMER	CNIC NO.
MIAN MANWAR KHURSHED	0300-8600033	AL-SHARIF SONS	MINIB	38403-7648329-9
Haji ZAMEER AHMED	0364-4229505	H.ZAMEER	ZAFAR	42301-0908198-3
KHAWAJA IDRAN	0300-4101352	RIZWAN BROTHERS	SAMI	38403-4848222-3
RASHID	0321-6899703	BABU KHAN	RASHID KHAN	36104-6978933-7
MUSHTAQ PARACHA	0300-6608558	ILASAN GUL	BACHA KHAN	33100-2322971-3
MUSHTAQ PARACHA	0300-6608558	ADIL KHAN	ZAMURD KHAN	33100-2322971-3

374. The comparison of sale data with the above mentioned list indicated that only one person namely Haji Zameer is actually being reported as a customer in the Company's sales record. The rest of the names used as sub-dealers were fictitious. Even Mr. Zameer did not know Zafar who was shown as his main customer in the Company's record.
375. Investigations have also revealed that names of the brokers are masked by the Company by declaring sales in benami / fictitious names. Actually, brokers take orders from the market but sale is booked in the names of fictitious customers against those orders. Statements of following brokers of the Company, recorded during forensic audit, have revealed details of glaring violations as under:
- Mr. Abad Ali purchased 54,000 bags of sugar (225 trucks @ 240 bags per truck) amounting to Rs. 174,225,000 during the current financial year. During the years 2018-19 and 2017-18, he purchased 451,200 bags of sugar aggregating to Rs. 1,133,625,000 and 150,034 bags aggregating to Rs. 345,537,600 respectively. However, all these purchases have been booked by the Company in the benami/fictitious names.
  - Mr. Mustansar confirmed that the Company sells him sugar against the name of one "Mr. Waris Khan" against whom name of the broker is mentioned as "Hameed Khan".
  - As per the Company's record, sale of sugar to Mr. Rashid (broker) for the current season is 94,800 bags for an amount of Rs. 342,825,000 and it has been recorded in the name of Babu Khan/Rashid Khan. Further, forward sale of 37,200 bags for an amount of Rs. 149,700,000 (@Rs. 80.48 per kg) has been recorded in the name of Rashid Multan. On the other hand, Mr. Rashid, in his statement, has confirmed that he has purchased 61,200 bags of sugar from the Company during the current year and has also stated that he does not know Babu Khan/Rashid Khan and these were names used by the Company. Similarly, as per his statement, during the year 2018-19, Mr. Rashid has purchased 278,400 bags of sugar however, as per Company's record, sale of around 368,400 bags for an amount of Rs. 973,185,000 has been made in his name using the benami/fictitious names viz. Sarwar, Jhanzeb Khan, Rashid Trders, Nadeem, Dawood Khan, Hazik Khan etc.



- iv. Khawaja Ahmed Saeed complained that even though he sends the mill names and payment details of actual buyers of sugar, the mill still mentions his name and his father's name sometimes as buyer and sometimes as broker and interchangeably as well.
- v. Sugar aggregating to Rs. 504,678,000, Rs. 1,251,525,000 and Rs. 669,918,000 for the years 2019-20, 2018-19 and 2017-18 respectively has been sold to Khawaja Imran through benami/fictitious names viz. Sami, Rizwan Brothers, Zaki, Umar Brothers, Sabih – Lahore, Tawakal Traders IB – Sargodha, Amjad – Lahore, Ali Raza Khan – Sibi. Khawaja Imran stated that he has been working with the name of Imran Brothers for the last 10-12 years; however, he failed to identify any of the above referred names.
376. During forensic audit, a comparison of record seized (on sample basis) from the Company's goods transport agents, namely New Rohtak Hasar Goods Transport and Sindh Punjab Goods Transport Company, with the data recovered from the server of the Company (back end input forms) revealed that most of the drivers (based on CNIC) appearing in the record of the goods transporters have been found to be reported as "unregistered buyers/customers" in the sale tax returns of the Company. The JDW management has deliberately concealed the names of actual buyers of sugar at the time of filing of Tax Returns to FBR and has facilitated them to remain out of tax net. A sample checking of data depicted that 224,580 bags of sugar have been declared to be sold to the following drivers of goods transporters, who have also been traced and their statements have duly been recorded:

Name of driver	CNIC	Season	No. of bags	Sale reported in sales tax Return	
As per transporter record		As per retrieved data		Bags	Amount Rs.
Hameed Ahmad	31303-2508119-1	19-20	2,080		
Muhammad Saeed / Mohammad Saeed / Saeed / Muhammad Saeed S/o Muhammad Shareef Sabir / Muhammad Saeed S/o Muhammad Sharif Sabir	36303-1348473-9	17-18	1,140		
		18-19	21,900	28,460	85,380,000
		19-20	122,900	128,260	384,780,000
Altaf / Altaf Hussain / Altaf Ahmad / Altaf Hussain S/o Muhammad Shafi	31304-7988041-9	17-18	2,160		
		18-19	34,360	19,160	57,480,000
		19-20	8,640	8,260	24,780,000
SajidYaqoob	35303-6671330-7	19-20	1,200		
Khalid Yousaf / Khalid Youseef / Khalid Yousuf / Khalid Yousif	31304-3715382-5	18-19	2,900	4,400	13,200,000
		19-20	7,020	4,740	14,220,000
Sher Mohammad / Sheer Muhammad / Sher Muhammad / Sher Muhammad S/o Dur Muhammad Khan	31304-0835049-5	17-18	4,120		
		18-19	7,820	5,940	17,820,000
		19-20	8,340	11,340	34,020,000
			224,580		



377. It has also established during forensic audit that the Company used to record sales transactions in the names of benami / fictitious buyers and used to declare sales as "bulk unregistered sales" during 2017-18 and 2018-19. However, after July 1, 2019 when the submission of CNIC has been made compulsory by FBR for reporting of sales tax, the Company has started submitting the CNIC details of truck drivers as well as totally unrelated persons.
378. In order to trace actual buyers (beneficial owners of benami property), exhaustive efforts are required to find out the party which booked the order, the goods transporter, the person depositing the cash and the person on whose name the sales tax was deposited by the Company. An example of an order booked by the broker, Haji Zameer, shall illustrate the whole process. Haji Zameer takes order from a dealer and ask him to deposit money in the Company's bank account and share the details of deposit with the Company. In this case, the dealer Dawood Brothers Multan deposited Rs. 3,650,000 in the Company's bank account for purchase of 960 bags of sugar. Thereafter, the details were shared with the Company sales department. The Company after confirmation issued a delivery order for 12,000 bags (including 960 bags for Dawood Brothers Multan). These bags were lifted by Rohtak Hasar Goods, Truck No. TLB-811 on April 2, 2020. Lastly, the Company reported sales tax on the said sale of 960 bags of sugar in the name of one Mr. Abdul Razzak. The investigation team contacted Mr. Razzak who stated that he is taxi driver in Rajanpur.
379. As the Unit-I is the largest mill of the Company, the team analyzed the major brokers and their dealers, and the phenomena of sold but un-lifted stock of sugar kept at the mills for a very long time without any proper justification. 3,296,560 bags of sugar reported to be sold in books of accounts / record of the Company, for the period of up to 19-03-2020, have not yet been lifted by the alleged buyers, most of which have been invoiced and reported to FBR but are benamidars.
380. Forensic audit shows that mostly the benami sales transactions are recorded against unregistered persons. **Out of total sales of JDW Company of around Rs. 100 billion "sale of around Rs. 71.8 billion is suspected to be benami transactions" during the period from October, 2017 to February, 2020.**

#### Benami Sales of Hunza Sugar Mills

381. The sales tax data reported by the mill revealed that more than 76% of total sales during the period October, 2017 to February, 2020 have been made to unregistered buyers. The CNICs of unregistered buyers reported to FBR and CNIC's mentioned in the sales register of sugar mill have been found to be the same. **But none of them is found registered with Income tax or sales tax.** However, on inquiry, on sample basis, they have been found to be drivers or low paid employees.
382. To ascertain the real facts about the individuals reported as buyers to FBR by the sugar Mills, sixteen individuals have been contacted, as a sample, and their statements have been recorded. All of them stated that they are persons of humble means and have never purchased sugar from Hunza Sugar Mills. Out of them, 15 persons are truck drivers and 01 is security guard. Evidently, that the



mill is misusing copies of CNICs of drivers and low paid employees to masquerade these as original buyers for the purpose of concealing the true identity and financial worth of their actual buyers.

383. In order to ascertain the true identity of actual buyers/beneficial owners of aforementioned benami transactions; the team approached the concerned goods transporter i.e. New Azad Chaudhry, Goods Transport Company, Shahkot, Faisalabad, which is an unregistered entity and the sole transporter of the Hunza Unit – I. After examination of record, it was revealed that the transporter has also been colluding with mills management and brokers/dealers/agents to conceal the true identity of actual buyers. The transport company had prepared two sets of Bilti books simultaneously for the same transactions, one containing the details of actual buyers and other containing the same details of truck number, quantity of sugar but with fake name of buyers and different destinations.
384. The names of persons mentioned on the false Bilties are reported to the FBR as unregistered buyers. A comparative analysis, of certain transactions, based upon the comparison between the original and fake Bilties is given in the table below:

Sr. no.	Date	Fictitious Buyer reported to FBR	Fake Bilti Number	Original Party to Whom Sugar Supplied	Original Bilti#& Broker	Same Qty (50kg bags)	Same Truck No.
1	24-03-20	M Arshad -Jhang	1302	Ghafoor Butt AkbariMandi (240) Munir Ahmed AkbariMandi (120) General Food Qila SATTAR Shah (240)	1917- Amjad Hussain	600	C 2073
2	24-03-20	Nazar Abbas-Bhakkar	1305	M Ehsan LHR 240 Munir Ahmad AkbariMandi LHR 120 5A Gulberg LHR 240	1924	600	C 3534
3	24-03-20	Nazar Abbas-Bhakkar	1306	HafiqKhurramChowkYatimKhana LHR 120 Punjab Store Joray Pull 480 (Imran Pervaiz)	1923- Shahzad Faisal and Amjad Hussain	600	GLT 5986
4	25-03-20	Ghulam Muhayyodeen-Jhang	1317	Ghafoor Ahmed Amir Road LHR 240 MianKirayanSanda LHR 240 NadeemTahirKirayanaBaghatPura LHR 240	1929 - Shahzad Riaz	720	SLI 162
5	25-03-20	Jahangir Khan – Zobe	1318	Tariq Store (UsmanMehmood) BhagwanPura LHR	1935 - Shahzad Faisal	720	LEI 3906
6	25-03-20	Sarfraz Ali-TT Singh	1321	Punjab Store Joray Pull LHR 480 (Imran Pervaiz) Siddiqi Begum Coat LHR 120	1929- Shahzad Faisal and Amjad Hussain	600	FDD 3474
7	25-03-20	Laal Hussain –Bhakkar	1327	Abdul GhaffarJhumra	1935- Shabbir Hussain &Amjad Hussain	240	LXU 1743
8	26-03-20	Ghulam Abbas-Jhang	1332	M Ehsan LHR GurrMandi LHR 240 Munir Ahmad AkbariMandi LHR 240 Abdul GhafoorAkbariMandi LHR 240	1945	720	LXP 3791
9	26-03-20	Muhammad Irfan-Jhang	1337	Ghafoor Ahmed Amir Road LHR 240 NadeemTahirKirayanaBhagatPura LHR 240	1937 - Shahzad Riaz	480	LEI 1833
10	26-03-20	Sabir Ali-Noshehra	1341	Iqbal Store Amir Road LHR 240 Imran Karyana Store Shad Bagh 240 Lucky KirayanaSaggianPul 120	1945– Hamid	600	EA 4252

11	28-03-20	M Anwar-LHR	1387	UsmanMahmood - Haji Park Ring Road ShadBAgh LHR 480 Aslam Store Shadbahgh LHR 120	1974- Hamid	600	Z 1038
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385. Statements of 10 buyers of sugar have been recorded who have been shown in the column of benami/fictitious buyers. They have stated that they are truck drivers and have never purchased sugar from Hunza Sugar Mills and that copies of their CNICs have been misused by the owners/management of the mill. The statements of the persons, whose names are mentioned in the column 'Original Bilti number & Names of Broker' in the above table, stated that they have purchased sugar from the Hunza Sugar Mills through different Brokers/dealers.
386. The mill has two main designated brokers for local sale of sugar in the market; Umar Adeel Broker (Umar Farooq and Adeel Amir) and Shahzad Faisal – Proprietor of Ahmad Traders. The detailed scrutiny of sales record of brokers shows the real worth of brokers and the actual volume of business carried out by them, as shown in the table below.

Name of Brokers		Umar Farooq	Shahzad Faisal	Ambareena Shahzad (Ahmad Traders) w/o Shahzad Faisal	Adeel Umar	Total
CNIC Numbers		3520228079683	3520210387667	3520256037604	3520296975645	-
Business Turn over as per Income Tax Declaration	2017	-	191,666,667	31,250,000	196,448	222,918,684
	2018	198,800	113,542,000	39,062,500	198,800	152,805,318
	2019	1,561,000	1,196,000	1,195,000	-	3,954,019
	Total	1,759,800	306,404,667	71,507,500	395,248	379,671,967
Business Turnover period		Jan 19 to March, 20	Jan 19 to March, 20	Jan 19 to March, 20	Business Turnover consolidated with Umar Farooq	
Actual Business Turnover (in Rupees)		3,176,900,000	16,285,056,722	3,631,455,000		23,093,411,722

387. As seen in the table, the real business turnover of Shahzad Faisal is more than Rs. 20 billion whereas the declared turnover is only Rs. 71 million. The ledgers/register recovered from Shahzad Faisal and Umar Farooq were thoroughly examined which revealed their true business turnover. They cannot hide their true turnover without the connivance of the sugar mill. This shows that the mills and brokers are joining hands and creating this all phenomenon of benami sales and both are trying to evade the tax during this process.
388. Further, the said benami transactions are recorded in the books of the mill and simultaneously the same data is used for reporting to FBR, which is also fictitious as discussed above. Entire design devised by this nexus of sugar mills, brokers, dealers, wholesalers etc. for the sale of sugar is in essence a stark violation of the BTPA, 2017.
389. Forensic audit shows that mostly the benami sales transactions are recorded against unregistered persons. It has therefore been estimated that the volume of **"suspected to be benami transactions" may be around Rs. 5.2 Billion being**



**total sales (exclusive of sales tax) as declared to unregistered persons during the period from October, 2017 to February, 2020.**

**Benami Sales of Al Moiz Sugar Mills (UNIT-I & II)**

390. Al Moiz Sugar Mills runs two different units located at D.I Khan and Mianwali, respectively. Approximately 45% of total sales, during the period October, 2017 to February, 2020, have been declared to be made to unregistered buyers. Their practice of benami transactions has been separately discussed in the following paras.

**D.I Khan, Unit-I**

391. A random sample of sixteen unregistered buyers with highest purchases of sugar bags for the year 2019-20 was selected for analysis. 12 out of these did not have any relation with the sugar purchase. One such buyer, Abdul Rehman who is actually a retailer, was shown to have purchased 3,360 bags whereas he actually purchased only 120 bags. This sample shows that 66,260 bags of sugar amounting to Rs 224,996,948 (exclusive of taxes) have been shown to be sold to the persons who either have no connection with sugar business or inflated amount of sales have been booked in their names. The said persons have recorded their statements in writing outrightly denying any involvement with any purchase of sugar. Thus, elaborating the fact that sales have been registered in the names of the persons without their knowledge or consent to defraud the authorities. Such transactions fall under the definition of benami transactions under BTPA, 2017.

392. Mr. Wasif, CFO of Al Moiz Sugar Mills and Mr. Zeeshan, Marketing Manager have confessed that most of the actual buyers do not want their names to be disclosed in order to evade taxes. Hence, the sale of sugar is booked against the random CNICs and made-up names.

**Mianwali, Unit-II**

393. Sixty-one buyers, from the list of five hundred & sixteen buyers of sugar, were selected for sales verification. The list of all buyers was provided by the mill for the period 01-10-2017 to 30-09-2018 and 01-10-2018 to 30-09-2019. It has been found that most of the reported buyers are truck drivers and other unrelated individuals. Fifty-nine individuals were identified as transporters, truck drivers and laborer who have no concern with the purchase of sugar reported against their name. the statement of twenty-six individuals have been recorded. The response of the mill's management was found unsatisfactory. There is even a case of a deceased person namely Hameed Ullah s/o Ameer Abdullah who died in year 2016. However, sale of sugar has been booked in his name in 2017-18 and 2018-19.

394. Forensic audit shows that benami sales transactions are being recorded against unregistered persons. It has therefore been estimated that the volume of "suspected to be benami transactions" conducted by the Company is around Rs. 15.5 Billion being total sales (exclusive of sales tax) as declared to unregistered persons during the period from October, 2017 to February, 2020.



## Benami Sales of Hamza Sugar Mills

395. Analysis of sugar sold by Hamza Sugar Mills during 2017-2018 to 2019-2020 shows the sale of sugar to a specific type of business every year.

Abstract from Annexure-V (Sugar Sales from 2017-18 to 2019-20)						
Business Type	2017-18	%age of Total Sale	2018-19	%age of Total Sale	2019-20	%age of Total Sale
	Sales (Rs.)		Sales (Rs.)		Sales (Rs.)	
Beverages Company	209,865,850	2.13%	342,875,000	2.54%	152,400,000	5.64%
Comission Shop/Company	7,584,000	0.08%	45,180,000	0.33%		0.00%
Drink Corner/Icecream Shop	412,252,500	4.19%	79,995,400	0.59%		0.00%
Food & Beverages Company	6,834,000	0.07%		0.00%		0.00%
Food Company	289,231,680	2.94%	170,648,000	1.26%	197,475,000	7.31%
Food Shop	1,455,000	0.01%		0.00%		0.00%
General Business	1,187,158,870	12.07%	2,775,308,900	20.53%		0.00%
General Store	239,984,545	2.44%	77,262,250	0.57%		0.00%
Governmental Organization	39,732,000	0.40%	896,451,701	6.63%		0.00%
Kiryana Store	193,898,770	1.97%	772,336,350	5.71%		0.00%
Medicine Company	27,270,000	0.28%		0.00%		0.00%
Private Company	2,733,600	0.03%		0.00%		0.00%
Sale Against CNIC/NTN		0.00%	1,676,977,840	12.41%	2,308,621,904	85.42%
Superstore/Supermart	102,886,500	1.05%		0.00%		0.00%
Sweet Mart & Cold Corner	27,152,800	0.28%	180,232,000	1.33%		0.00%
Sweets & Bakers	7,065,843,670	71.82%	6,336,035,553	46.88%		0.00%
Traders	24,998,000	0.25%	161,946,500	1.20%		0.00%
Trading Company		0.00%		0.00%	44,100,000	1.63%
<b>Grand Total</b>	<b>9,838,881,785</b>	<b>100.00%</b>	<b>13,515,249,494</b>	<b>100.00%</b>	<b>2,702,596,904</b>	<b>100.00%</b>

396. The above analysis has helped to identify an interesting trend in booking/declaration of sales of the company, which is as under:

- Sale of sugar is concentrated to a particular business i.e. Sweets & Bakers Business, during 2017-2018 and 2018-2019. The percentage sale of sugar in 2017-18 & 2018-19 comes to 71.82% and 46.88% respectively,
- Sale of sugar is concentrated to individuals having CNIC/NTN during 2019-2020, which comes to be 85.42% of the total sales. The business profiles of these individuals were verified from FBR database for their business type. But none of them has been found to be connected with sweets & bakers' business. The sudden shift in sales pattern can be attributed to introduction of mandatory requirement to obtain CNIC or NTN of the buyer for any sale exceeding Rs. 50,000/- by FBR through Finance Act 2019-20.

397. Another trend with respect to benami sale of sugar has been observed from the analysis of sales made to different businesses. The trend suggests that most of the sugar sold but not lifted pertains to "Sweets & Bakers Businesses" i.e. 92.84% and 64.67% in 2017-18 and 2018-19 respectively. The summary has been provided in the following table:

Business Type	2017-18		2018-19		2019-20	
	Value (Rs.)	Value (%age)	Value (Rs.)	Value (%age)	Value (Rs.)	Value (%age)
Drink Corner	50,730,000	1.60%	3,328,000	0.11%		0.00%
General Business	5,820,000	0.18%	308,386,000	9.89%		0.00%
General Shop	153,066,000	4.84%	27,343,200	0.88%		0.00%
Kiryana store	16,878,000	0.53%	762,520,266	24.46%		0.00%
Sale Against CNIC/NTN		0.00%		0.00%	598,007,500	100.00%
<b>Sweets &amp; Bakers</b>	<b>2,935,551,000</b>	<b>92.84%</b>	<b>2,016,388,120</b>	<b>64.67%</b>		<b>0.00%</b>
<b>Grand Total</b>	<b>3,162,045,000</b>	<b>100.00%</b>	<b>3,117,965,586</b>	<b>100.00%</b>	<b>598,007,500</b>	<b>100.00%</b>



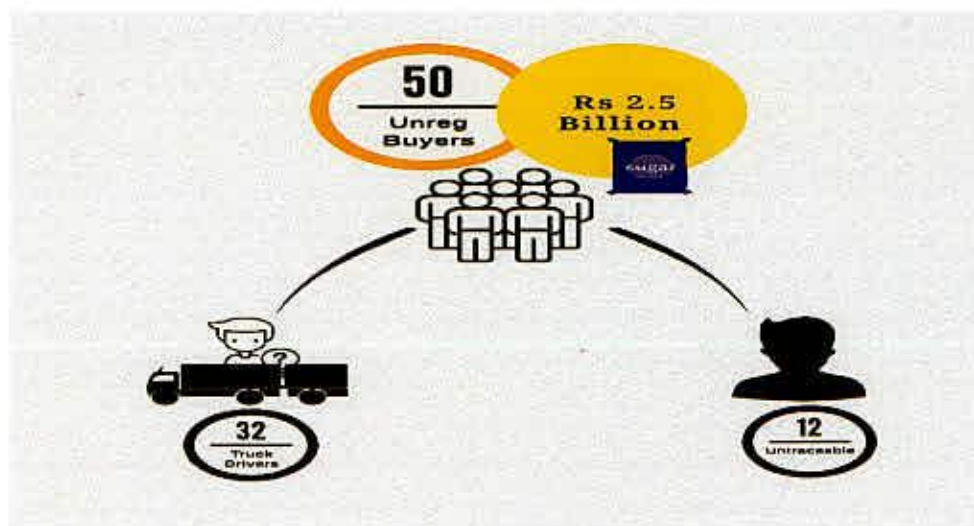
398. Physical Verification, on sample basis, was carried out of shops to whom sugar was shown to be sold the mill. These shops owners were unregistered with sales tax authority. Out of a total of 705 shops physically verified, 654 shops i.e. 93% shown as recipient of sugar, either do not exist or have not purchased the sugar attributed to them. This indicates that the subject mill in connivance with brokers have shown sales of sugar in the names of 'benamidars'. A summary of results of physical verification of sale of sugar to the shops, is as shown in the table below:

Sr. No.	District	No. of Shops/Sale Entries Verified	Shops Exist & Purchasers	Shops non-existent	Shops Exist but non-purchasers	Total of Fake Buyers (%age)
1	Multan	213	0	199	14	100%
2	Lodhran	118	43	41	34	64%
3	Bahawalpur	92	0	86	6	100%
4	RYK	282	8	267	7	97%
	Total	705	51	593	61	93%

399. Also, during perusal of the mill's sales record, many instances of incomplete NTN (6 Digits) and incorrect (12 & 14 Digit) CNIC numbers being used to book sales have been found.
400. Forensic audit shows that mostly the benami sales transactions are recorded against unregistered persons. It has therefore been estimated that the volume of "suspected to be benami transactions" by the said mill is around Rs. 35.5 Billion being total sales (exclusive of sales tax) as declared to unregistered persons during the period from October, 2017 to February, 2020.

#### Benami Sales by Alliance Sugar Mills

401. Alliance Sugar Mills is also found to be engaged in declaring sugar sales in fake names. Approximately 89% of total sales, during the period October, 2017 to February, 2020, have been shown to be made to unregistered buyers. When further inquired, it was revealed that such persons were either totally unaware of any such transactions or were associated with goods transport companies and worked as truck drivers. The data of sales declared by the company in the name of fifty (50) unregistered persons has been compiled by the team. They were contacted to ascertain their position and the details of the inquiry are summarized below:



402. Further details of some of such suspected benami transaction are as under:

SR. NO.	N.I.C.NO.	NAME / ACTUAL AS PER ID CARD	INQUIRY DETAILS	BAGS (50 KG)	SALE VALUE INCLUDING S.TAX & FURTHER TAX
1	45105-2573140-1	M.Tariq Turbat	Tariq is driver of truck No. DSF-9648, while he transported sugar for shopkeeper Sunail Kumar	29,000	93,604,568
2	36103-4797179-5	Rais	Rais is driver of truck No. PLF-540, while he transported sugar for Imran of RohtikHissar Goods, Sadiqabad	28,500	89,802,600
3	31304-2218837-5	Abdul Ghaffar	A. Ghaffar is driver of truck No. CLH-225, while he transported sugar for SM Food and others through RohtikHissar Goods, Sadiqabad	28,540	86,768,964
4	31202-0309818-3	M. Razzaq	A. Razzaq is driver of traller No. PLH-225, while he transported sugar for broker GhafoorElahi	29,120	82,318,000
5	45105-1857862-3	Allah Yar	No contact could be made with the person in question	25,360	78,299,016
6	35303-2080488-1	Liaqat Ali	He is driver of truck No. KJV-5005. He works for Rana Arif of New RohtikHissar Goods Company	27,100	77,347,500
7	36102-1929392-3	Muhammad Zafar	Could not be verified	23,840	76,415,620
8	42401-7766670-3	Abdul Majeed	He is truck driver of PLS-325. He works for New RohtikHissar Goods Company, Sadiqabad	24,360	70,300,000
9	36103-9977131-1	Muneer Ahmed	Muneer is driver of truck No. PLF-340 and TLY-340, while he transported sugar for M. Group	22,800	68,704,500
10	31101-7536236-7	Muhammad Yousuf	No contact could be made with the person in question	23,020	66,131,250
11	36102-5432038-1	Umar Hayyat	Umar is driver of traller No. PLV-440. He transported sugar for dear Iqbal Dogar	19,420	61,728,120



The aforementioned sales (including all similar transactions) are benami sale transactions under the BTPA, 2017.

403. It has been found that almost 90% of the total sales have been shown to be carried out through one sales agent i.e. Ali Traders. The other major brokers/agents of the Company are Aamir Waheed, Rawalpindi, Waseem Traders, Rahat Marketing etc. Two of the aforementioned agents namely Asad Hussain of Ali Traders, Gujrat and Aamir Waheed, Rawalpindi were confronted. They have been found unaware of the particulars of the end-purchasers and admitted in their written statements.
404. In addition to the payments found to be credited in bank accounts of the Alliance Sugar Mills (Pvt) Ltd, certain payments against sales of the Company have found to be credited in the bank accounts of other Sugar Mills i.e. RYK Sugar Mills, Indus Sugar Mills, JK Sugar Mills, Popular Sugar Mills, Indus Sugar Mills and Deharki Sugar Mills. These benami transactions need to be further investigated by the Concerned Commissioner Benami Zone. Following are some of such transactions:

Mill Broker	Date	Weight of Sugar/ No of Bags	Transporter/ Bilti No./ Truck No	First Broker	Second Broker	End Purchaser	Payment Made to
Ali Traders	17.03.2020	40 Ton/800 bags	Haq Bahoo 7417,7418/ TKJ947, P8310	Sureish Kumar Khairpur		Hazrat Ali Pasheen	RYK Sugar Mills
Waseem Traders	16.01.2020	60 Tons/ 1200 bags	Sindh Punjab. 145/ TLY019	Mahmood Sargodha		Sheikh Ameen Layyah	JK Sugar Mills, Khanewal Vehari Road, Kacha Khu
Ali Traders	17.03.2020	60 Ton/ 1200 bags	HaqBahoo/ 7413,7414, 7415/ TKL674, TKF775, TKE596	Chunni Laal Karachi	AbdurRehman Shah Quetta	Bismillah Traders Quetta	Popular Sugar Mills
Ali Traders	04.01.2020	60 Ton/ 1200 bags	RohtakHissar/ 5488/ LOK2465	Sheikh Imran	Afzal Loharan Wala Khoo	Saeed Karyana Raiwand	Indus Sugar Mills
AamirWaheed	18.01.2020	24 Ton/ 480 bags	HaqBahoo/ 6913 6914/ TAK529, DGF9648	Yar Muhammad	Rajesh Mirpur/Jag desh	DhanrajDherki	Dherki Sugar Mills
Ali Traders	17.03.2020	48 Ton/ 960 Bags	RohtakHissar/ 6024/ TMD990	Aamir Waheed		Younas Karachi	RYK Sugar Mills
Ali Traders	29.02.2020	15 Ton/ 300 bags	RohtakHissar/ 5955/ RN4995	Aamir Waheed	Chawlaan Wala Lahore	Al Faisal Karyana Rahim Yar Khan	RYK Sugar Mills

405. Forensic audit shows that mostly the benami sales transactions are recorded against unregistered persons. It has therefore been estimated that the volume of **"suspected to be benami transactions "conducted by the Company is around Rs. 15.5 Billion being total sales (exclusive of sales tax) as declared to unregistered persons during the period from October, 2017 to February, 2020.**



### Benami Sugar Sales by Al-Arabia Sugar Mills

406. The analysis of sales data for year 2019-2020 was carried out and more than of 100 CNIC's, which had been selected as sample for verification, were found to be un-traceable. The total quantity of sugar sold to these un-traceable persons, was 124,260 bags having sale value of Rs. 373.56 million. Further, the team has also conducted interviews of twenty-two persons disclosed as customers in sales record of the mill for the year 2019-2020. Out of those 22 persons, 20 persons named as sugar customers denied about the purchase of the said sugar. They all have been found to be drivers/conductors of the vehicle transporting said sugar. Following is the details of sales recorded by the Company in the names of these 22 individuals:

Sr. No	Date	Buyer Name	CNIC/NTN	Profession	Quantity Sold (50 kg Bags)	Value Rs.	Actual Name against CNIC in interview
1	12/2/2019	AHMAD NAWAZ	38202-5595245-9	Driver	1,200	3,597,580	
2	12/31/2019	AMIR MEHMOOD	38402-1038239-1	grower	303	908,389	
3	12/12/2019	AZHAR ABBAS SHAH	38406-0573894-9	Conductor	1,440	4,317,096	
4	12/9/2019	FAISAL IQBAL	384019765441-7	Driver	1,000	2,997,984	
5	12/18/2019	GHULAM SHER	38404-2415556-9	Driver	1,320	3,957,338	Ghulam Shabbir
6	12/8/2019	IKRAM ULLAHA	384030-746785-3	Driver	1,200	3,597,580	
7	12/9/2019	IKRAM ULLAHA	384030-746785-3	Driver	240	719,516	
8	12/22/2019	KAMRAN	38401-0473356-3	Driver	840	2,518,306	
9	12/15/2019	KHURAM HAYYAT	38403-0197488-5	Driver	1,200	3,597,580	
10	12/28/2019	M AYOUB	38402-1542286-9	grower	513	1,537,966	
11	11/8/2019	M BUKSH	38403-0461622-7	Conductor	480	1,442,777	
12	11/9/2019	M BUKSH	38403-0461622-7	Conductor	1,080	3,246,247	
13	11/21/2019	M GULZAR	38404-0406918-1	Driver	600	1,803,470	
14	11/22/2019	M GULZAR	38404-0406918-1	Driver	840	2,527,416	
15	12/11/2019	M QADEER	38404-1756899-1	Conductor	1,200	3,597,580	
16	12/1/2019	MUHAMMAD ASHRAF	38401-0307084-1	Driver	1,200	3,597,580	
17	12/1/2019	MUHAMMAD EJAZ	38404-5036823-1	Driver	660	1,978,669	
18	12/2/2019	MUHAMMAD EJAZ	38404-5036823-1	Driver	600	1,798,790	
19	12/1/2019	MUHAMMAD USMAN	38404-2105187-7	Driver	1,200	3,597,580	
20	12/29/2019	NOOR AHMAD KAMOKE	38201-4828060-1	Driver	1,360	4,077,259	Imran Haider
21	1/29/2020	NOOR AHMAD KAMOKE	38201-4828060-1	Driver	2,400	7,282,440	Imran Haider
22	12/25/2019	TASAWAR HUSSAIN	38201-7543485-1	Driver	1,260	3,777,459	
23	12/10/2019	TASAWAR SHAHZAD	38406-0391910-5	Driver	1,240	3,717,500	
24	12/27/2019	ZAFAR ABBAS	38402-1247319-1	Driver	480	1,439,032	
25	10/1/2019	ZAFAR HAYYAT	38404-0960672-3	Driver	1,140	3,445,654	
26	12/3/2019	ZAFAR HAYYAT	38403-4692413-1	Driver	1,200	3,597,580	
27	12/25/2019	ZAFAR HAYYAT	38404-0960672-3	Driver	1,200	3,597,580	
28	12/3/2019	ZAHID IQBAL	38201-7372981-7	Driver	1,200	3,597,580	
TOTAL					28,596	85,871,528	

407. Forensic audit shows that mostly the benami sales transactions are recorded against unregistered persons. It has therefore been estimated that the volume of "suspected to be benami transactions" conducted by the Company is around **Rs. 6 Billion** being total sales (exclusive of sales tax) as declared to unregistered persons during the period from October, 2017 to February, 2020.
408. The matter was discussed with FBR authorities and they informed the Commission that FBR has taken initiative to implement the "Track and Trace System" for five sectors including sugar sector and applications have been invited for grant of license to be issued under the Sales Tax Rules, 2006 (as amended Vide 250(I)/2019 dated 26.02.2019 and SRO. 918(I)/2019 dated 7th



August, 2019) for the development, maintenance and operation of said system. The bidding process shall be completed in first week of June and license shall be issued to the successful bidder before the end of current financial year.

409. This system will cover the whole supply chain of sugar sector and complete real time monitoring of production of sugar and its supply/ sale will be possible, as well as for designated import stations for this sector. Track & Trace System includes high security tax Stamps/Markers/Codes that bear unique, secure and non-removable identification markings. The System shall be combined with state-of-the-art electronic monitoring and tracking systems, which shall transmit the data of production and supply chain to Central Control Room of FBR on real time basis.
410. System also includes a mobile application for all stakeholders and even for public to verify that the sold goods bear tax stamps. If the system reports any counterfeit stamps, the legal action shall be taken against the defaulters/ violators by FBR enforcement teams. For this purpose, FBR has established Enforcement hubs in big cities called Inland Revenue Enforcement Network (IREN) which shall be strengthened and provided with requisite human and logistic support for enforcement of track and trace system.

#### Findings:

411. Benami sales transactions are generated and carried out with the connivance of mill owners, brokers and transporters.
412. For the period October 2017 to February 2020, total sales of sugar in Pakistan was more than Rs. 723 billion and 71% sales (Rs. 517 billion) of all Sugar Mills are benami sales transactions against CNICs of unregistered "benamidars" mostly truck drivers, loaders, employees of the mills or dummy fictitious persons, who are unaware of such transactions booked/invoiced in their names.
413. Even after the introduction of the requirement of CNIC for unregistered sales, still the pattern of unregistered benami transactions continues. For the period October 2019 to February 2020, 06 sugar mills selected for forensic audit reported sales amounting to Rs. 20.5 Billion (57% of the total sales) are made to un-registered buyers which are suspected benami sales transactions. Similarly, the entire sugar industry for the aforementioned period has made suspected benami transactions of Rs. 71.054 Billion during the same period.
414. Sales transaction used in "Satta" are benami transactions and, as discussed in TOR (g) on forward contract, these are used for market manipulation, price hike and profiteering.
415. Benami sales are major obstacle to the documentation of Pakistan's economy for Government authorities like FBR to check the tax evasion and other malpractices of the industry.
416. Benami sales transactions are facilitating the parking of un-documented/illegitimate money in the regular documented business sectors.

#### Recommendation

417. Since the mandate to take cognizance of offences under Benami Transactions (Prohibition) Act, 2017 rests with the FBR's Benami Authority, therefore, the report of the Commission related to benami transactions may be referred to

FBR for necessary action under the said law against all the sugar Mills in the country in the light of observations & findings of this Commission.

418. Further, it is recommended that process of implementing IT based Track and Trace system should be given high priority and completed on a fast track to ensure improved monitoring and enhanced revenue collection in sugar sector.



*s. Any other issue, deemed appropriate, related to the increase in recent sugar prices;*

419. During the forensic audit, the Commission has come across many important areas which are not directly covered under the TORs, but show how the sugar industry is working and the malpractices and profiteering is being made. This section discusses the following important issues based on the credible evidence:
- i. Purchase of sugarcane below the minimum support price and illegal weight deductions,
  - ii. Manipulation of recovery ratio,
  - iii. Falsification of accounts and double/parallel record keeping,
  - iv. Advances from customers,
  - v. Loans from directors,
  - vi. High debt equity ratio,
  - vii. Loans to farmers and gains on input sold to farmers,
  - viii. Illegal enhancement in crushing capacity,
  - ix. Sales tax evasions,
  - x. Inexplicable transactions.

**Purchase of Sugarcane below the Minimum Support Price and Illegal Weight Deductions:**

420. The cost of Sugarcane is the major component in calculating the cost of Production of Sugar. The Provincial Governments set the minimum support price of Sugarcane to protect the interest of the farmers. However, representatives of the farmers accuse the Mills of exploitation of farmers by procuring the sugarcane below the support price in the years when there is over production of sugarcane like 2016-17 and 2017-18. Another practice is of paying lesser than that is due to the farmers by making illegal deductions in the weight of the sugarcane in the name of non-variety and trash. This section deals with the evidence that the Commission unearthed regarding these widely prevalent malpractices. It is pertinent to mention here that whenever the sugar mills claim subsidy for export from the Government, they calculate the cost of production at the minimum support price whereas evidence collected establishes that they purchased sugarcane at much reduced rates. This phenomenon is fully discussed in TOR (k).
421. The Commission has come across the following evidence that establishes that the mills purchased the sugarcane below the minimum support price:
- i. Report of Punjab Special Branch for the year 2017-2018,
  - ii. Cost of production calculations by Mo I&P for determining subsidy,
  - iii. Record of Complaints received by the Cane Commissioner Punjab regarding payment below the support price,
  - iv. Evidence of procurement of sugarcane below the minimum support price collected by the Audit Teams,

- v. Evidence of undue & illegal weight deductions during the procurement of sugarcane to pay less to the farmers, and
- vi. Sugar mills procuring the sugarcane *off-the-book*.

**i) Reports of Special Branch Punjab for the year 2017-18:**

422. In the previous years, Sugar Mills have been procuring the sugarcane below the minimum support price fixed by the Government. The then CM Punjab directed the Special Branch Punjab to prepare a report about the procurement price of the sugarcane in the province on daily basis in 2017-2018. This report was sent to all the concerned Government functionaries of the Punjab Province. The purchase price is averaged over the months' time and as shown in the table below most of the sugar mills procured the sugarcane below the support price. it is important to note here that this report was generated on daily basis for whole of the procurement season but no tangible action was taken and the procurement below the minimum support price continued during the whole season. The sugar mills continued to reap illegal profits and the farmers kept on suffering.

**Table 29: Monthly Average Purchase Price, Punjab 2017-18**

Sr. No.	Name of the Sugar Mill	Dec	Jan	Feb	Mar	Apr	Average Purchase Price of Cane
1	Kashmir Sugar Mill	145.42	137.91	130.34	131.84	151.00	139.30
2	Pattoki Sugar Mill	149.17	154.02	141.63	141.61	145.00	146.28
3	Siraj Sugar Mill	148.13	147.93	148.84	150.08	0.00	148.74
4	ShakarGunj Sugar Mill	149.00	146.70	148.95	148.89	151.82	149.07
5	Haq Bahoo Sugar Mill	147.88	148.44	149.64	148.90	153.21	149.61
6	Chenar Sugar Mill	160.50	145.19	147.75	147.58	147.50	149.70
7	Huda Sugar Mill	146.23	152.58	150.00	150.00	0.00	149.70
8	Al Arabia Sugar Mill	143.33	157.00	148.93	149.68	150.00	149.79
9	Bhoon Sugar Mill	149.29	151.09	149.04	148.98	151.30	149.94
10	Makkah Sugar Mill	147.08	141.48	158.32	152.19	152.12	150.24
11	Tandlianwala I	162.28	148.75	147.75	147.42	147.50	150.74
12	Hussain Sugar Mill	161.83	149.84	148.23	147.58	147.50	151.00
13	Baba Farid Sugar Mill	180.00	131.11	137.10	155.96	0.00	151.04
14	Rasool Nawaz Sugar Mill	161.67	148.79	147.61	148.00	0.00	151.51
15	Hunza Sugar Mill	161.67	149.38	148.59	148.00	0.00	151.91
16	Noon Sugar Mill	145.00	160.23	152.50	150.00	0.00	151.93
17	Darya Khan Sugar Mill	157.50	151.68	153.93	150.00	150.00	152.62
18	Jauharabad Sugar Mill	148.33	159.93	153.93	150.00	0.00	153.05
19	Ramzan Sugar Mill	156.50	158.13	150.93	150.03	152.00	153.52
20	Madina Sugar Mill	150.25	155.55	150.89	151.77	160.00	153.69
21	SW Sugar Mill	156.29	159.89	152.50	150.00	0.00	154.67
22	Popular Sugar Mill	156.67	160.61	152.32	150.00	0.00	154.90
23	Al-Moiz Sugar Mill	160.67	156.23	148.86	150.32	160.00	155.22
24	Safina Sugar Mill	155.71	158.86	151.55	151.32	160.00	155.49
25	Two Star Sugar Mill	156.13	154.20	147.80	150.06	170.00	155.64



26	Fatima Sugar Mill	148.50	170.13	158.41	157.16	148.00	156.44
27	Adam Sugar Mill	162.50	168.43	148.16	146.69	158.50	156.86
28	Sheikhu Sugar Mill	159.79	169.50	153.96	157.68	148.00	157.79
29	Abdullah Sugar Mill	152.50	164.46	155.37	156.61	160.00	157.79
30	Tandlianwala II	159.08	166.52	153.63	157.68	156.38	158.66
31	Ashraf Sugar Mill	167.50	171.25	146.81	155.65	160.00	160.24
32	Layyah Sugar Mill	169.25	173.04	157.46	153.81	150.35	160.78
33	Haseeb Waqas Sugar Mill	0.00	0.00	180.00	180.00	138.00	166.00
34	Shah Taj Sugar Mill	180.00	180.00	169.28	160.00	0.00	172.32
35	Indus Sugar Mill	159.67	180.00	179.29	177.74	177.06	174.75
36	Ettihad Sugar Mill	180.00	180.00	180.00	178.71	160.00	175.74
37	Hamza Sugar Mill	180.00	180.00	180.00	178.71	160.00	175.74
38	JDW I	180.00	180.00	180.00	178.71	160.00	175.74
39	JDW II	180.00	180.00	180.00	178.71	160.00	175.74
40	R.Y.K.	180.00	180.00	180.00	178.71	160.00	175.74
41	Choudary Sugar Mill	0.00	0.00	0.00	180.00	0.00	180.00
42	Ittefaq Sugar Mill	0.00	0.00	180.00	180.00	180.00	180.00
43	JK Sugar Mill	180.00	180.00	180.00	180.00	180.00	180.00

*Source: Special Branch Punjab; Monitoring of Crushing season Reports*

423. According to these reports during 2017-2018 crushing season;
- 43 out of total 45 sugar mills were operational in Punjab. All Sugar mills purchased Sugarcane at a lower rate than the minimum support price set by the Provincial Government except three.
  - 10 Sugar Mills purchased cane between the rate of Rs. 160 to Rs. 180
  - 29 Sugar Mills purchased cane between rate of Rs. 145 to Rs. 160 from the growers,
  - The sugar mills deducted weight from 10% to 25% of the total weight of the sugarcane during the procurement of sugarcane.
  - 25 sugar mills owners were providing hand written receipt (kachi parchi) for the net payment to farmers instead of CPRs.
  - Total 163 weighing machines were installed 131 were working without any legal permission. These weighing machine or Kanda Owners purchased sugarcane at the lower rate i.e. Rs. 100 to Rs. 140 per 40 kg from the farmers. Less weighing of sugarcane is a normal practice of Kanda Owners and sugar mills. Kanda owners acts as middlemen in purchase or sale of sugarcane to the sugar mills.
424. There is no special branch report available for Crushing Season 2017-18 in KP regarding purchase of sugarcane at a minimum support price, but there was information available regarding protest of farmers regarding purchasing of cane at lower rate than the minimum support price set by the KP Provincial Government in the Report received from Office of the IG Police KP to the Sugar Commission.
425. According to the reply from Sindh Police, Special Branch Sindh does not maintain any such record.

ii) **Cost of Production Calculations by Mo I&P for Determining Subsidy in 2018**

426. When the cost of production was calculated by the Mo I&P for the purpose of determining the subsidy in September 2018, they used three different prices of sugarcane per 40 kg for sugarcane procured in the season 2017-2018,
- Rs. 180 actual support price for the crushing season,
  - Rs. 150 actual average price paid by the sugar mills in Punjab
  - Rs. 140 actual average price paid by the sugar mills in Sindh.

The Ministry official, who calculated this price, was asked by the Commission how this lower price was used to calculate the cost of production. He replied that the Cane Commissioner Punjab and Sindh had been asked on phone about the actual purchase price of the sugarcane and this price was communicated by the Cane Commissioners. This calculation is discussed in detail in TOR (k).

iii) **Complaints Received by the Cane Commissioner Punjab Regarding Payments below the Minimum Support Price:**

427. Cane Commissioner Punjab received 67 complaints against 26 sugar mills in 2017-2018 for procuring the sugarcane below the support price. Such complaints were received in the crushing season 2017-2018 mainly. The rates at which the payments were made to the farmers, according to the complaints, are tabulated below:

**Table 30 : Complaints of Sugarcane Purchased Below the Support Price.**

Sr. No.	Name of Sugar Mills	Purchase Price of Sugarcane			
		2015-16	2016-17	2017-18	2018-19
1	Rasool Nawaz	-	-	115	-
2	JDW I	-	-	129	-
3	JDW II	-	-	129	-
4	Etihad	-	-	129	-
5	R.Y.K.	-	-	129	-
6	Al-Arabia	-	-	130	-
7	Ashraf	-	160	138.5	-
8	Adam	160	160	140	-
9	Safina	-	-	140	-
10	Hunza I	-	-	140	-
11	Chanar	-	-	140	-
12	Hussain	-	-	140	-
13	Abdullah I	-	-	140	-
14	Baba Farid	-	-	143	160
15	Tandlianwala I	165	-	147	-
16	Shakarganj II	-	-	148	-
17	Hunza II	-	-	148	-
18	Shakarganj I	-	-	148.5	-
19	Kashmir	-	-	150	-
20	Noon	-	-	150	-
21	SW	-	-	150	-
22	Haseeb Waqas	-	-	150	-



23	Two Star	-	-	153	-
24	Pattoki	-	165	160	-
25	Ramzan	-	-	160	-
26	Madina	-	-	160	-
27	Juharabad	-	-	160	-
28	JK	-	-	160	-

*Source: Secretary Food, Government of Punjab*

**iii. Evidence of Procurement below the Support Price Collected by the Audit Teams:**

428. **Al-Moiz Sugar Mills** is found to be involved in the malpractice of procurement below the support price and illegal deductions in the weight at the time of procurement of sugarcane and sugar beet.
- According to the record of the sugar mills examined by the audit team, Al-Moiz sugar mills have been procuring sugarcane below the minimum support price during the year 2017-18 & 2018-19. It is pertinent to mention here that the rates varied from Rs. 163 to Rs. 179 per 40 kg in 2017-18. Similarly, the purchase rate of sugar cane ranged from Rs. 143 to Rs. 179 per 40 kg in 2018-19. Statements of a number of farmers have been recorded.
  - The fact was further corroborated by the computer data recovered by the CCW (Cyber Crime Wing) team. The computer data recovered from the Company's ceased computers & laptops, in the form of Company's worksheets, shows the net amount of sugarcane purchased and the corresponding rates on which the payments were made. Illegal deductions were also discovered in rates and weights of the sugarcane procured. Al-Moiz 1 sugar mill purchased sugarcane at the rate lower than the minimum support price, while the data of production cost submitted by the Company with the cane commissioner, DD Food, Secretary Food KP, DC DI Khan and District Food Controller clearly indicates purchase of sugarcane at Rs.180 per 40 kg.
  - During the audit of the sugar mill, the inquiry team recovered files from computer of DGM Accounts of the mill. On analysis of the files recovered, it was found that actually lesser amount was being paid to the growers while the procurement of sugarcane was shown as per support price in the documents submitted to the Government Departments.
  - The team also found through documented evidence that Al-Moiz 1 sugar mill was withdrawing cash from their bank accounts to pay to the farmers as per the minimum support price but the farmers were actually paid less. The differential amount was deposited back in the bank accounts of the sugar mill by the employees of the sugar mill. The team also analyzed that the cost of sugarcane was thus overstated amounting to Rs.775.679 million and Rs.129.599 million in respective crushing

seasons of 2017-18 and 2018-19. Resultantly a total amount of Rs. 905.280 million was illegally paid less to the farmers.

- e. The evidence collected shows that the same amount was deposited back in the bank accounts of the sugar mills by its employees. This amount is shown and kept in accounts as "advance from customers". The sugar mill was saving money by overstating the procurement of sugarcane while the profits for the respective periods were understated causing tax evasions and loss to the national exchequer. The team enquired from the cashiers about this amount and they confessed that they themselves deposited the amount in company's account. Balance differential amounts of Rs. 905.28 million were treated as "Advances from Customers in 2017-18" and "Contract Liabilities in 2018-19".

**Table 31: Difference of Amounts Withdrawn and Actual Payments to Growers**

Year	Amount withdrawn for payments to Growers @ Rs 180/40 Kg	Actual amount paid to Growers	Difference of withdrawals and actual payments to growers
For Season 2018-19	Rs. 3,423,186,357	Rs. 3,293,840,542	RS. 129,599,739
For Season 2017-18	Rs. 4,537,491,194	Rs. 3,761,811,268	RS. 775,679,926
Total	Rs. 7,960,677,551	Rs. 7,055,651,810	RS. 905,279,665

*Source: Data obtained from Al-Moiz 1 Sugar Mill and calculations done by the Team*

- f. These "advances from customers" and "contract liabilities" were created and the amounts were recorded against the name of persons who have no concern with these amounts and they even don't know about these amounts.
- g. The balance differential amounts were deposited in the Al-Moiz I bank accounts. This fact was established by obtaining the deposit slips and the depositing person's name and CNIC on the deposit slips from the bank. When contacted, they disclosed that they have never deposited any money in the company's bank account.
- h. To adjust this differential amount gradually in their bank accounts, the Mill booked sales of sugar at higher prices with a difference of average Rs. 5-10 per Kg against un-registered sugar sales (to fake/unknown persons without their consents), Al-Moiz 1 booked sales at high price (with difference of average Rs.10/Kg) against same number of bags and transport dispatch slip (Bilti) number.
- i. Similar practices have been observed in Al-Moiz II sugar mills. A random survey conducted in the assigned area of the sugar mills revealed that the sugar mill purchased cane at price from Rs.140 to Rs.160 (while the minimum support price was Rs. 180 per kg.) as testified by the growers in their statements. Examination of mills books of accounts revealed that the mill issued Cane Purchase Receipts (CPRs) to the



growers/suppliers of cane @ Rs.180. However, the evidence collected from the growers and information gathered from other sources indicates that in actual, the growers were paid @ Rs.140 to Rs.160.

- j. Instead of making payments for the purchased cane to growers from Bank, the mill management itself withdrew heavy cash amounts from the Bank and distributed cash to the growers at the aforementioned rates against the CPRs. In an act of concealment of actual price paid to the growers, the sugar mills booked the CPRs @ Rs.180 per 40 kg. Statements of growers (81) from district Bhakkar and district Mianwali confirm that mills purchased sugar cane from them at reduced price for the crushing season 2017-18 in sheer violation of support price fixed by the provincial government.
- k. While examining the bank statements of the company, it was noticed that various suspicious online cash deposit transactions have occurred of amounts ranging between Rs.900,000/- to Rs.1,000,000/- from HBL Bhakkar to company's HBL account in Mianwali Branch from April-2018 to May-2018. The total sum of these transactions is Rs.610,594,687.
- l. On further examination of the books of account of company, it was revealed that above mentioned online cash deposit transactions in the sum of Rs. 610,594,687/- have been booked by the company as advance from customer against 93 customers in the range of Rs.6,600,000 to Rs.7,000,000 each. While analyzing the advance from customers, it was discovered that there was no significant movement in the entries of above 93 customers. This created doubt on the genuineness of these transactions as the "advances" had remained dormant for a considerably long period of time without any justification.
- m. As the advance from customers involved heavy amounts, therefore field verification of 43 individuals, out of total 93, belonging to district Mianwali was conducted whose name and CNICs were used in the subject list of "advances from customers" of sugar. It was discovered that CNIC numbers and names of truck drivers employed with goods transport companies as well as some other irrelevant individuals were used to justify the subject amount who neither had the financial worth to make an advance to the company worth Millions of rupees, nor had anything to do with the business of sale/purchase of sugar. The so-called customers expressed ignorance of any advance forwarded by them to sugar mills.
- n. The list of names and CNICs of persons, depositing Rs.610,594,687, was extracted from bank statement of company. The money was deposited in HBL Mianwali Branch. A total amount of Rs.232,699,000 was appearing in bank statement along with CNICs of the person depositing the cash amount. These CNICs were tallied with salary register of the company and it was discovered that these CNICs were of persons who

were on the payroll of the company during the crushing season 2017-18. The remaining amount was appearing in bank statement with name of the person which also matched with payroll register of the company for crushing season 2017-18. Ground check conducted to verify the identity of the depositors confirmed that these individuals were company's employees in 2017-18. The depositors expressed ignorance of any amount ever deposited by them in company's favor.

- o. The Chief Financial Officer (CFO) of the company when asked to explain the long outstanding advance from customers in the sum of Rs. 610,594,687, he was unable to explain this amount and verbally admitted that the said amount corresponded to the price differential paid to the growers. He further stated that the company took up the matter with District Administration to allow the company to purchase sugar cane at lower rate during the crushing season 2017-18. Request of company was turned down but the company booked the CPRs at Rs.180; the then support price. However, the CFO of the company refused to provide written statement to this effect. Nonetheless it is quite evident that the company issued CPRs in accordance with support price and actually paid less to the growers. The differential amount of Rs. 610,594,687 was booked in advance from customers account and parked in the company's bank accounts against fake customers.
- p. During the course of inquiry, it was also observed that there was difference in the ex-mill price quoted on the invoice of sold sugar and the prices disclosed by mill's brokers. Brokers of the company were also associated in the inquiry process. There was Rs.10 per kg difference in sales contract of 2019-20 made with Mr. Mustansar Zahoor Gogi. On further investigation, it was found that company was issuing invoices to unregistered persons @ Rs.10/- per kg higher than actual amount received in the year 2019-20 and the extra amount received was being adjusted from the "advance from customers" in their book of accounts. The Marketing Manager of company when confronted with these facts admitted that company has been adjusting advance from customers by means of over invoicing.
- q. From the above facts it is evident that the company purchased sugar cane at reduced rates in violation of the support price fixed by the Government. At the same time, the company showed the procurement at the minimum support price for crushing season 2017-18. The difference of Rs. 905 million for Unit 1 and Rs. 610 million for Unit 2, were re-routed to company accounts by using its employees' names and CNICs, through online transactions without their knowledge. The company then parked the said amount as "advance from customers" in "trade debtors account ledger" with fake customer names.



- r. The company reduced profit by Rs.1,515 million in the year 2017-18 thus concealing large amount of income tax liability for the year 2017-18.
- s. The company exploited the growers by paying them less and, at the same time, the consumers were charged on full cost of procurement of sugarcane while selling the sugar. It indulged in profiteering by showing increased cost of production and committed tax evasion.
- t. At the time of availing subsidy, they submitted, in writing, to the Government that they had procured sugarcane at the minimum support price.

### Recommendation

429. The offences fall under the purview of;

- i. National Accountability Ordinance (NAO) 1999
- ii. Pakistan Penal Code, 1860
- iii. Companies Act, 2017
- iv. Sales Tax Act, 1990
- v. Income Tax Ordinance, 2001
- vi. Benami Transactions (Prohibition) Act 2017
- vii. The Price Control and Prevention of Profiteering and Hoarding Act, 1977
- viii. Sugar Factories Control Act, 1950

430. The Government may refer the case to the relevant authorities as deemed appropriate.

431. During the Audit of **Al-Arabia Sugar Mills:**

- i. The audit Team conducted the interviews of 33 growers of sugarcane who sold their crop to the mill for the crushing season 2017-18. According to the growers, the Mill gave them hand written piece of paper commonly known as "Kachi Parchi" on which a CPR number, name of grower and net weight was written. The Team collected few samples of "Kachi Parchies" from the growers. According to interviewed growers, they were paid on "Kachi Parchi" at a cash counter situated in the Mill premises and the rate varied from Rs. 140-160 per 40 kg, instead of minimum support price of Rs. 180 per 40 kg. This incidentally matches with the rate quoted by the special branch reports in section (i) above.
- ii. From the record of Al-Arabia Sugar Mills, a file named "Purchase Sheet Source Wise for year 2017-18" was extracted by CCW containing 1476 pages. The net weight given in the report is 450,032,035 kg and the net cost is Rs. 1,690,440,198. The net weight matches the "Daily Crushing Summary Report" which provides the official version of the mill on crushing. However, there is a difference of Rs. 298.86 million between net cost of the "Purchase Report" and the excel files. The average cost per unit according to the excel sheet for 40 kg cane is Rs. 176.81 however as per the Purchase Report, the average cost is Rs. 153.28 per 40 kg. In addition to above, during interviews of growers for season 2017-18, they have stated that they were paid less

than the support price i.e. from Rs. 140 to Rs. 160 for 40kg. Therefore, it indicates that the Systems reports were manipulated to show increased price of sugarcane purchase in year 2017-18.

- iii. However, more evidence was collected from computer files in Excel format, which were concealed and deleted. These files were recovered and their analysis revealed that the files had amounts and quantities categorized as "R" and "N" i.e. "Reported" and "Not Reported". "Reported" is the data which is reported to the Provincial & Federal Governments and audit team. While, "Not Reported" is the actual data for mills' own calculations and record and was used to conceal off-the-book production and sales. Moreover, most of the files were password protected but were opened by the audit team.
- iv. The file "Growers Payable 2019-20 - R+N" i.e. (Reported & Not-Reported) contains the "Reported" value of sugarcane i.e. 373,783,245 kg with cost of Rs. 2,167.31 million and average cost of Rs. 231.93 per 40 kg. The "Not-Reported" quantity of cane is 122,311,295 kg having cost of Rs. 787.39 million with average cost of Rs. 257.50 per 40 kg. The total costs amount to Rs 2,954.71 million and quantity 496,094,540 kg having averages cost of Rs 238.24 per 40 kg. this shows that the company is maintaining parallel books of accounts.
- v. The evidence for the year 2017-18, was found in a file named "Wet Mud (Conflicted copy 2019-01-01 from CHIEF-ACC-PC)" in which the Mud Sales Position for Season 2017-18 as on 14-11-2018 is given. Following is the breakup of the Cane Crushed:

"Reported"	450,032,035 kg
"Not Reported"	412,447,690 kg
TOTAL	862,479,725 kg

432. The data shows that almost half of the sugarcane procured, sugar produced and sold was concealed from the concerned authorities leading to tax evasion, cost inflation of sugar and falsification of accounts
433. Moreover, another file named "Summary of Actual Cash Flow Oct-17 to May-18 R+N" was also found in which the cash flow position of the Mill from 01 October 2017 to May 24 2018 is mentioned. According to this file following is the breakup of the cost incurred on the Reported and Not Reported cane purchases:

Reported	Rs. 1,673.12 million
Not Reported	Rs. 1,384.16 million
TOTAL	Rs. 3,057.28 million

Again, the data show off-the-book transactions.

### Recommendation

434. The offences fall under the purview of;
  - i. National Accountability Ordinance (NAO) 1999
  - ii. Pakistan Penal Code, 1860
  - iii. Companies Act, 2017



- iv. Sales Tax Act, 1990
  - v. Income Tax Ordinance, 2001
  - vi. Sugar Factories Control Act, 1950
435. The Government may refer the case to the relevant authorities as deemed appropriate.
436. During the audit of **Hunza Sugar Mills**, Hunza Sugar Mills have been found making illegal deduction in payment of sugarcane procured.
- i. In order to assess the actual payments made to growers against the actual sugarcane supply to the Mills, it was observed that the Mills was involved in illegal deduction of amounts from sugarcane growers, especially during the year 2017-18. To substantiate further, some of the growers were summoned and their statements were recorded. It transpired that Unit – I of Mills adopted a practice to prepare CPRs at the notified rate of Rs. 180 per 40 kg, whereas, the actual payment made to growers was in the range of Rs. 148 – 160 per 40 kg. The total differential amount was deposited back in Mills 'Cane Payment Account' or in the account of M/s Hunza Ghee Mills (Pvt.) Limited.
  - ii. While analyzing the bank statements of the Mills, concentrating on the cane payment accounts, it was observed that substantial cash credits were made in the said cane payment accounts, mostly by the mill's employees and some other private persons. Hunza Sugar Mills Unit-1 mostly used 07 Branches of Bank Alfalah Limited for its cane payment, hence Bank Alfalah cane payment accounts were assessed to additionally uncover the background of the said payments.
  - iii. During the course of forensic analysis of extracted data from computer system of Mills, a deleted document under the title 'Funds Required for Cane Payment as 2018-03-27' was retrieved. An amount of Rs. 715,889,847 under the head of 'Total Discount' was found in the said document. It was suspicious head and had no relevance with the issue of funds required for cane payments.
  - iv. Upon further analysis, it was also revealed that out of total Rs. 715.889 million, Rs. 363.444 million were credited in cash to the 'Cane Payment Accounts mentioned above' and Rs. 270.344 million deposited/transferred in Hunza Ghee Mills account during the year 2017-2018. The detail of these deposits is given below:

<b>Table: 32 – Cash Deposit to Cane Payment Accounts Unit -1</b>	
<b>Branch of from where cash deposited</b>	<b>Credit Amounts (2017-2018)</b>
Chiniot	5,981,968
Nankana	11,286,108
Khurrianwala	46,423,280
Jaranwala	43,910,202
Jhumra	70,046,044
Sangla hill	1,250,528

Shahkot	184,545,777
<b>Total</b>	<b>363,443,907</b>

437. Detail of payments deposited in the bank account of Hunza Ghee Industries (Pvt.) Limited - from the multiple 'Cane Payment Accounts' maintained by Hunza Sugar Mills – Unit – I during the year 2017-18 are as under:

<b>Table: 33 – Amounts Transferred to Hunza Ghee Mills (Pvt.) Limited</b>	
<b>Branch of from where cash deposited</b>	<b>Credit Amount (2017-2018)</b>
Chak Jhumrah	49,201,062
Chiniot	5,063,748
Jaranwala	79,487,370
Khurrianwala	48,017,799
Nankana Sahib	20,189,439
Sangla Hill	5,141,821
Shahkot	63,243,189
	<b>270,344,428</b>

438. During Inquiry proceedings, the concerned banks were directed to provide particulars of above-mentioned depositors i.e. names, CNIC and contact number. Most of them were found to be the employees of Hunza Sugar Mills or the suppliers/unregistered contractor of Mills. It was revealed that low paid employees of Mills deposited heavy amounts of cash into the said cane payment account. Three employees namely; Nawaz Ali, Allah Ditta and Afzal Ahmad, of Unit-I were interrogated who disclosed that upon the instructions of Mills management, deductions were made from growers at the time of payments of CPRs. They deposited the said deducted amount into the cane payment account during the season 2017-18, 2018-19 and 2019-2020. The difference is deposited back into the payment account of Hunza Sugar Mills or Hunza Ghee Mills. The statements of employees of Hunza Sugar Mills who deposited heavy cash amounts in the above said cane payment accounts have been recorded. The detail of payments made by each employee is as under:

<b>Table: 34 - Detail of Illegal deduction of amount deposited in Cane Payment Accounts maintained at Bank Alfalah Limited</b>			
<b>Year</b>	<b>Branch names of Bank Alfalah Ltd</b>	<b>Names</b>	<b>Amount Deposited (Rs.)</b>
2017-2018	Shahkot	Nawaz Ali	119,900,020
2017-2018	Shahkot	Allah Ditta	7,445,909
2017-2018	Chak Jhumra FSD	Afzal Ahmad	3,787,903
2018-2019	Shahkot	Nawaz Ali	54,369,328
2019-2020	Shahkot	Allah Ditta	16,855,340
2019-2020	Shahkot	Nawaz Ali	1,000,000
<b>Grand Total</b>			<b>203,358,500</b>



439. The Inquiry Team also interrogated the individual namely; Muhammad Ashraf – Accountant on whose system the deleted document was recovered by the forensic team. He submitted that he prepared this document and according to him due to corrupt window system; some of the files were deleted including this document. With regard to the respective credit of amounts, he firstly stated that the said amount of Rs. 715.889 million is the sale proceed of sugar and deposited in Cane Payment accounts, but in his reply to another question; he categorically denied any knowledge about how the said amount was deposited in Cane Payment account. Neither he could provide detail of suspected sugar buyers nor delivery orders, etc. He further stated that the said amount was deposited in the account of Hunza Ghee Mills through online transfer by the employees of sugar mills / cane suppliers. On the other hand, he stated that he has no knowledge for deposit of Rs. 270 million deposited in the account of Hunza Ghee Mills in 2017-18, as the same was done on the directions of Sr. GM-Finance.
440. Explanation was also sought from the Auditors i.e. M/s. Amin Mudassar, Chartered Accountant of the Mills who explained that the said (deleted) document was not placed before them during the course of Audit of 2017-18 and they are not in a position to comment upon it.
441. In his statement before the Audit Team, Sr. GM-Finance stated that the said (deleted) document is neither an official document nor an important document for the Mills; therefore, the same was not placed before the Auditor and he cannot comment on this document. On the other hand, he accepted the said document by way of explaining that the amount of Rs. 316 million was deposited back in the 'Cane Payment Account'. He firstly stated that it is sale proceeds of sugar and ghee of Hunza Sugar and Hunza Ghee, later on he stated that it is the sale proceed of sugar only and provided a list of (85) suspected sugar buyers to the Inquiry Team. Further, with regard to deduction in amount @ Rs. 20 – 30/- per 40 kg from growers; he stated that as per record CPRs were issued with full amount and if any grower claimed deductions, the same may be outcome of rivalries or business enmities.
442. Based on the list of 85 suspected sugar buyers produced by him; statements of few sugar buyers were recorded. According to them, they never purchased or entered into any agreement of sugar purchase with Hunza Sugar Mills, however, they only supply sugarcane to the Mills.
443. The statements of Sr. GM-Finance and Accountant were found to be self-contradictory. They also changed their plea while recording statements. Therefore, based on the financial transactions and statement of employees / supplier/contractors, the Inquiry Team is of the view that the said amount was the illegal deduction in the amount of sugarcane at the time of payment to the growers during the year 2017-18. Out of Rs. 715.889 million; an amount of Rs. 363.444 million were deposited in Cane Payment Account in different branches of Bank Alfalah Limited and Rs. 270.346 million were deposited through online transfer into the account of Hunza Ghee at Bank Alfalah Limited, Gulberg Branch, Lahore. These deposits were mostly made through low paid employees of sugar mills or through some cane suppliers.

444. Based on the above, it is evident the Mills was involved in illegal deductions in the cane amount from the growers and found in violation of the Sugar Factories Control Act, 1950.

#### Recommendations

445. The offences fall under the purview of;
- i. National Accountability Ordinance (NAO) 1999
  - ii. Pakistan Penal Code, 1860
  - iii. Companies Act, 2017
  - iv. Sales Tax Act, 1990
  - v. Income Tax Ordinance, 2001
  - vi. Benami Transactions (Prohibition) Act 2017
  - vii. Sugar Factories Control Act, 1950
446. The Government may refer the case to the relevant authorities as deemed appropriate.

#### Illegal Weight Deductions by the Sugar Mills to Pay less to the Farmers:

447. Not only that the sugar mills have been paying less to the farmers as compared to the minimum support price but also applying undue illegal deductions in weight of the sugarcane. These deductions in weight further reduce the amount of money that farmers received against the quantity of sugarcane which they sell to the sugar mills.
448. The data of **Al-Moiz sugar mills** CIS System of Sugar Cane and Beet procurement was extracted from the laptop of DGM IT Al-Moiz I sugar mill. In this, a trash percentage data column was detected indicating the weight of sugarcane/beet automatically deducted from the growers by the Mill. This Trash Percentage is not shown on the CPR provided by the Mill to the grower. These trash deductions vary from 5% to 29 %. From last three seasons 2017-2020, a total of 70,339.473 Tons of sugar cane /beet was deducted from the growers. These deductions were not mentioned on CPRs which indicates that growers are not aware of these deductions. The mills management stated the quality of sugarcane/beet as reason for these deductions which is not justified as these deductions were made without the knowledge of the farmers.
449. As per the sugar recovery ratios declared by the company, the additional undeclared amount of 70,339 M Tons of sugarcane would have produce 7,496 M Tons of sugar. Keeping in view the average ex-mill price during these years the value of this undeclared sugar amounts to Rs. 431 million.

#### Recommendations

450. The offences fall under the purview of;
- i. National Accountability Ordinance (NAO) 1999
  - ii. Pakistan Penal Code, 1860
  - iii. Companies Act, 2017
  - iv. Sales Tax Act, 1990
  - v. Income Tax Ordinance, 2001
  - vi. Sugar Factories Control Act, 1950



451. The Government may refer the case to the relevant authorities as deemed appropriate.
452. It has been observed that **Alliance Sugar Mills** Company made adjustments amounting to Rs. 152 million (33,886 M. Tons) in 2017-18 and Rs. 353 million (77,551 M. Tons) in 2018-19 against the non- variety sugar cane from grower payments without any legal justifications. The adjustment for current season 2019-20 is not yet ascertained by the management. The management simply deduct 5% to 15% from the growers.

**Table: 35**

SR #	GROWER NAME	CNIC	CANE WEIGHT - M.TONS	CANE WEIGHT - MAUND	GROSS AMOUNT	NON-VARIETY CANE DEDUCTION	NET AMOUNT	PRICE PER MAUND
1	JAM SHAIR AFGAN	45101-6553563-3	998.830	24,970.750	4,544,684	499,914	4,097,188	162
2	JAM SHOUKAT	45105-5437384-5	791.095	19,777.375	3,599,488	395,943	3,284,071	162
3	JAM LIAQAT	45101-5666651-9	1,178.255	29,456.375	5,361,068	589,717	4,836,657	162
4	ATTA ULLAH	45101-8483699-1	406.755	10,168.875	1,850,737	203,581	1,670,088	162
5	MOOR ALI	45101-5257804-1	202.195	5,054.875	919,988	101,199	825,666	162

453. Furthermore, in light of the aforementioned findings, the team extended its examination and revealed that the Company has evaded a payment of approx. Rs.765 million against cane procurement. Year wise deduction in cane growers' payments are tabulated as below:

**Table: 36**

YEAR	MINIMUM SUPPORT PRICE/ MOUND (SINDH)	DIFFERENCE IN SUPPORT PRICE/KG	Rs. IN MILLION UNDERPAID BY ALLIANCE
2016-2017	172	4.30	278.3
2017-2018	160-182	4.0-4.55	132.9
2018-2019	182	4.55	353.8
<b>TOTAL</b>			<b>765</b>

454. It is an evidence of maintaining parallel book keeping by the Company whereby they reported payments at support price to the Cane Commissioner, FBR and other institutions whereas the actual payments were made below the minimum support price. As per clause 3 of EPD Circular No.02 of 2016 dated February 28, 2016, federal share of cash support on export of sugar shall be provided only to those sugar mills which purchase sugarcane at a minimum price from the farmers.

## Recommendation

455. The offences fall under the purview of;
- National Accountability Ordinance, 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
456. The Government may refer the case to the relevant authorities as deemed appropriate.
457. The farmers complained that the **Hamza Sugar Mills** has been making illegal deductions in weight during the sugarcane procurement, especially in 2017-2018. In order to verify aforesaid complaints of the sugar growers record of the Company has been checked from Oracle back-end database. It has been observed from the data store in "Weightment Table" that gross weight is stored in two columns namely "GROSS\_WEIGHT" and "ACTWEIGHT" and weight of aforesaid transactions were different in both columns and company is recording "Gross Weight" in CPR. Further it has been observed that in 123,825 transactions weight of "GROSS\_WEIGHT" is less than "ACTWEIGHT" by 182,366,045 Kgs. This confirms the claim made by the growers that the Company made deductions from gross weight of sugarcane during 2017-18 due to which a loss of Rs. 820,647,180 was suffered by the growers and illegal gain made by the Company. Further following is the calculation of tax evasion was made by the Company.

**Table: 37**

Off the books sugar production from illegal deductions from growers	2017-18
Sugarcane in Kgs	182,366,045
Recovery ratio	10.44%
Sugar produced in kg	19,039,015
Value of sugar for tax purposes	1,142,340,906
Sale Tax evasion @ 8%	91,387,272
Further tax @ 2%	22,846,818
Total sale tax evasion from illegal deductions	114,234,091

458. The extra sugar, produced by the Hamza Sugar Mills, is worth more than Rs.1.0 billion is "off-the-book". The team has found that the company directors seem very lucky enough to get their prize bond win every year and get the prize of millions of rupees detailed below:

**Table: 38**

Tax Year	Name	Rs.
2019	Muhammad Tayyab	17,147,000
2018	Muhammad Tayyab	31,399,500
2017	Muhammad Tayyab	49,571,000
2019	Zulfiqar Ahmed	25,000,000



2019	Muhammad Tariq	9,307,000
2018	Muhammad Tariq	69,605,000
2017	Muhammad Tariq	58,279,000
2019	Naveed Riaz	25,000,000
2017	Naveed Riaz	133,500,000
Total		418,808,500

### Recommendation:

459. The offences fall under the purview of;
  - i. National Accountability Ordinance (NAO) 1999
  - ii. Pakistan Penal Code, 1860
  - iii. Companies Act, 2017
  - iv. Sales Tax Act, 1990
  - v. Income Tax Ordinance, 2001
  - vi. Sugar Factories Control Act, 1950
460. The Government may refer the case to the relevant authorities as deemed appropriate.

### Manipulation of Recovery Ratio

461. The recovery ratio of sugar basically determines the amount of sugar that is produced from the Sugarcane and is calculated by conducting tests in the Laboratory. There are widespread allegations about the Sugar Industry that the recovery ratio is shown below the actual as only 0.1% change in recovery ratio leads to a 1% change in the production of sugar.
462. The Commission tried to arrange for independent lab testing for ascertaining and verifying the calculations made by the labs of the Mills. Unfortunately, the crushing by the Mills had ceased by the time the teams were sent out and this exercise could not be carried out.
463. The team working on **Al-Arabia Sugar Mills**, however managed to get the evidence of the malpractice which corroborates the allegation of the manipulation of the key figure by the Sugar Mills to hide their real production
464. The data retrieved from the computers of the Company showed an email from **Muneer Ahmed** <[machau678@gmail.com](mailto:machau678@gmail.com)> [DGM Finance] to [javed.shaheen@sgroup.pk](mailto:javed.shaheen@sgroup.pk) on 26-4-2018 at 1:19PM containing the following forwarded message email already sent to: Muhammad Usman <[usman.mohd@gmail.com](mailto:usman.mohd@gmail.com)>, [nadeem\\_sd@hotmail.com](mailto:nadeem_sd@hotmail.com) with CC to Umer Majal <[ukmajal@gmail.com](mailto:ukmajal@gmail.com)>, [amir.sohail300@gmail.com](mailto:amir.sohail300@gmail.com), [atif.sattar@sgroup.pk](mailto:atif.sattar@sgroup.pk) on 25-April-2018 at 6:00PM with the subject of "ADJUSTMENT OF PRODUCTION" in which it was stated that  
*Respected Sir,*  
*The desired figures are being attached for your kind information please. It is submitted that overall recovery for the period from 24-02-2018 to 06-04-2018 will be 12.35% & as discussed with manager lab and P.D sb this recovery seems abnormal in the area. It can be reduced up to 10.87% by reducing*

overall losses and maintaining the production figure of 925,200 bags. If allowed detail working of reduction in losses will be submitted by manager lab tomorrow.

**Regards,**  
**Muneer Ahmed Ch.**  
**D.G.M(Finance)**  
**AL-Arabia Sugar Mills Limited.**

465. The excel file attached with it contained the following data:

**AL - ARABIA SUGAR MILLS LTD**

DATE	CRUSHING (M. TONS)	RECOVERY %	PRODUCTION (M. TONS)	PRODUCTION BAGS
Final Figures 06-04-2018	450,032	9.7472	43,760	875,200
Already Reported as on 23-02-2018	275,524	9.5671	24,695	493,900
Balance from 24-02-2018 to 06-04-2018	174,508		19,065	381,300
Add Increase			2,500	50,000
For the Period as above	174,508	12.3576	21,565	431,300
Overall Figure	450,032	10.2793	46,260	925,200

466. Subsequently, Mr. Muneer from his gmail email account sent another email to: [javed.shaheen@sgroup.pk](mailto:javed.shaheen@sgroup.pk) on 26-April-2018 at 1:19PM with subject of "ADJUSTMENT OF PRODUCTION" with the following forwarded email already sent to  
 To: Muhammad Usman <[usman.mohd@gmail.com](mailto:usman.mohd@gmail.com)>, [nadeem\\_sd@hotmail.com](mailto:nadeem_sd@hotmail.com)  
 with CC to Cc: Umer Majal <[ukmajal@gmail.com](mailto:ukmajal@gmail.com)>, [amir.sohail300@gmail.com](mailto:amir.sohail300@gmail.com),  
[atif.sattar@sgroup.pk](mailto:atif.sattar@sgroup.pk) on 26-April-2018 at 1:12PM with subject of  
 "ADJUSTMENT OF PRODUCTION", containing the following text:

*"Respected Sir,*

*Further to above the revised figures prepared by Manager Lab duly approved by P.D sahib are submitted as per detail working attached for your kind information / advise. Kindly note that total losses will be reduced to 1.9000 from 2.2903 with final recovery for the season as 10.3027 and production as 925200 bags.*

*Thanks & Regards.*  
*Muneer Ahmed Ch*  
*D.G.M(Finance)"*

467. This email contained an excel file and a PD file. The excel file contained the same data as stated in above screen shot, while the PDF file contained the following data



	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1		AL-ARABIA SUGAR MILLS LIMITED SHAHPUR SADAR												
2		SUGAR PRODUCTION / LIFTING REPORT FOR THE SEASON 2017-2018												
3		PRODUCTION R		LIFTING R			PRODUCTION N		LIFTING N			OVER ALL PRODUCTION TODAY		
4	DATE	TODAY	TODATE	TODAY	TODATE	BALANCE	TODAY	TODATE	TODAY	TODATE	BALANCE			
115	3/31/2018	11,500	834,800	-	33,660	801,140	4,500	773,200	2,160	364,200	409,000	16,000		
116	4/1/2018	10,000	844,800	-	33,660	811,140	4,500	777,700	1,080	365,280	412,420	14,500		
117	4/2/2018	8,500	853,300	-	33,660	819,640	3,500	781,200	1,440	366,720	414,480	12,000		
118	4/3/2018	10,300	863,600	-	33,660	829,940	4,000	785,200	240	366,960	418,240	14,300		
119	4/4/2018	7,400	871,000	-	33,660	837,340	5,000	790,200	3,640	370,600	419,600	12,400		
120	4/5/2018	4,200	875,200	-	33,660	841,540	11,700	801,900	840	371,440	430,460	15,900		
121	4/6/2018	50,000	925,200	1,440	35,100	890,100	(50,000)	751,900	600	372,040	379,860	-		
122	4/7/2018	-	925,200	10,280	45,380	879,820	-	751,900	-	372,040	379,860	-		
123	4/8/2018	-	925,200	400	45,780	879,420	-	751,900	-	372,040	379,860	-		
124	4/9/2018	-	925,200	-	45,780	879,420	-	751,900	4,980	377,020	374,880	-		
125	4/10/2018	-	925,200	-	45,780	879,420	-	751,900	12,560	389,580	362,320	-		
126	4/11/2018	-	925,200	-	45,780	879,420	-	751,900	3,240	392,820	359,080	-		
127	4/12/2018	-	925,200	-	45,780	879,420	-	751,900	11,700	404,520	347,380	-		
128	4/13/2018	-	925,200	-	45,780	879,420	-	751,900	7,020	411,540	340,360	-		
129	4/14/2018	-	925,200	-	45,780	879,420	-	751,900	8,880	420,420	331,480	-		
130	4/15/2018	-	925,200	-	45,780	879,420	-	751,900	5,040	425,460	326,440	-		
131	4/16/2018	-	925,200	-	45,780	879,420	-	751,900	8,060	433,520	318,380	-		
132	4/17/2018	-	925,200	-	45,780	879,420	-	751,900	5,320	438,840	313,060	-		
133	4/18/2018	-	925,200	-	45,780	879,420	-	751,900	8,020	446,860	305,040	-		
134	4/19/2018	-	925,200	-	45,780	879,420	-	751,900	5,720	452,580	299,320	-		
14	Summary	Sugar	S Lifting Detail	Molasses	Mol. Detail	Baggase	Bagg Lift	Export	D.O.Faisal	Faisal	K. Intran	ramzan baz		
Ready														

468. The recovery ratio is around 10.40% for the "Not-Reported" cane and maximum recovery was 11.24% on 3-Mar-20 and 4-Mar-20. The recovery ratio as per reported RT-4 for year 2019-20 is 9.9488%.

### Recommendation

469. The offences fall under the purview of;
- National Accountability Ordinance (NAO) 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
470. The Government may refer the case to the relevant authorities as deemed appropriate.
471. This shows that the recovery ratio as shown by the Mills is not reliable at all. There is not independent means to verify the lab results except for a Punjab Mobile Lab which is totally insufficient for the purpose. Keeping in view the importance of the correct ascertaining of recovery ratio the Government must invest in setting up mechanism for independent verification and testing of the recovery ratio.

### **Falsification of Accounts and Double/Parallel Record Keeping**

472. The Commission has come across the concealed / parallel record of account to hide the real procurement of sugarcane and real production and sales of sugar by the Mills. Almost all the sugar mills audited by the Commission, have been found to maintain parallel/ double record keeping and falsification of accounts one way or the other. Some of the methods used are;
- Deleted files have been recovered and analyzed which contained parallel/ double record of accounts.
  - Software manipulation to falsify the accounts.
  - Use of fictitious names for recording entries in the accounts.
  - Payment to growers through manual receipt "katchi parchi" instead of CPRs.
473. The analysis of the recovered data from the **Al-Arabia Sugar Mill's** computers revealed that the Mill Management is keeping MS Excel files data (the "Concealed Files") which were also deleted in which the amounts/quantities were categorized as "R" and "N" i.e. "Reported" and "Not Reported". Reported is the data which is reported to the Provincial & Federal Government while Not Reported is the actual data for their own calculations and records. Moreover, most of the files were password protected and CCW-FIA team was able to open them. Interestingly, the "Reported" data in Concealed Files matches with the Data provided by the Mill Management to the Inquiry Team. While, the "N" i.e. Not Reported data is off-the-books and concealed.
474. The files recovered from the computers of the company show that Al-Arabia sugar mills is hiding the real production of sugar and evading the government taxes and duties. They are also involved in off-the-book purchase of sugarcane. The amount of sugar show as "N" i.e. Not-Reported is as shown in the table below. The calculation made by the team of the amount of Sales Tax evaded on the "N" sales is as follows:

Period	Qty of Undeclared Sales (Bags)	Qty of Undeclared Sales (KG)	Value of Sales @ Rs.60/- Per KG	Applicable Sales Tax Rate	Sales Tax Involved
2017-2018	751,900	37,595,000	2,255,700,000	11%	248,127,000
2018-2019	15,800	790,000	47,400,000	11%	5,214,000
2019-2020	254,400	12,720,000	763,200,000	17%	83,952,000
<b>TOTAL</b>	<b>1,022,100</b>	<b>51,105,000</b>	<b>3,066,300,000</b>		<b>337,293,000</b>

The details of By-Products and the sales tax thereon are as follows:



SALES TAX ON UNDECLARED BY-PRODUCTS (N DATA)					
Period	Mollasses			Applicable Sales Tax Rate	Sales Tax Involved
	QTY M.TONC	RATE	VALUE		
2017-2018	23,060	5,100	117,603,643	17%	19,992,619
2018-2019	-	-	-	17%	-
2019-2020	4,985.653	11,200	55,839,314	17%	9,492,683
<b>Total:</b>					<b>29,485,303</b>
Period	BAGGASS			Applicable Sales Tax Rate	Sales Tax Involved
	QTY M.TONC	RATE	VALUE		
2017-2018	117,828	1,700	200,306,994	17%	34,052,189
2018-2019	-	-	-	17%	-
2019-2020	34,640	3,200	110,846,519	17%	18,843,908
<b>Total:</b>					<b>52,896,097</b>
Period	MUD			Applicable Sales Tax Rate	Sales Tax Involved
	QTY M.TONC	RATE	VALUE		
2017-2018	12,373	250	3,093,358	17%	525,870.80
2018-2019				17%	-
2019-2020	3,669	300	1,100,802	17%	187,136.28
<b>Total:</b>					<b>713,007</b>

### Recommendation

475. The offences fall under the purview of;
- National Accountability Ordinance (NAO) 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
476. The Government may refer the case to the relevant authorities as deemed appropriate.

### Brokers & Agents Identified In "N" Reports (Not-Reported)

477. Al-Arabia Sugar Mill reported that the mill deals with only one broker Mr. Muhammad Mushtaq, proprietor of Faisal Enterprises who is a Dealer of the Company (through a written agreement date 20 November 2019). However, from the recovered computer files, it was revealed that they deal with many brokers sale to whom was never disclosed by the company.

**1. Haji Sajjad Manzoor alias Haji Sajid (Broker & Dealer revealed in the "N" Reports).**

One of the brokers found in "N" files was Haji Sajjad Manzoor. The broker was maintaining the sales data on a website [www.hajimanzoor.com](http://www.hajimanzoor.com). According to him, he was maintaining the daily dealing (sale & purchase) of sugar from different mills including Al-Arabia Sugar Mills Limited. He conducted business with the Company in 2018-19 and 2019-20. According to him, he has sold the "Not- Reported" sugar to the consumers (which amounted to Rs. 260 million) and deposited the same with the Bank of Al-Arabia and some money was also handed over to Mr. Iqbal (Accounts Dept of Al-Arabia) under signature and to Mr. Muneer (DGM Finance). Also Mr. Iqbal paid off the growers, in cash, from the same amount. Haji Sajjad has provided copies of his transaction's ledger with Company.

**478. Yasir Mushtaq and Haji Mushtaq (Broker & Dealer revealed in the "N" Reports)**

Another person identified in the "N" report was Mr. Yasir Mushtaq and his father Haji Mushtaq who did business with the Company in all three years.

**479. Khawaja Imran (Broker & Dealer revealed in the "N" Reports)**

He was also identified in the "N" report who did business with the Company in all three years. He provided a register containing 12 pages in which names of buyers along with vehicle numbers are written for season 2019-20. The total numbers of bags sold for the year 2019-20, are 86,016 having value of Rs. 317 million. According to his statement, he makes sales on call from Mr. Muneer (DGM of Company) and make cash payments to officials of the Company which include Mr. Iqbal, Mr. Naveed etc.

**480. Other Miscellaneous Brokers/Dealers (Broker & Dealer revealed in the "N" Reports)**

Other individual brokers/agents mentioned in the "N" Reports are Mehmood Sargodha, Noor Traders KB, Amir Waheed RWP, Latif Shaheen Lahore, Manzoor Lahore, Mian Waqas FSD and Saleem Khalid.



Sr No	Broker Names	Year 2019-20			
		Reported Business		Not Reported	
		Qty (50 kg bag)	Amount (Rs in m)	Qty (50 kg bag)	Amount (Rs in m)
1	Y asir Mushtaq	648,000	2,266	20,880	77
2	Haji Sajid KB	-	-	70,943	261

Sr No	Broker Names	Year 2017-18				Year 2018-19			
		Reported Business		Not Reported		Reported Business		Not Reported	
		Qty (50 kg bag)	Amount (Rs in m)	Qty (50 kg bag)	Amount (Rs in m)	Qty (50 kg bag)	Amount (Rs in m)	Qty (50 kg bag)	Amount (Rs in m)
1	Y asir Mushtaq	-	-	-	-	272,680	-	400	-
2	Haji Sajid KB	-	-	-	-	87,600	-	688	-
3	Khawar Mirza	-	-	27,600	66	14,400	49	-	-
4	Mehnoor Saleem	-	-	-	-	-	-	-	-
5	Noor Tahir	-	-	648,000	2,266	219,599	-	809	-
6	Amir Waheed Brothers	-	-	1,000	-	4	36,000	25	-
7	Haji Sajid KB	860,640	2,129	707,320	1,638	814,340	2,359	74,540	40
8	Latif Shaukat	-	-	31,001	-	1,200	34,801	4	126
9	Mamun Ramzan Bazar	-	-	-	-	3,600	-	13	-
10	Mamun Sugar Export	-	-	-	-	13,200	-	44	-
11	Saleem Gifts	-	-	-	-	7,200	-	24	-
	Individuals Sub-Total	860,640	2,129	727,920	1,704	1,285,020	3,835	14,540	40
12	Mughal Brothers	-	-	680,001	2,376	254,400	-	935	-
13	GNTC	41,280	103	12,480	30.00	-	-	-	-
14	Growers	-	-	11,369	37.00	37,538	125	1,187	4
15	Ramzan Bazar	1,980	4	-	-	6,940	18	-	-
16	Sugar Export	-	-	-	-	14,800	46	-	-
17	Gifts	-	-	131	-	-	-	73	-
	Sub Total	43,260	107	23,980	67.00	59,278	189	1,260	4
	TOTAL	903,900	2,236	751,900	1,771	1,344,298	4,024	15,800	44

481. In addition to above another customer disclosed as Good Nature Trading Company (GNTC) is found. Sales made to GNTC are 9,840 bags recorded as sales on 11-Dec-2018 but the same is reversed on 03-Jan-2019.

Year	Reported		Not-Reported	
	Qty Bag of 50 kg	Amount Rs. In million	Qty Bag of 50 kg	Amount Rs. In million
2017-2018	41,280	103	12,480	30
2018-2019 **	9,840	25	-	-

### Recommendation

482. The offences fall under the purview of;
- National Accountability Ordinance (NAO) 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
483. The Government may refer the case to the relevant authorities as deemed appropriate.

### Advances from Customers

484. Another phenomenon being used by the Mills is to book "Advance from the Customers" which in reality is not an advance but in fact is a way of parking concealed income.
485. There are huge amounts of money shown in the closing balances of **Al-Arabia Sugar Mills** company since last three years; these are named as "Advances from Customers" and also stated as "Unapplied Receipts". These amounts are shown related to Sugar sale and are being recorded as advances "THROUGH SUGAR DEALER". Following is the month-wise outstanding advances/receipts:

As on 30-Sept-2018		As on 30-Sept-2019		As on 29-Feb-2020	
Outstanding Since	Amount Rs in million	Outstanding Since	Amount Rs in million	Outstanding Since	Amount Rs in million
Mar-2018	220.37	May-2019	56.44	Feb-2020	379.19
Apr-2018	93.47	Jun-2019	31.43		
May-2018	42.05	Jul-2019	134.69		
Jun-2018	241.89	Aug-2019	110.65		
Jul-2018	103.75	Sep-2019	224.87		
Aug-2018	288.03				
Sep-2018	430.32				
<b>TOTAL</b>	<b>1,419.87</b>	<b>TOTAL</b>	<b>558.09</b>	<b>TOTAL</b>	<b>379.19</b>

486. From the above it can be seen that in year 2017-18, the Company obtained huge advances from the sugar customers but failed to provide the names of these customers to the audit team. Similarly, for years 2019 and 2020, the Company also obtained advances but failed to provide names of the customers/buyers. The Company claimed to have adjusted these advances against the sale of sugar subsequently.

Particular	Reported for production of 2019-20 (bags)	Not Reported for production 2019-20 (bags)	TOTAL for production of 2019-20 (bags)	Value of concealed Sales Rs. In million
Production	743,600	254,400	998,000	
Sale	680,001	254,400	934,401	763
Particular	Reported for production of 2018-19 (bags)	Not Reported for production 2018-19 (bags)	TOTAL for production of 2018-19 (bags)	Value of concealed Sales Rs. In million



Production	1,370,900	15,800	1,386,700	
Sale	1,344,298	15,800	1,360,098	47

487. Comparison of the above amounts of Advances from Customers with the amounts declared in the monthly sales tax returns reveals significant differences. According to the record, the Company sells sugar through only one person i.e. Mr. Faisal Mushtaq. However, Mr. Faisal Mushtaq in his statement denied of depositing any such huge amounts. This clearly indicates the amount received by the Company is in lieu of the "Not Reported" production.

Particular	Reported for production of 2017-18 <i>(bags)</i>	Not Reported for production 2017- 18 <i>(bags)</i>	TOTAL for production of 2017-18 <i>(bags)</i>	Value of concealed Sales <i>Rs. In million</i>
Production	925,200	751,900	1,677,100	
Sale	915,900	751,900	1,667,800	2,255

488. Therefore, keeping in view all the above emails and the excel “N” Reported data, it is clear that in year 2017-18, the Company’s production was in excess of 1.6 million bags and it understated the production.

**Recommendation”**

489. The offences fall under the purview of;
- National Accountability Ordinance (NAO) 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Benami Transactions (Prohibition) Act, 2017
  - Sugar Factories Control Act, 1950
490. The Government may refer the case to the relevant authorities as deemed appropriate.
491. **Hamza Sugar mills, R.Y. Khan**, has been concealing the quantity of sugarcane purchased and the sugar produced. This sugar mill company has total assets of more than Rs. 14 billion in 2019-2020 and is using one of the best Database System i.e. Oracle Version 11G but the un-licensed version. The company is using the pirated version to save the licensing fee and also maneuvering the software to conceal the transactions. The team analyzed the entire cane purchasing process and the computer system was analyzed by the Cyber Investigator of FIA.
492. The expert found that purchase data of Cane is stored in **separate database modules year wise i.e. Cane-1718, Cane-1819 and for Finance (Store & Sales)**. This created suspicion as technically there is no such need in presence of Centralized Database Record Keeping System. However, when the consolidated records were verified, surprisingly it surfaced that **Adjusting Entries** popped up and were identified in Ledger Reports of the Mill whose in-depth analysis was conducted. It was found that purchases were being concealed through backend database system and adjusting through reverse entries.
493. As is clear from the table below, sugarcane purchase valuing more than Rs. 6.7 billion was concealed from the books. By concealing the purchase of the sugarcane and the resulting sugar produced, the company is involved in the overall tax evasion (GST and Road Cess) of more than Rs. 1.19 billion.



**Table: 39**

<b>Off the Books Sugar Production and Loss to Exchequer</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>Total</b>
Sugarcane Not Shown in Record (Value)	<b>3,345,893,596</b>	<b>2,221,256,936</b>	<b>1,206,539,962</b>	<b>6,773,690,494</b>
Concealed Sugarcane in Tons	743,532	493,613	254,008	1,491,153
Recovery Ratio	10.437%	10.822%	10.025%	
Concealed Sugar Produced in Tons	77,602	53,419	25,464	156,486
Value of Concealed Sugar for Tax Purposes	4,656,145,528	3,205,125,675	1,527,860,605	9,389,131,808
Sale Tax Evasion	372,491,642	256,410,054	259,736,303	888,637,999
Further Tax @ 2%	93,122,911	96,153,770	0	189,276,681
Road Cess Deducted from Growers but Not Paid to Government	28,116,965	18,510,675	9,519,997	56,147,637
Road Cess Company Share	28,116,965	18,510,675	9,519,997	56,147,637
<b>Total Sale Tax and Road Cess Evasion Due to Showing Less Purchases</b>	<b>521,848,483</b>	<b>389,585,174</b>	<b>278,776,297</b>	<b>1,190,209,954</b>

494. Further calculation of revenues and profits generated from this off-the-book produced sugar shows that profits worth Rs. 4.2 billion were understated and Corporate Tax worth Rs. 1.24 billion was evaded. The detailed calculation is shown in the table below.

**Table: 40**

<b>Off the books sugar production</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>Total</b>
Sugar produced in kg from off the books purchases of sugarcane	77,602,425	53,418,761	25,464,343	156,485,530
Average ex-mill price of the Company	49.53	55.73	66.93	
Revenue from sugar produced from concealed sugarcane purchasing	3,843,648,110	2,977,027,551	1,704,328,477	8,525,004,138
Revenue from sugar produced from illegal deductions	943,002,413	0	0	943,002,413
Revenue from sale of molasses	207,355,711	209,897,091	188,694,477	605,947,279
Revenue from sale of baggase	944,032,725	611,233,637	300,815,559	1,856,081,921
Total revenue understated in the financial statements	5,938,038,959	3,798,158,278	2,193,838,514	11,930,035,751
cost of sales understated in the financial statements	3,345,893,596	2,221,256,936	1,206,539,962	6,773,690,494
profit understated in the financial statements	2,592,145,363	1,576,901,342	987,298,552	5,156,345,257
corporate tax evasion	777,643,609	457,301,389	286,316,580	1,521,261,578

495. The Company evaded tax of Rs. 2.825 billion through off the book sugar production from concealed sugar cane purchasing and through illegal deductions from sugar cane purchased from growers as illustrated below.

**Table:41**

<b>Tax evasion</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>Total</b>
Sale tax and road cess evasion through off the book sugar produced from concealed purchasing	521,848,483	389,585,174	278,776,297	1,190,209,954
Sale tax evasion from off the books sugar production from illegal deductions from growers	114,234,091			114,234,091
Corporate tax evasion	777,643,609	457,301,389	286,316,580	1,521,261,578
<b>Total loss to exchequer</b>	<b>1,413,726,182</b>	<b>846,886,563</b>	<b>565,092,877</b>	<b>2,825,705,623</b>

### **Recommendation**

496. The offences fall under the purview of;
- National Accountability Ordinance (NAO) 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
497. The Government may refer the case to the relevant authorities as deemed appropriate.
498. The analysis of the Cane database seized from the **Alliance Sugar Mills** and other Cane Database recovered by Cyber Crime Wing Team reveals hiding of the procurement of sugarcane and off-the-book procurement of sugarcane. An email was found from the Email ID of Khalid Mehmood (khalidmahmud1871@gmail.com) IT head of Alliance Sugar Mills from Qazi Saleem (ryksaleem@gmail.com) with the subject Query Database Fresh dated 12 January 2019, in which a method was provided to delete all the CPR serial number beyond 700000. For verification purpose the CPR Nos bearing serial numbers beyond 700000 were searched from the database of the company but no record was found, while the same records are available in the database recovered by the CCW Team. Initially 899 CPRs whose Serial Number is beyond 700000 were retrieved and the amount against these CPRs is 98.28 Million Rupees. The Sales impact of this comes as under: -



**Table:42**

Product	Sugar Cane	Recovery Ratio	Production (Kgs)	Production (Bags/Tons)	Rate	Value	Sales Tax
Sugar	22,115,538	10.84	2,397,324	47,946 bags	3,025.00	145,038,123	15,954,193.58
Molasses	22,115,538	4.24	937,699	937.70	50,000.00	46,884,941	8,908,139
Baggas	22,115,538	29.35	6,490,910	6,490.91	1,800.00	11,683,639	2,219,891
Mud	22,115,538	3.00	663,466	663.47	375.00	248,800	47,272
<b>Total</b>						<b>203,855,503</b>	<b>27,129,496</b>

**Recommendation:**

499. The offences fall under the purview of;
- Companies Act, 2017
  - Sales Tax Act, 1990
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
500. The Government may refer the case to the relevant authorities as deemed appropriate.
501. Verification of **JDW Sugar Mills** data from the financial statements and accounting records of the Company relating to "Advances from Customers" for the year ended September 30, 2019 revealed that the brokers had deposited advances to the tune of more than Rs. 6 billion, against the sugar sold but not lifted. The Team analyzed the data and found out that out of the advances from customers aggregating to Rs. 528,344,188, an amount of Rs. 239,192,950 (92,020 bags) related to the previous year (outstanding for more than 12 months). Further, Rs. 112,423,500 related to the year 2016-17 and related to one Mr. Afzal. A list of these advances is presented below:

**Table 43**

S#	BROKER/ DEALER NAME	DEALER'S NAME	BAGS PURCHASED	BAGS NOT LIFTED	AMOUNT Rs.
1	Abad Ali	Ijaz Traders	-	-	526,227,746
2	Abad Ali	Wali Khan	936,000	529,060	1,370,175,600
3	Abad Ali	Musa Bhai	-	62,680	149,808,000
4	Haji Siddique	Haji Siddique	24,000	31,880	81,365,200
5	Haji Zameer	Ibrahim	-	134,440	315,614,200
6	Haji Zameer	M Ali	282,000	105,580	273,991,250
7	Haji Zameer	Shamim	-	37,440	95,393,250

8	Kh.Imran	Ali Raza Khan	333,600	259,680	710,181,450
9	Kh.Imran	Tawakal Traders	-	56,300	134,085,000
10	Khawaja Ahmed	Khawaja Ahmed	138,000	70,780	183,517,000
11	Mehmood Ahmed	Nawab Din Achakzai	72,000	28,840	77,966,500
12	Mushtaq Paracha	Abdul Rehman	377,280	214,080	559,639,750
13	Mushtaq Paracha	Shehbaz Khan	-	174,540	408,743,650
14	Mushtaq Paracha	Samiullah Khan	468,631	89,060	233,320,303
15	Mushtaq Paracha	Sohaib Malik	-	85,700	191,731,550
16	Mushtaq Paracha	Afzal Khan	-	37,320	101,508,000
17	Mustafa Rehman	Mustafa Rehman	-	24,000	63,600,000
18	Mustansar Zahoor	Nazir Khan	25,200	23,760	65,765,485
19	Nadeem	M Arshad	152,400	142,020	349,037,200
20	Rashid	Dawood Ahmed	60,000	26,800	69,680,000
21	Suhail	Muhammad Khan	-	48,840	129,426,000
		<b>Total</b>	<b>2,869,111</b>	<b>2,182,800</b>	<b>6,090,777,134</b>

Source: Data acquired from JDW Company

502. The Company management could not explain the reasons for the stock sold and not lifted for such a long time. It does not seem plausible that brokers pay billions of rupees, but do not lift hundreds of thousands of bags of sugar; some of these purchases remained un-lifted for years.
503. These brokers were interviewed: the written statements of two were recorded while others were interviewed on phone by the Audit team. They stated that the advances booked in their names do not belong to them.
504. The net assets of the few of the above-mentioned brokers, as declared with the FBR, are as follows:

#### Net Assets Worth of the Sugar Brokers for 2017 to 2019

**Table 44**

Sr. No.	Name	CNIC/NTC	2017 (Millions)	2018 (Millions)	2019 (M)
1	M. Imran Tufail	3520111935421	38.57	87.22	86.37
2	Kh. Muhammad Imran	3840348485223	67.96	245.28	242.21



3	Abad Ali	3520196405651	0.61	166.95	359.16
4	Amir Waheed	2996976	421.53	569.16	595.89
5	Muhammad Aslam Bhalli	3310002720905	0.00	21.98	22.60
6	Yasir Mushtaq	3320118776911	84.60	166.14	166.60
7	Muhammad Mushtaq Piracha	3310023229713	80.07	129.17	132.96
8	Zameer Ahmad	4230109081983	112.58	652.45	652.71
9	Mateen Mustansar	3520209903059	39.17	49.13	50.32

### Recommendation

505. The offences fall under the purview of;
- National Accountability Ordinance (NAO) 1999
  - Pakistan Penal Code, 1860
  - Companies Act, 2017
  - Income Tax Ordinance, 2001
  - Benami Transactions (Prohibition) Act 2017
  - The Price Control and Prevention of Profiteering and Hoarding Act, 1977
  - Sugar Factories Control Act, 1950
506. The Government may refer the case to the relevant authorities as deemed appropriate.

### Effect of High Debt/Equity Ratio on Cost of Production

507. Sugar sector is the second largest manufacturing borrower, after the textile sector, in Pakistan. As on 29-02-2020, total outstanding borrowings, of 76 sugar mills, were Rs. 318.023 billion from different financial institutions. Out of which 27 sugar mills are defaulters of various banks by an amount of Rs. 51.485 billion. The ratio of default in sugar industry comes to around 16.19%, which is way higher than the country's overall default ratio of 9.30%. However, out of total defaulted amount, default of sugar industry with public sector banks is Rs. 30.403 billion or 59.05%, which is significantly higher than the industry average.
508. Due to higher debt to equity ratio in sugar industry, the financial cost of production becomes high. This financial cost is shown, by the PSMA, as part of the cost of production. It means that all the financial cost is being passed on the consumer and he ends up paying higher price of sugar. On the other hands, this cost increases the overall expenses of the company and reduces its profits for the purpose of taxation.
509. As per audited accounts of financial year 2018-2019 **Alliance Sugar Mills** had owner's equity of 2.5 billion and availed financial facilities of around Rs. 8.60

billion. Long term loans were Rs. 2.04 billion, with annual interest of Rs. 136 million while short term loans were Rs. 6.85 billion, with annual interest of Rs. 380 million. The debt equity ratio is very high. Although it is not illegal to maintain a high Debt-Equity Ratio according to SBP & SECP regulations but this ratio becomes relevant when financial cost is included in the calculation of cost of sugar. The impact of high debt to equity ratio is Rs. 5.32 per kg of sugar in the current year: it was Rs. 8.24 per kg in the last year.

**Table 45**

PARTICULARS	2018-2019	2017-18	IMPACT
			<b>2018-19</b>
OUTSTANDING LONG TERM	2,046,641,129	1,518,001,178	-
OUTSTANDING SHOTR TERM	2,787,357,436	5,643,717,394	-
ACCRUED MARK-UP	253,187,621	166,435,910	
TOTAL LOAN OBLIGATIONS	5,087,186,186	7,328,154,482	-
LONG TERM LOANS AVAILED	892,730,000	-	
SHORT TERM LOANS AVAILED	7,234,710,687	8,745,264,604	
COMPANY EQUITY	2,544,555,290	2,393,053,950	-
PROFIT AFTER TAX	152,685,687	298,101,483	-
FINANCIAL CHARGES	1,058,234,431	724,027,760	8.24/Kg
PRODUCTION IN KGs	127,810,000 Kgs		Rs.1,053,154,400
CASH MOVEMENT FROM RYK	-		-

510. The financial analysis of JDW company shows that **JDW has High Debt to Equity Ratio**. As of September 30, 2019, the company's total assets were to the tune of Rs. 48.26 billion, which were financed through equity of Rs 8.77 billion (18% of capital structure) and liabilities of Rs. 39.48 billion (82% of capital structure). As of September 30, 2019, Long term finances amounted to the tune of Rs. 9 billion, whereas short term borrowings were to the tune of Rs. 16.5 billion. Long term debts constituted 103% of the company's equity. The total interest-bearing debts constituted 75% of total capital structure (interest bearing debt + equity).
511. It was also noted that finance cost consumed 94% of earnings before interest and taxes in FY 2018-19 while the finance cost was even higher than the earnings before interest and taxes i.e. 107% in 2017-2018. It is pertinent to mention that as per the table below the impact of financial expenses included in the cost of sugar was quantified as per company record and it was found that financial expenses added Rs3.38 and Rs1.68 in the per kg cost of sugar for the year 2018-19 and 2017-18 respectively.

**Table 46**

	2018-19	2017-18
Long Term Debt	9,035,809,365	12,786,462,987
Total Equity	8,772,864,476	8,227,486,660
<b>LONG TERM DEBT: EQUITY</b>	<b>1.03</b>	<b>1.55</b>
Long Term + Short Term Debt	25,549,126,375	23,553,685,516
Total Equity	8,772,864,476	8,227,486,660



<b>TOTAL DEBT: EQUITY</b>	<b>75:25</b>	<b>74:26</b>
Finance cost	3,511,600,842	2,269,761,395
Earnings before interest and taxes	3,751,660,481	2,129,003,375
<b>FINANCE COST AS % OF EBIT</b>	<b>94%</b>	<b>107%</b>
Impact of financial expenses on cost of sugar per kg	<b>3.38</b>	<b>1.68</b>

### Loans to the Farmers and Gains on Inputs Sold to the Farmers Al-Moiz

#### Sugar Mills:

512. Team deputed for Al-Moiz 1 detected entries of amounts under heads of loans and advances to farmers in the recovered computer data. Mill's purchase data of fertilizers, pesticides and seed was analyzed. The calculations show that Mill has made profit of an amount of Rs. 135,664,666 from this activity during the last two years. However, this gain is not mentioned or disclosed in its annual audited accounts of the respective years. This additional gain in the profit earned is not shown in the other income of the company but is adjusted against financial expense, which is mark-up paid to banks. The Company is not legally authorized to carry out business of micro financing without the legal permission.

#### Recommendation

513. The offences fall under the purview of;
- Banking Companies Ordinance, 1962
  - Companies Act, 2017
  - Income Tax Ordinance, 2001
514. The Government may refer the case to the relevant authorities as deemed appropriate.

#### Loans to Growers by JDW:

515. The JDW Team scrutinized the record of sugar cane procured for the crushing season and identified that at the time of payment of the sugarcane, certain deductions are made from the payments. The Team analyzed these deductions and it transpired that around Rs. 601 million were recovered from growers on account of fertilizer and pesticides provided to the growers by the Unit at the beginning of the sowing season. **However, the Team found from the interviews of the growers that these deductions included an interest portion in addition to the actual price of the fertilizer and pesticides. Further, the interest rate varied from 20-30% per annum.** It is also to pertinent to mention here that the Company made formal agreements on paper with the growers, along with the signature from the guarantors, to pay back these loans on interest. It is pertinent to mention that as per memorandum of the Company, the Company is not allowed to

engage in the business of lending and financing as the Company has not obtained the requisite licenses from the regulatory authorities.

#### Recommendations

516. The offences fall under the purview of;
- i. Banking Companies Ordinance, 1962
  - ii. Companies Act, 2017
  - iii. Income Tax Ordinance, 2001
517. The Government may refer the case to the relevant authorities as deemed appropriate.

#### Lending to Sugarcane Growers Al-Moiz:

518. It has also been observed that the Company is extending loans to growers on account of facilitation and charging a mark-up against the extended facility which is contrary to the objective of facility and business clauses of Company. The Company has extended a loan facility to the growers against the facilitation towards seeds and fertilizers. Details are as under:

Table 47

S. No.	SEASON	LOAN AMOUNT Rs.	MARK-UP AMOUNT Rs.	TOTAL AMOUNT Rs.	AMOUNT RECEIVED Rs.
1	2017-2018	371,554,814	40,494,931	412,049,745	411,825,977
2	2018-2019	248,070,938	20,366,748	268,437,686	268,074,714
3	2019-2020	259,500,889	22,404,021	281,904,910	269,929,931
<b>TOTAL</b>		<b>879,126,641</b>	<b>83,265,700</b>	<b>962,392,341</b>	<b>949,830,622</b>

#### Recommendations

519. The offences fall under the purview of;
- i. Banking Companies Ordinance, 1962
  - ii. Companies Act, 2017
  - iii. Income Tax Ordinance, 2001
520. The Government may refer the case to the relevant authorities as deemed appropriate.

#### Findings:

521. During forensic audit, it was found that some mills were involved in illegal practice of providing interest-based loans to the growers in terms of cash and/ or kind which they cannot do without having license for the same. The sugar mills are also charging interest on such loans which is adjusted at the time of procurement of sugarcane. Further in many cases, the payment of



sugarcane is made by the sugar mills in form of refined sugar and that too, is given to the growers on higher than the ex-mill prices.

522. Since the growers are dependent on these sugar mills for sale of their produce, they are exploited by the sugar mills in sugarcane procurement, higher interest rates on loans and delayed repayment of their dues which is abuse of dominant position of sugar mills.

### Recommendation

523. The Federal Government, in consultation with the Provincial Governments, may look into formulating an effective mechanism of providing low-cost loans to the farmers for procuring agricultural inputs.

### Illegal Enhancement in Crushing Capacity

524. The notification No. AEA-III-3-5/2003 (Vol-III) dated 6th December, 2006 issued by the Secretary of Industries Department, Government of the Punjab, bans the enlargement of capacity through an amendment in Section 3 of the Punjab Industries (Control on Establishment & Enlargement) Act, 1963 (Punjab Industries Act), the amendment is reproduced hereunder:  
For Clause 3, the following shall be substituted: *"No new sugar Mills shall be set up and no enlargement in capacity of the existing Sugar Mills is allowed in the Province"*

### Illegal Enhancement of Crushing Capacity Hunza Sugar Mills

525. Hunza Sugar Mills has increased crushing capacity in production of Unit II from 6,500 to 10,000 Metric Tons crushing per day/TCD before the start of current crushing season (2019-2020). The Mill has increased its capacity without seeking permission from the Industries Department, Government of Punjab. This fact was verified from the statements of Deputy General Manager – Finance of Unit – II and Senior GM Finance – Head Office.
526. The increase in crushing capacity is evident from the following table; which shows the detail of sugarcane crushing and production of sugar, bagasse and molasses for the last three years.

**Table: 48 – Cane Crushing, by-Products along with Recovery Ratios**

S. No.	PARTICULARS	Season 2017-18	Season 2018-19	Season 2019-20
<b>UNIT – II (Jhang)</b>				
1	Crushing Capacity (TCD)	6,500	6,500	10,000
2	Cane Crushed (M. Tons)	715,818	564,766	823,801
3	Sugar Produced (M. Tons)	61,358	54,680	75,385
4	Sugar Produced (50 Kg Bags)	1,227,175	1,093,600	1,507,700
5	Molasses Produced (M. Tons)	34,400	25,150	36,110
6	Bagasse Produced (M. Tons)	211,709	167,374	248,097
7	Sugar Recovery Ratio	8.572	9.670	9.155
Source: Document duly signed by CFO of Mills				

527. Hunza sugar Mills Unit II has not only illegally enlarged its crushing capacity but also availed input tax credit amounting to Rs. 42.250 million for the years 2017-2018 from the Government, on the purchase of said plant and machinery under section 65B of the Income Tax Ordinance, 2001.

### Recommendation

528. The offences fall under the purview of;
- Companies Act, 2017
  - Income Tax Ordinance, 2001
  - Sugar Factories Control Act, 1950
  - Punjab Industries (Control on Establishment & Enlargement) Act, 1963
529. The Government may refer the case to the relevant authorities as deemed appropriate.

### Illegal Enhancement of Crushing Capacity by JDW

530. An MS Excel sheet (image below, placed at Annex-E) recovered from the 'deleted data' in the laptop of M Jaffar (Manager Accounts) reveals a discrepancy between the crushing capacity declared in the audited financial statements versus the actual crushing capacity achieved during crushing season 2018-19.

	Declared		Actual Crushing Season 2018-19	
	In Latest Accounts Tons/day	In Last Submitted Return Tons/day	Average Crushing Tons/day	5 days Highest Tons/day
<b>JDW Sugar</b>				
JDW Unit I	20,000	20,000	25,307	26,559
JDW Unit II	10,000	10,000	18,881	20,319
JDW Unit III	14,000	14,000	18,786	19,620
	<b>44,000</b>	<b>44,000</b>	<b>62,974</b>	<b>66,498</b>
<b>Daharki Sugar</b>	13,000	13,000	15,963	16,755
	<b>57,000</b>	<b>57,000</b>	<b>78,938</b>	<b>83,253</b>
<b>JK Sugar</b>	6,000	6,000	8,838	10,653
<b>AKT Sugar</b>	8,000	-	17,340	18,474
	<b>71,000</b>	<b>63,000</b>	<b>105,115</b>	<b>112,380</b>

531. Three units of JDW have enhanced & enlarged the crushing capacity of approximately around 19,000 TCDs during the ban on enhancement / enlargement of crushing capacity of Sugar Mills. The Company has also invested Rs. 9.99 Billion during the years 2011, 2014, 2015 and 2016 on addition to Plant and Machinery (accumulated) on enhancement & enlargement of the crushing capacity of three Units of JDW.



### Findings;

532. Despite the complete ban, as per law, on establishment of new sugar mills and capacity enhancement, the sugar mills, prima-facie, have violated the law and enhanced their crushing capacity.
533. Under Section 65B of the ITO-2001, the input tax credit availed by the Mills is, ab-initio, is inadmissible and recoverable.
534. The purpose of ban on establishment of new sugar mills and capacity enhancement was to protect the cotton cultivation area from being taken over by the cultivation of sugarcane. The capacity enhancement is equivalent establishment of a new sugar mill as the figures of JDW show that it has enhanced its capacity by 19,000 TCD, which is almost equivalent to the largest sugar mill of the country.
535. The whole purpose of the ban has been defeated and in fact, has resulted in giving a monopoly to the already existing large sugar producing groups.

### Recommendations;

536. The offences fall under the purview of;
  - i. Companies Act, 2017
  - ii. Income Tax Ordinance, 2001
  - iii. Sugar Factories Control Act, 1950
  - iv. Punjab Industries (Control on Establishment & Enlargement) Act, 1963
537. The Government may refer the case to the relevant authorities as deemed appropriate.
538. It should be checked that whether all the sugar mills have complied with the ban on capacity enhancement and take appropriate legal action in case of violation.

**JDW Sugar Mills Limited's Impairment loss of Rs. 2,584.37 million on Equity Investment of Rs. 3,154.43 million in Faruki Pulp Mills Limited (FPML)**

### Brief of the case dealt in SECP in 2018

539. Faruki Pulp Mills Limited (FPML) recommenced its trial production in 2012 followed by second trial run in 2013, however, both were unsuccessful and thus it remained as a non-operational company since its incorporation in 1991. Due to severely distressed financial and operational position of FPML, even its statutory auditors from 2012 onwards issued modified reports due to existence of material uncertainty casting serious doubt on the ability of FPML to continue as a going concern.
540. However, the board of directors of JDW Sugar Mills, without informing the aforementioned material information to ordinary shareholders of JDW Sugar Mills Limited made a total equity investment of Rs. 3,154.43 million in FPML. Eventually, JDW Sugar Mills Limited recorded an aggregate impairment loss of Rs. 2,584.37 million on this equity investment in FPML, as tabulated below:

**Table- 49 JDW Sugar Mills Limited's Equity Investment in FPML and Impairment Loss (Millions)**

Investment in shares of FPML	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Opening balance	395.5	395.5	560.5	560.5	560.5	560.5	2,044.65	1,649.98	1,233.37	1,233.37	1,233.37
Acquired during the year		165.00				1,484.15		1,109.78			
Share deposit money							1,109.80				
Impairment							394.67	1,526.39			663.31
Closing balance	395.50	560.50	560.50	560.50	560.50	2,044.65	1,649.98	1,233.37	1,233.37	1,233.37	570.06
Total investment in FPML	395.50	560.50	560.50	560.50	560.50	2,044.65	2,044.65	3,154.43	3,154.43	3,154.43	3,154.43
Total Investment in FPML in % Terms	38.397%	47.685%	47.685%	47.685%	47.685%	48.389%	58.588%	57.667%	57.667%	57.667%	57.667%

541. From 2009 onwards, Mr. Jahangir Khan Tareen and his associates interchangeably held major shareholding in FPML amongst different companies under their control. JDW Sugar Mills Limited's equity investment in FPML increased from 38.397% to 57.667%. Meanwhile, Mr. Jahangir Khan Tareen and Mr. Ali Khan Tareen fully liquidated their investments in FPML by the year 2013 and 2016, respectively, as tabulated below: -

**Table- 50, Shareholding by Jahangir Khan Tareen and Associates in FPML (%)**

NAME OF SHAREHOLDERS	Form-A made up to 27-11-2009	Form-A made up to 30-10-2010	Form-A made up to 30-11-2011	Form-A made up to 30-11-2012	Form-A made up to 30-11-2013	Form-A made up to 31-10-2014	Form-A made up to 28-11-2015	Form-A made up to 30-11-2016	Form-A made up to 28-01-2018	Form-A made up to 28-01-2019	Form-A made up to 28-01-2020
Raheel Masud						0.0001%	0.0001%	0.0001%	0.0001%	0.0001%	0.0001%
Ali Khan Tareen	4.524%	21.419%	15.246%	15.246%	15.246%	5.801%	4.516%	4.445%			
Jahangir Khan Tareen			0.0005%	0.0005%	0.0005%						
JDW Sugar Mills Limited	38.397%	47.685%	47.685%	47.685%	47.685%	48.389%	58.588%	57.667%	57.667%	57.667%	57.667%
JK Dairies (Pvt.) Limited							0.656%	0.944%	0.944%	0.944%	0.944%
ATF Mango Farms (Pvt.) Limited								29.518%	33.964%	33.964%	33.964%
Dehark Sugar Mills (Pvt.) Limited								1.237%	1.237%	1.237%	1.237%
JK Farming Systems Limited						36.120%	28.695%				
Ghotki Sugar Mills (Pvt.) Limited	10.472%										
Total Shareholding % in FPML	53.393%	69.104%	62.931%	62.931%	62.931%	90.310%	92.456%	93.811%	93.811%	93.811%	93.811%

### Impairment

542. International Accounting Standard – 36 defines that “an asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as impaired. The entity must reduce the carrying amount of the asset to its recoverable amount and recognize an impairment loss.” Business assets should be tested for impairment when a situation occurs that causes the asset to lose value.

### Observations

543. Mr. Jahangir Khan Tareen and Associates through JDW Sugar Mills Limited made equity investments of Rs. 1,484.15 million and Rs. 1,109.78 million in



2014 and 2016 respectively, despite possessing full knowledge of the fact regarding last trial production failure in 2013. On the contrary, FPML made no fixed capital expenditure to become commercially operational rather started selling its assets.

544. No major event occurred in FPML that could have led to form the basis for JDW Sugar Mills Limited to record impairment loss later than 2014. It clearly shows that recording of impairment loss was delayed until 2016 just to have Rs. 3,154.43 million as equity investment from JDW Sugar Mills Limited in FPML. Thus, JDW Sugar Mills Limited financial statements failed to show true and fair view of the affairs of the company.
545. Moreover, siphoning of JDW Sugar Mills Limited's funds through FPML, actual consideration paid by companies controlled by Mr. Jahangir Khan Tareen and his associates for frequent movement of shares of FPML amongst themselves and parties and the value recovered from selling the assets of FPML for Rs. 193 million during 2009-2019, remains a prime suspicion.
546. It was responsibility of SECP to take cognizance of this irregularity. The matter was put up to the Executive Director (CSD), Mr. Abid Hussain who kept this case undecided for over 7 months without any justification in 2018. No evidence has been found in the record provided by SECP showing existence of any work, analysis or review etc. being carried out by or on his orders during these 7 months. He closed the case on November 29, 2018 citing "the Auditor of JDW Sugar Mills Limited issued unqualified report in this regard and the company charged the impairment in 2016. In view of the above, the note is returned with no further action."

### Conclusion

547. The perusal of this case warrants a full-fledged investigation into the affairs of JDW Sugar Mills Limited and FPML to ascertain true and fair view of state of affairs of companies with focus of collection of all relevant evidence including books of accounts, relevant bank records, share transfer transactions, assets sale transactions etc. This scheme of recording impairment loss wrongfully and causing loss to public appears to have been done intentionally and fraudulently, which entails detailed investigation and legal action against the CEO, Directors and Chief Accountant of JDW Sugar Mills Limited and FPML.
548. The role of this Executive Director (CSD-SECP) named Mr. Abid Hussain in this case is highly objectionable that must be investigated conclusively and independently.

### Recommendations

549. The offences fall under the purview of;
- i. National Accountability Ordinance (NAO) 1999
  - ii. Pakistan Penal Code, 1860
  - iii. Companies Act, 2017

550. The Government may refer the case to the relevant authorities as deemed appropriate.

**Cash withdrawals from JDW bank account by Mr. Amir Waris, Rs. 2.54 billion**

551. The JDW Audit Team reviewed the Cash Transaction reports of the Company as well as interviewed different officials of the Company wherein it transpired that during the period under review i.e. 2017-18, 2018-19 and the current year, an employee of the Company namely Mr. Amir Waris withdrew around Rs. 2,539,700,000 from various bank accounts of the Company. The Team inquired from the management of the Company who attended the inquiry proceedings in this regard.
552. It is pertinent to mention that the Company has submitted a generic statement that these cash withdrawals relate to funding of centralized expenses like statutory payments, utilities, import clearance costs, salaries and wages, entertainment, fuel, minor repair and maintenance and various day to day expenses. However, no specific detail regarding any single cash payment has been provided by the Company.
553. The Team interviewed Aamir Waris, a cashier and rider of the Company, relating to cash withdrawals made by him from Company's bank accounts as well as various cash deposits made by him in the bank accounts of other associated companies and bank accounts of the director's and their families. He was specifically asked about some transactions wherein the amount withdrawn from the Company's bank account was deposited on the same day and the next days in the bank account of an associated company at the same branch at Lahore. Aamir responded that the cash deposited in the owners/associated company bank accounts was taken by him to the branch whereas at the same time the cash withdrawn from the Company's bank account was taken back to the office. He further stated that various safe deposit boxes are present at the Company Office which separately contain cash related to the Company, the Company's associated companies and the company's directors.
554. On a specimen basis, Aamir was asked about the following transaction performed by him at HBL Lahore whereby he withdrew Rs. 30 million from the bank account of the Company and deposited 28,500,000 in the account of JK Dairies (Pvt) Limited:

<b>Table 51</b>			
<b>Transaction Date</b>	<b>Transaction Amount (PKR)</b>	<b>Transaction</b>	<b>Account Title</b>
2018-04-03	30,000,000	Withdrawal	JDW Sugar Mills
2018-04-03	6,500,000	Deposit	JK DAIRIES PVT
2018-04-05	6,500,000	Deposit	JK DAIRIES PVT
2018-04-03	5,800,000	Deposit	JK DAIRIES PVT
2018-04-03	4,200,000	Deposit	JK DAIRIES PVT
2018-04-05	3,500,000	Deposit	JK DAIRIES PVT
2018-04-03	2,000,000	Deposit	JK DAIRIES PVT
	<b>28,500,000</b>		



555. Aamir responded that the cash deposited in JK Dairies belonged to JK Dairies and he brought it from the safe deposit box of JK Dairies and the Rs. 30 million withdrawn from the bank account of the Company was taken back to the office and placed in the safe deposit box of the Company. It was the contention of Company that the safe deposit boxes placed in the Company office all have separate cash, yet when asked whether there was any record kept of deposit or withdrawal from the safe boxes, the reply was in the negative. In other words, the defense taken was not plausible.
556. The Team analyzed the total cash deposits made by Aamir Waris (Rs. 1,299,123,174) during the period under review, a summary of which is presented below:

<b>Table 52</b>	
<b>Account title</b>	<b>Amount Rs.</b>
ATF MANGO FARMS	419,860,000
JK DAIRIES PRIVATE LIMITED	246,625,000
MAKHDOOM SYED AHMED MAHMOOD	197,408,578
ALI KHAN TAREEN	123,629,154
RANA NASEEM AHMAD	79,007,121
JK SUGAR MILLS (PVT)LIMITED	78,500,000
PRINCELY JETS PRIVATE LIMITED	54,500,000
MEHAR KHAN TAREEN	18,117,610
SEHAR KHAN TAREEN	17,791,220
MARIAM TAREEN SETHI	14,581,530
AKT SUGAR MILLS	8,000,000
JAHANGIR KHAN TAREEN	8,000,000
HASAN MUNEEB	5,000,000
SHAUKAT KHANUM	4,249,979
RANA UZAIR NASIM	3,860,926
UNIVERSAL BROTHERS (PVT) LTD	3,532,100
SAJJAD AHMAD FAKHRI	3,505,000
AYN TRADERS	3,090,000
BELAL JABBAR	3,000,000
DEHARKI SUGAR MILLS PVT. LTD	2,850,000
AL-KAREEM INTERNATIONAL TRAVEL	2,000,000
ALSIRAJ WELFARE	2,000,000
	<b>1,299,123,174</b>

### Recommendations

557. The cash transactions are totally inexplicable and warrant further investigation by SECP.

### Loss Rs. 3.6 Billion by JDW on acquisition of JK Farming Systems Ltd. (private company owned by director's family)

558. JK Farming Systems Ltd. (hereinafter JKFSL) was a private company owned by JKT Family. Its corporate farming assets were purchased by JDW on 20th November 2013 after paying an amount of Rs. 2.85 Billion (Cash flow Statements of FY 2013/14). Rs. 1.93 Billion was paid directly by JDW out of its

funds while the remaining amount was paid was JDW after obtaining loans Rs. 923 Million from Bank of Punjab and Faysal Bank (payable till June 2020). This purchase has been disclosed in the annual audited Financial Statement of JDW for the corresponding year.

559. However, prior to this purchase by JDW, assets of the private family-owned business (JKFSL) were revalued upwards by Rs. 1.2 Billion (revealed on examination of an MS Excel Working Sheet recovered by the Forensic Team from the deleted e-mail of Ali Saeed JDW). It seems that an amount of Rs. 1.2 Billion was over-paid and transferred from a public limited company to the director's personal company.
560. Review of the audited annual financial statements of JKFSL after acquisition in 2014 by the JDW reveals that this 'business segment' (JKFSL) suffered a net-loss of Rs. 2.2 Billion, till 30th September 2019.

**Recommendation:**

561. It seems that an amount of Rs. 1.2 Billion was over-paid and transferred from a public limited company to the director's personal company. This transaction needs further investigation by the SECP.

**Extra Rate Charged by JDW & Cash Transfer to Deharki Sugar Mills**

562. The Team came across ledgers of a broker Mr. Abad (confiscated through seizure memo), wherein some sales of JDW Group were recorded to a party (Shahbaz Kamahan) whereas the related sales proceeds were deposited in the Bank Accounts of Deharki Sugar Mills (Private) Limited (a wholly owned subsidiary of the Company). Further, the Team while reviewing the bank statements of the Company found out that huge amounts of cash were transferred to Deharki Sugar Mills while the financial statements of the Company reported a much smaller amount.
563. During the year ended Sep 30, 2018, the Company transferred Rs. 2.7 billion to Deharki Sugar Mills through banking channel, however, the financial statements only reported Rs. 319 million as outflows. Similarly, during the year ended Sep 30, 2019, the Company transferred Rs. 5.4 billion to Deharki Sugar Mills, however, the financial statements only reported Rs. 761 million as outflows to Deharki. This raises serious suspicions as to the nature of funds transfer to Deharki Sugar Mills and whether they relate to excess sales proceeds transferred to a private company of the group. The Team in terms of letter dated April 30, 2020 has inquired from the Company into the nature of these transactions, however, the Company could not provide any justification for these transactions.



As per Audited Accounts			As per Audited Accounts	
30-Sep-19			30-Sep-18	
Nature	Inflows	Outflows	Inflows	Outflows
Short term advances - net	215,156,000	-	1,339,344,000	-
Mark up expense on Short term advances	-	150,293,989	-	41,830,327
Mark up income on short term advances	-	-	7,364,507	-
Sale of sugarcane	906,900,300	-	756,603,452	-
Purchase of bagasse	-	533,070,191	-	276,508,138
Reimbursement on use of aircraft	16,273,107	-	10,154,064	-
Rent on land acquired on lease	8,585,300	-	8,585,300	-
Purchase of property, plant and equipment	-	830,700	-	927,606
Purchase of store, spare parts & loose tools	-	77,010,622	-	-
Sale of stores, spare parts & loose tools	21,096,079	-	-	-
Total as per Audited accounts	1,168,010,786	761,205,502	2,122,051,323	319,266,071
As per Bank Statements for the period	4,006,418,503	5,437,353,637	1,849,514,033	2,702,815,565

### Recommendation

564. The nature of funds transfer to Deharki Sugar Mills and whether they relate to excess sales proceeds transferred to a private company of the group or otherwise, needs to be investigated by the SECP.

### Inexplicable Financial Transactions of Al Arabia Sugar Mills with Associated Companies

565. The bank accounts statements of the mill were reviewed and observed that numerous transactions having value of more than one million were made between the Company and its Associated Company namely Ramzan Sugar Mill through Habib Bank operated by Head Office of Company. During the period from July 2017 to March 2020, the Company received funds amounting to Rs.238,600,000/- in this bank account from Ramzan Sugar Mills whereas in the same period, Company transferred funds amounting to Rs. 519,184,646/- to Ramzan Sugar Mills from the said account. After analyzing the details as provided by the Bank, it is observed that during the three-year period transactions with Ramzan Sugar Mills Limited are as follows:

Table 53

Year	TRANSFERS <i>Rs in million</i>	RECEIPTS OTHER THAN LOAN <i>Rs in million</i>
2017-2018	1,195.28	231.38
2018-2019	120.44	270.75
2019-2020	294.36	153.84
<b>TOTAL</b>	<b>1,610.09</b>	<b>655.97</b>

From the above table for year 2017-2018 the total transfers to Ramzan Sugar Mill is Rs. 1.195 billion, these transactions have not been disclosed in any financial statement of the company although transferred through banking channel.

566. Similarly, the banking transactions of Al-Arabia show that the Company has transferred Rs. 402 million to Sharif Feeds Mills Ltd. and Sharif Dairy Farms Ltd. and received back only Rs. 98 million during the period 2017-2020.

### Recommendation

567. These are suspicious transactions of huge amounts and warrant further inquiry by SECP.

### Inexplicable Financial Transactions of Ali Traders with Alliance Sugar Mills

568. Ali Traders is main broker of the Alliance Sugar Mill. It is found from the Mills' record that that almost 92% of total local sales of Alliance Sugar is done through Ali Traders. However, against total sales during the years 2017-18 to 2019-20, which amounts to Rs.15 billion, through Ali Traders, the Company has received Rs.18.4 billion. The additional payment of Rs. 3.4 Billion is not explainable.
569. During the same period, the record of the Company shows that the Company has paid Rs. 2.25 billion to Ali Traders through Cash Payment Vouchers (CPV). Mr. Asad Hussain, owner of Ali Trader was summoned to appear before the Commission, but he chose not to.
570. The Company was also given an opportunity of hearing on May 10, 2020 before the Commission and was asked to respond on the query related to over receipts from Ali Traders against the sales and payments made to Ali Traders. The response of the Company has not been found plausible.

DESCRIPTION	2017-2018			2018-2019			2019-2020		
	BAGS	VALUE	%	BAGS	VALUE	%	BAGS	VALUE	%
Ali Traders	1,333,400	3,793,790,710	94	2,924,622	8,964,909,074	92	639,080	2,218,276,483	95
Total Sales	1,403,260	4,045,958,648		3,186,800	9,692,160,061		671,460	6,336,406,385	
RECEIPTS FROM ALI TRADERS		6,099,743,323			8,859,341,635			3,488,908,094	
PAYMENTS MADE TO ALI TRADERS		1,868,584,147			380,142,731			-	

**Reference: Alliance Ali Traders General Ledger**

### Recommendations:

571. The additional payments of Rs. 3.4 Billion to the company by Mr. Asad Hussain and the financial transactions of Rs. 2.25 Billion CPV from company to Mr. Asad Hussain are not explainable and therefore need to be investigated in detail.

### Conclusion and Recommendations

572. The following urgent policy-level actions/ corrective measures are indicated:



- i. Protection of sugarcane vs. crop area especially in the light of illegally enhanced crushing capacities of Sugar Mills
- ii. Direct Banking Payments Systems for bona fide cane-growers, not commission-agents
- iii. IR-readable barcode TAG on every sugar-bag produced for transparent documentation of sugar-production and sale/ supply chain trail's off-line/ online-monitoring by FBR
- iv. Mandatory registration of Brokers, Sugar Dealers, Whole-sellers with NTN & STRN linked to their bank accounts with mandatory registration of go-down and automated online inventory management system
- v. Restoration of annual mandatory 3<sup>rd</sup> party cost-audit requirement coupled with onsite and off-site examination/ investigation of all Sugar Mills by SECP over the next three years
- vi. Determination of sucrose-recovery percentage of sugar by PCSIR & NARC for various variety/areas to be published on-line every year before start of crushing and premium-based recovery %age incentives for bona fide farmers
- vii. Online-declaration of constant Ex-Mill price for one year by every Mill through PSMA/ Sugar Advisory Board at the close of annual crushing season, after independent 3<sup>rd</sup> party cost-analysis through Ministry of Finance/ Industries


#### **Acknowledgement and Vote of Thanks**


573. In pursuance of the Notification of the Ministry of Interior no. F.5/14/2020-FIA dated March 16, 2020, the Commission, constituted under the Pakistan Commissions of Inquiry Act, 2017 to probe into the increase in sugar prices, has *Alhamdulillah* completed the task assigned to it as per the TORs and presents, herewith, its Report.
574. The Commission would like to acknowledge and thank the Honorable Prime Minister of Pakistan, Mr. Imran Khan, and the Honorable Cabinet Members for confiding in the abilities of the members of the Sugar Inquiry Commission. It is a matter of great honor and privilege for the Commission to serve the national cause by investigating an issue that has a direct bearing on the people of Pakistan. The Sugar Inquiry Commission reaffirms its commitment and support to the Government of Pakistan and pledges to stand by its findings.
575. In the trying times of the pandemic of COVID-19, acknowledgement is especially due to the valor and relentless efforts of the forensic audit teams, officers and staff of FIA, ISI, ACE Punjab, SECP, FBR, SBP, IB, and AGPR. The

Commission would also like to thank the following who provided invaluable support and assistance in formulation of the Report, namely;

- Mr. Mujahid Akbar, COS, FIA
- Mr. Ijlal Khattak, Director, FBR
- Mr. Malik Tariq Mehmood, Director (Law), FIA
- Mr. Hammad Javed, Additional Director, SECP
- Mr. Tariq Mehmood, Retd. Secretary Govt. of Punjab
- Mr. Khurram Hasan, Additional Joint Director, SECP
- Mr. Qasim Malik, Deputy Director, ACE Punjab
- Mr. Shahid Iqbal, PS to DG FIA
- Syed Arshad Ali Rizvi, PSO to DG FIA

  
(Ahmad Kamal) PSP  
Deputy Director General  
Intelligence Bureau

  
(Muhammad Goner Nafees) PSP  
Director General  
Anti-Corruption Establishment, Punjab

  
(Majid Hussain Chaudhry)  
Joint Director  
State Bank of Pakistan

  
Colonel Muhammad Faisal Gul  
Inter Service Intelligence

  
(Dr. Bashirullah Khan Marwat)  
Director General I&I, IR  
FBR Islamabad

  
(Bilal Rasul)  
Executive Director  
SECP, Islamabad

  
(Wajid Zia) PSP  
Director General  
Federal Investigation Agency  
21/5/2020



## Section 2

576. This Section provides the financial and tax analysis of each company as well as the index of analysis and observation in the TORs.

### **Al-Arabia Sugar Mills Limited**

**Year of Incorporation:** 2016

**Registered Address:** 55-K, Model Town, Lahore.

**Paid up capital:** As per Form-A filed upto 26-1-2018; The Company's paid-up number of shares is 620,000 of Rs. 10 each i.e. Rs. 6.2 million. Also the Company has issued preference shares to financial institutions 24,781,557 of Rs. 10 each amounting to Rs. 247.81 million.

**Principal Business of the Company:** The Company is engaged in the business of *Sugar and Allied*.

**Auditor of the Company:** Kaleem & Company, Chartered Accountants

**Financial Statements:** 2018 and 2019 (unaudited)

#### **MAJOR OBSERVATIONS:**

Sr. No.	MAJOR OBSERVATIONS:	TOR No.	Para No.
1.	Fixed Assets: Depreciation cost should not be included in the Cost of Production	E	49
2.	Shortage of Sugar Pledged Stock	O	332
3.	Benami Transactions and profits	Q	406-407
4.	Falsification of Accounts and Double/Parallel Record Keeping	S	468-469
5.	Advances from customer	S	480-484
6.	Stock in trade: Under reporting of Sugar Production	S	484

#### **Directors for the years 2018, 2019 and 2020:**

S. No.	Name	Designation
1	Nusrat Shehbaz	Director
2	Suleman Shehbaz Sharif	Director / CEO
3	Muhammad Usman	Director (nominee of Ramzan Sugar)

**Shareholders for the years 2018, 2019 and 2020:**

Sr No	Name of Shareholders	No of Shares
1	Hamza Shehbaz Sharif	155,000
2	Suleman Shehbaz Sharif, Director / CEO	155,000
3	Mrs. Nusrat Shehbaz, Director	1,000
4	Mrs. Zainab Suleman	10,000
5	Ramzan Sugar Mills Limited	269,990
6	Sharif Feed Mills Limited	29,000
7	Muhammad Usman`, Director	10
	<b>TOTAL</b>	<b>620,000</b>

**Preference Shares and Loans:**

The Company has also issued 24.78 million Preference Shares National Bank of Pakistan, Bank of Punjab, Sindh Bank, Summit Bank and MCB Bank as a settlement of markup on privately placed TFCs (for overdue amounts of PPTFC of Abdullah Sugar Mills). Additionally the Company is heavily leveraged from the financing from the Financial Institution thorough long term the short term loans. Breakup of Company's banking loans is as follows:

a) Privately Placed TFCs	Rs. 1,726.34 million
b) Syndicated Term Finance Facility-I for BMR	Rs. 978.50 million;
c) Syndicated Term Finance Facility-II for BMR	Rs. 625 million;
d) Short Term Loans	Rs. 2,038 million

In addition to above, the Company also outstanding loans from its associated company amounting Rs. 885 million from Sharif Feed Mills Limited and Ramzan Sugar Mills Limited. However it has been noted that the loan obtained from banks is for BMR for enhancing the capacity of the Mill from 8000 TCD to 11,000 TCD despite ban imposed by the Government of Punjab since 2006 on the enhancement of the capacity.

**Gross Misstatement:**

The undisclosed sales for 15,400 bags amounts to Rs. 44 million in 2019. According to the Not Reported sales during 2019-20, the amount of sales through different brokers amounted to Rs. 809 million and the remaining sales were made as a adjustment with growers for purchase of cane amounting to Rs. 126 million.

**Key Financial Ratios:**

Profitability Ratios	2018	2019
Gross Profit Margin	2.91%	1.67%
Net Profit Margin	0.17%	-13.24%
EBITDA Margin	2.79%	10.30%



<b>Liquidity Ratio</b>	<b>2018</b>	<b>2019</b>
Current Ratio	1.00	0.41
Acid Test Ratio	0.05	0.01

<b>Leverage Ratios</b>	<b>2018</b>	<b>2019</b>
Debt Ratio	0.69	0.73
Debt to Equity	10.30	(467.77)

<b>Efficiency Ratio</b>	<b>2018</b>	<b>2019</b>
Asset Turnover Ratio	0.12	0.56
Inventory Turnover Ratio	1.03	3.19
Accounts Payable ratio	1.27	0.82

#### **Horizontal and Vertical Analysis:**

Detailed Horizontal and Vertical analysis of Balance Sheet and Profit and Loss Account for the years ended 2018 & 2019 are tabulated as under:-

BALANCE SHEET HORIZONTAL ANALYSIS	2017	2018		2019	
	Rs	Rs	2018 VS 2017 (%age)	Rs	2019 VS 2018 (%age)
<b>SHARE CAPITAL AND RESERVES</b>					
Issued, subscribed & paid-up capital	6,200,000	6,200,000	0%	6,200,000	0%
Share deposit money	329,757,036	329,757,036	0%	329,757,036	0%
Preference shares	247,815,570	301,386,020	22%	301,386,020	0%
Unappropriated loss	(3,316,642)	(27,803,091)	738%	(649,246,590)	2235%
	580,455,964	609,539,965	5%	(11,903,534)	-102%
<b>NON - CURRENT LIABILITIES</b>					
Long term loans	3,201,582,071	2,828,550,382	-12%	2,628,277,087	-7%
Due to associated undertakings - Unsecured	775,583,351	885,849,819	14%	885,849,819	0%
Liabilities against assets subject to finance lease	14,131,677	168,048,211	1089%	164,808,489	-2%
	3,991,297,099	3,882,448,412	-3%	3,678,935,395	-5%
Deferred liabilities	-	14,401,727		14,401,727	
<b>CURRENT LIABILITIES</b>					
Current portion of long term liabilities	3,780,686	365,535,684	9569%	403,885,322	10%
Short term loans		2,032,561,475	-	1,456,240,788	-28%
Trade and other payables	784,092,264	2,075,017,833	165%	1,574,114,871	-24%
Accured Finance cost	-	138,770,581	-	399,380,385	188%
Taxes payable	-	43,773,449	-	58,648,931	34%
Due to associated undertakings	64,599,900	-	-100%	29,101,478	-
	852,472,850	4,655,659,022	446%	3,921,371,775	-16%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,424,225,913</b>	<b>9,162,049,126</b>	<b>69%</b>	<b>7,602,805,363</b>	<b>-17%</b>

BALANCE SHEET HORIZONTAL ANALYSIS	2017	2018		2019	
	Rs	Rs	2018 VS 2017 (%age)	Rs	2019 VS 2018 (%age)
<b>ASSETS</b>					
<b>NON - CURRENT ASSETS</b>					
Property, plant & equipment	3,949,045,216	4,501,604,596	14%	5,982,802,577	33%
Long term deposits	1,888,600	-	-100%	-	0%
Deferred tax asset		-	-	-	0%
	3,950,933,816	4,501,604,596	14%	5,982,802,577	33%
<b>CURRENT ASSETS</b>					
Stores, spares & loose tools	225,987,506	695,533,801	208%	47,941,004	-93%
Stock in trade	-	1,692,195,885	-	1,208,652,359	-29%
Biological assets	2,039,607	5,742,059	182%	11,857,082	106%
Advances, deposits, prepayments & other receivables	1,238,881,401	2,018,694,173	63%	315,469,036	-84%
Due from associated undertakings	-	208,488,813	-	-	-100%
Cash & bank balances	6,383,583	39,789,799	523%	36,083,305	-9%
	1,473,292,097	4,660,444,530	216%	1,620,002,786	-65%
<b>TOTAL ASSETS</b>	<b>5,424,225,913</b>	<b>9,162,049,126</b>	<b>69%</b>	<b>7,602,805,363</b>	<b>-17%</b>



BALANCE SHEET VERTICAL ANALYSIS	2017	2018		2019	
	Rs.	Rs.	%age	Rs.	%age
<b>SHARE CAPITAL AND RESERVES</b>					
Issued, subscribed & paid-up capital	6,200,000	6,200,000	0.1%	6,200,000	0.1%
Share deposit money	329,757,036	329,757,036	4%	329,757,036	4%
Preference shares	247,815,570	301,386,020	3%	301,386,020	4%
Unappropriated loss	(3,316,642)	(27,803,091)	-0.3%	(649,246,590)	-9%
	580,455,964	609,539,965	7%	(11,903,534)	-0.2%
<b>NON - CURRENT LIABILITIES</b>					
Long term loans	3,201,582,071	2,828,550,382	31%	2,628,277,087	35%
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Liabilities against assets subject to finance lease	14,131,677	168,048,211	2%	164,808,489	2%
	3,991,297,099	3,882,448,412	42%	3,678,935,395	48%
Deferred liabilities	-	14,401,727	0.2%	14,401,727	0.2%
<b>CURRENT LIABILITIES</b>					
Current portion of long term liabilities	3,780,686	365,535,684	4%	403,885,322	5%
Short term loans	-	2,032,561,475	22%	1,456,240,788	19%
Trade and other payables	784,092,264	2,075,017,833	23%	1,574,114,871	21%
Accrued Finance cost	-	138,770,581	2%	399,380,385	5%
Taxes payable	-	43,773,449	0.5%	58,648,931	1%
Due to associated undertakings	64,599,900	-	-	29,101,478	0.4%
	852,472,850	4,655,659,022	51%	3,921,371,775	52%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,424,225,913</b>	<b>9,162,049,126</b>	<b>100%</b>	<b>7,602,805,363</b>	<b>100%</b>

BALANCE SHEET VERTICAL ANALYSIS	2017	2018		2019	
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Due from associated undertakings	-	208,488,813	2%	-	-
Cash & bank balances	6,383,583	39,789,799	0.4%	36,083,305	0.5%
	1,473,292,097	4,660,444,530	51%	1,620,002,786	21%
<b>TOTAL ASSETS</b>	<b>5,424,225,913</b>	<b>9,162,049,126</b>	<b>100%</b>	<b>7,602,805,363</b>	<b>100%</b>

PROFIT & LOSS HORIZONTAL ANALYSIS	2017	2018		2019	
	Rs	Rs	2018 VS 2017 (%age)	Rs	2019 VS 2018 (%age)
Sales *	-	893,792,917	100%	4,691,914,447	425%
Cost of sales *	-	867,820,213	100%	4,613,578,184	432%
Gross profit	-	25,972,704	100%	78,336,263	202%
Administrative expenses	3,316,642	13,314,038	301%	70,491,403	429%
Operating (loss)/profit	(3,316,642)	12,658,666	-482%	7,844,860	-38%
Finance cost **	-	439,426,334	100%	570,641,016	30%
	(3,316,642)	(426,767,668)	12767%	(562,796,156)	32%
Other income	-	-	-	1,588	100%
	(3,316,642)	(426,767,668)	12767%	(562,794,568)	32%
Workers' profit participation fund	-	-	-	-	-
Workers' welfare fund	-	-	-	-	-
Loss before Taxation	(3,316,642)	(426,767,668)	12767%	(562,794,568)	32%
Taxation	-	(11,172,411)	100%	(58,648,931)	425%
Profit/Loss after Taxation	(3,316,642)	(437,940,079)	13104%	(621,443,499)	42%

\* amounts for year 2018 for Sales and Cost of Sales were disclosed as TEST RUN and resultant profit is adjusted/ capitalized in the Fixed Assets. For comparison purposes, these are reclassified here

\*\* amount of Finance Cost for year 2018 has been capitalized/adjusted in Fixed Assets. For comparison purposes, this amount is reclassified here.



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	Rs	Rs	2018 VS 2017 (%)	Rs	2019 VS 2018 (%)
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Issued, subscribed & paid-up capital	6,200,000	6,200,000	0%	6,200,000	0%
Share deposit money	329,757,036	329,757,036	0%	329,757,036	0%
Preference shares	247,815,570	301,386,020	22%	301,386,020	0%
Unappropriated loss	(3,316,642)	(27,803,091)	738%	(649,246,590)	2235%
	580,455,964	609,539,965	5%	(11,903,534)	-102%
<b>NON - CURRENT LIABILITIES</b>					
Long term loans	3,201,582,071	2,828,550,382	-12%	2,628,277,087	-7%
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	3,991,297,099	3,882,448,412	-3%	3,678,935,395	-5%
Deferred liabilities	-	14,401,727		14,401,727	
<b>CURRENT LIABILITIES</b>					
Current portion of long term liabilities	3,780,686	365,535,684	9569%	403,885,322	10%
Short term loans		2,032,561,475	-	1,456,240,788	-28%
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Taxes payable	-	43,773,449	-	58,648,931	34%
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BALANCE SHEET HORIZONTAL ANALYSIS	2017	2018		2019	
	Rs	Rs	2018 VS 2017 (%)	Rs	2019 VS 2018 (%)
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Property, plant & equipment	3,949,045,216	4,501,604,596	14%	5,982,802,577	33%
Long term deposits	1,888,600	-	-100%	-	0%
Deferred tax asset		-	-	-	0%
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Cash & bank balances	6,383,583	39,789,799	523%	36,083,305	-9%
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Gross profit	-	25,972,704	3%	78,336,263	2%
Administrative expenses	3,316,642	13,314,038	1%	70,491,403	2%
Operating (loss)/profit	(3,316,642)	12,658,666	1%	7,844,860	0.2%
Finance cost **	-	439,426,334	49%	570,641,016	12%
	(3,316,642)	(426,767,668)	-48%	(562,796,156)	-12%
Other income	-	-	0%	1,588	0.0%
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Workers' welfare fund	-	-	-	-	-
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Taxation	-	(11,172,411)	-1%	(58,648,931)	-1%
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## MAJOR OBSERVATIONS REGARDING TAX:

The financial period from October 17 to September 18, for Income Tax Return pertains to **Tax Year 2019**. In Income Tax Return for the said tax year, the taxpayer declared Accounting profit/Loss to the tune of **Rs. (13,314,038)**. It pertinent to mention that the taxpayer declared huge losses amounting to **Rs. (20,673,354)** after taking into account the admissible expenses i.e. Tax Depreciation / Initial Allowance and others and inadmissible deduction which is allowed under section 20 & 21 of the Ordinance. The detail is as under:

<b>Accounting Profit / (Loss)</b>	<b>(13,314,038)</b>
<b>Inadmissible deductions:</b>	<b>1,807,225</b>
• Add Backs Accounting Depreciation	1,807,225
<b>Admissible Deductions:</b>	<b>9,166,541</b>
• Tax Depreciation / Initial Allowance for Current Year	9,166,541
<b>Income/(Loss) from Business</b>	<b>(20,673,354)</b>

To ascertain the tax liability of the taxpayer, higher of the Normal Income Tax, Minimum Tax and Alternate Corporate tax should be taken into account and then tax credit u/s 65B should be allowed as deduction which reduces the tax liability. The rest of the liability can be set off against the withholding Income tax and advance Income Tax paid (if any) and created the refundable Income tax. The detail is as under:

<b>a) Normal Income Tax</b>	<b>-</b>
<b>b) Turnover / Tax Chargeable u/s 113 @1.25%</b>	<b>11,172,411</b>
<b>c) Accounting Profit / Tax Chargeable u/s 113C @17%</b>	<b>-</b>
<b>Higher of A,B,C (Tax Liability)</b>	<b>11,172,411</b>
<b>Tax Credits / Tax Credit for Non-Equity Investment in Plant and Machinery u/s 65B</b>	<b>-</b>
	<b>11,172,411</b>
<b>Withholding Income Tax</b>	<b>50,547,461</b>
<b>Advance Income tax</b>	<b>14,000,000</b>
<b>Refundable Income Tax</b>	<b>(55,996,559)</b>

## **Findings and Recommendations:**

### **Tax Year 2018**

The taxpayer's company was registered on 09.12.2016 with income tax and for sales tax on 27.12.2016. Being sugar industry, the taxpayer's company follows the special tax year started from 1st October to 30th September.

### **Tax Year 2019**

The taxpayer e-filed return, declaring loss amounting to Rs. (20.673) Million. The return filed was deemed to have been assessed u/s 120(1) of the Income Tax Ordinance, 2001. Assessment record has been examined, which needs alteration as the assessment is erroneous in so far as pre-judicial to the interest of revenue on account of following reasons:

- i. The taxpayer claimed depreciation initial allowance amounting to Rs. 9.166 (M). Since, no business was conducted during the year hence, plant and machinery were also not used for production. Therefore, inadmissible allowance amounting to Rs. 9.166 (M) is required to be probed in terms of section 22 and 23 of the Income Tax Ordinance, 2001.
- ii. As per Note 27 of Financial accounts, Salary wages and other benefits amounting to Rs. 323.961 (M) were shown, which includes an amount of Rs. 13.497 (M) on account of provision of gratuity fund. The taxpayer is not maintaining approved gratuity fund, hence, the provision so claimed is liable to be probed in terms of section 21(e) of the Income Tax Ordinance, 2001.
- iii. The taxpayer has claimed adjustable tax amounting to Rs. 8.943(M) under section 153(1)(a) of the Income Tax Ordinance, 2001, despite the fact that no manufacturing activity took place during the year. Therefore, the tax deductions so claimed falls under the ambit of FTR.
- iv. The taxpayer has claimed charity and donations amounting to Rs. 2.161 (M) as straight deduction in contravention of section 61 of the Income Tax Ordinance, 2001 which states that the tax credit against declaration is allowable subject to fulfillment of the conditions laid down in the said section.



**Alliance Sugar Mills (Private) Limited****Year of Incorporation:** 31<sup>st</sup> May 2011**Registered Address:** 3-B, Nisar Road, Nisar Colony, Lahore Cantt., Lahore**Paid up capital:** Rupees 1,439,000,300/- [143,900,030 ordinary shares of Rs. 10/- each]**Principal Business of the Company:** Sugar and allied.**Auditor of the Company:** Riaz Ahmad & Company, Chartered Accountants**Financial Statements:** 2018 and 2019 (Unaudited)**MAJOR OBSERVATIONS:**

S. No.	Major Observations	TOR No.	Para No.
1.	Shortage of pledged stock	O	336
2.	Benami Sales of Alliance Sugar Mills	Q	401-405
3.	Purchase of Sugarcane below the minimum support price	S	420
4.	Illegal weight deductions by sugar mills to pay less to the farmers (against non-variety sugarcane)	S	447
5.	Effect of high debt/equity ratio on cost of production	S	507

**Directors for the years 2018, 2019 and 2020:**

S.No.	Names of Directors/Chief Executive	Designation
1	Tarik Jawaid	Director /CEO
2	Mrs. Nasreen Fatima	Director
3	Omar Farooq	Director
4	Abdul Shakoor Khan	Director

**Shareholders for the years 2018, 2019 and 2020:**

SR. NO.	Name	Shares
1	Tarik Jawaid, Director /CEO	10
2	Mrs. Nasreen Fatima, Director	1
3	Omar Farooq, Director	9
4	Abdul Shakoor Khan, Director	10
5	RYK Mills Limited	143,900,000

**Key Financial Ratios:**

Ratios	FY 2017-18	FY 2018-19
<b>RETURN ON INVESTMENT:</b>	<b>12%</b>	<b>6%</b>
Net Profit	298,101,483	152,685,687
Total Equity	2,393,598,389	2,544,555,290
<b>LIQUIDITY / CURRENT RATIO:</b>	<b>0.89</b>	<b>0.87</b>
Current Assets	5,968,418,098	4,177,129,745
Current Liabilities	6,732,809,639	4,807,313,837
<b>LONG TERM - LEVERAGE RATIO:</b>	<b>0.30</b>	<b>0.33</b>
Long Term Debt	1,004,788,847	1,256,656,917
Total Equity	2,393,598,389	2,544,555,290
<b>TOTAL DEBT - LEVERAGE RATIO</b>	<b>0.74</b>	<b>0.61</b>
Long Term + Short Term Debt	6,648,506,241	4,044,014,353
Total Equity	2,393,598,389	2,544,555,290
<b>EFFICIENCY RATIO:</b>	<b>3%</b>	<b>2%</b>
Net Profit	298,101,483	152,685,687
Total Assets	10,301,359,046	8,739,267,179

**Horizontal and Vertical Analysis:**

Detailed Horizontal and Vertical analysis of Balance Sheet and Profit and Loss

Account for the years ended 2018 & 2019 are tabulated as under:-

**Horizontal and Vertical Analysis of the Balance Sheet:**

	<i>Rupees in thousands</i>		
	2018	2017	%age change
<b>BALANCE SHEET:</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	4,326,400	4,327,693	-0.03%
Long term security deposits	6,541	3,706	77%
<b>Current Assets</b>			
Stores, spare parts and loose tools	120,249	94,205	28%
Stock-in-trade	3,975,441	3,925,457	1%
Trade debts	17,159	-	0.00%
Other current assets	1,855,569	1,092,111	70%
<b>Total Assets</b>	<b>10,301,359</b>	<b>9,443,171</b>	



Shareholders' Equity	2,393,598	2,097,591	14%
<b>Non-Current Liabilities</b>			
Long term financing	982,786	1,518,001	-35%
Other non-current liabilities	192,165	243,014	-21%
<b>Current Liabilities</b>			
Short term borrowings	5,643,717	4,972,818	13%
Current portion of non-current liabilities	540,106	382,225	41%
Other current liabilities	548,986	229,522	139%
<b>Total Equity and Liabilities</b>	<b>10,301,359</b>	<b>9,443,171</b>	
	<i>(Rupees in thousands)</i>		
	<b>2018</b>	<b>Vertical Analysis</b>	
<b>BALANCE SHEET:</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	4,326,400	42.00%	
Long term security deposits	6,541	0.06%	
<b>Current Assets</b>			
Stores, spare parts and loose tools	120,249	1.17%	
Stock-in-trade	3,975,441	38.59%	
Trade debts	17,159	0.17%	
Other current assets	1,855,569	18.01%	
<b>Total Assets</b>	<b>10,301,359</b>	<b>100%</b>	
Shareholders' Equity	2,393,598	23.24%	
<b>Non-Current Liabilities</b>			
Long term financing	982,786	9.54%	
Other non-current liabilities	192,165	1.87%	
<b>Current Liabilities</b>			
Short term borrowings	5,643,717	54.79%	
Current portion of non-current liabilities	540,106	5.24%	
Other current liabilities	548,986	5.33%	
<b>Total Equity and Liabilities</b>	<b>10,301,359</b>	<b>100%</b>	

### Horizontal and Vertical Analysis of the Profit and Loss Statement:

<b>INCOME STATEMENT:</b>			
Sales	6,609,505	2,522,209	162%
Gross Profit	1,115,002	515,724	116%
EBITDA	1,273,074	814,428	56%
Distribution expenses	85,654	15,735	444%
Administrative expenses	143,292	100,474	43%
Other expenses	14,189	2,772	412%
Financial expenses	724,028	471,146	54%
Other Income	82,183	104,583	-21%
Profit Before Tax	230,022	30,180	662%
Profit After Tax	298,101	108,718	174%

<b>INCOME STATEMENT:</b>			
Sales	6,609,505	100.00%	
Gross Profit	1,115,002	16.87%	
EBITDA	1,273,074	19.26%	
Distribution expenses	85,654	1.30%	
Administrative expenses	143,292	2.17%	
Other expenses	14,189	0.21%	
Financial expenses	724,028	10.95%	
Other Income	82,183	1.24%	
Profit Before Tax	230,022	3.48%	
Profit After Tax	298,101	4.51%	

### Horizontal and Vertical Analysis of the Balance Sheet:

	<i>Rupees in thousands</i>		
	2019	2018	%age change
<b>BALANCE SHEET:</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	4,552,148	4,326,400	5%
Long term security deposits	9,989	6,541	53%
<b>Current Assets</b>			
Stores, spare parts and loose tools	139,146	120,249	16%
Stock-in-trade	2,293,270	3,975,441	-42%
Trade debts	452,108	17,159	2,534%
Other current assets	1,292,605	1,855,569	-30%



<b>Total Assets</b>	<b>8,739,267</b>	<b>10,301,359</b>	
Shareholders' Equity	2,544,555	2,393,598	6%
<b>Non-Current Liabilities</b>			
Long term financing	1,221,304	982,786	24%
Other non-current liabilities	166,094	192,165	-13%
<b>Current Liabilities</b>			
Short term borrowings	2,787,357	5,643,717	-51%
Current portion of non-current liabilities	834,025	540,106	54%
Other current liabilities	1,185,931	548,986	116%
<b>Total Equity and Liabilities</b>	<b>8,739,267</b>	<b>10,301,359</b>	

	<i>(Rupees in thousands)</i>	
	<b>2019</b>	<b>Vertical Analysis</b>
<b>BALANCE SHEET:</b>		
<b>Non-Current Assets</b>		
Property, plant and equipment	4,552,148	52.09%
Long term security deposits	9,989	0.11%
<b>Current Assets</b>		
Stores, spare parts and loose tools	139,146	1.59%
Stock-in-trade	2,293,270	26.24%
Trade debts	452,108	5.17%
Other current assets	1,292,605	14.79%
<b>Total Assets</b>	<b>8,739,267</b>	<b>100%</b>
Shareholders' Equity	2,544,555	29.12%
<b>Non-Current Liabilities</b>		
Long term financing	1,221,304	13.97%
Other non-current liabilities	166,094	1.90%
<b>Current Liabilities</b>		
Short term borrowings	2,787,357	31.89%
Current portion of non-current liabilities	834,025	9.54%
Other current liabilities	1,185,931	13.57%
<b>Total Equity and Liabilities</b>	<b>8,739,267</b>	<b>100%</b>

### Horizontal and Vertical Analysis of the Profit and Loss Statement:

<b>INCOME STATEMENT:</b>			
Sales	9,246,115	6,609,505	40%
Gross Profit	1,557,407	1,115,002	40%
EBITDA	1,486,997	1,273,074	17%
Distribution expenses	32,368	85,654	-62%
Administrative expenses	169,996	143,292	19%
Other expenses	66,031	14,189	365%
Financial expenses	1,058,234	724,028	46%
Other Income	10,700	82,183	-87%
Profit Before Tax	241,479	230,022	5%
Profit After Tax	152,686	298,101	-49%
<b>INCOME STATEMENT:</b>			
Sales	9,246,115	100.00%	
Gross Profit	1,557,407	16.84%	
EBITDA	1,486,997	16.08%	
Distribution expenses	32,368	0.35%	
Administrative expenses	169,996	1.84%	
Other expenses	66,031	0.71%	
Financial expenses	1,058,234	11.45%	
Other Income	10,700	0.12%	
Profit Before Tax	241,479	2.61%	
Profit After Tax	152,686	1.65%	

### MAJOR OBSERVATIONS REGARDING TAX:

#### Analysis of Income Tax Declaration:

Analysis of Income Tax return filed by the company for tax year 2019 show following results:

Tax Years	2019
Special Tax Year/Period	01-OCT-2017 - 30-Sep-2018
Gross Revenue	6,609,504,614
Domestic Sales	3,933,647,235
Export Sales	2,675,857,379
Cost of sales	5,494,502,132
Opening Stock	3,930,982,914
Net Purchases	4,895,143,379
Consumed	4,844,359,714
Direct Expenses	650,142,418
Closing Stock	3,981,766,579
Gross Profit	1,115,002,482



Other Revenues	82,183,280
Share in Taxed AOP	
<b>Management, Administrative, Selling &amp; Financial Expenses ( Incl. Financial Charges)</b>	896,084,415
<b>Profit on Debt ( Financial Charges)</b>	724,027,760
Other Indirect Expenses	
<b>Accounting Profit / (Loss)</b>	<b>230,022,356</b>
<b>Inadmissible deductions:</b>	<b>215,650,052</b>
Add Backs Provision for Obsolete Stocks / Stores /Spares / Fixed Assets	1,622,332
Add Backs u/s 21(i) Provision for Reserves / Funds /Amount carried to Reserves / Funds or Capitalized	25,791,989
Add Backs Tax Gain on Sale of Assets	2,993,614
Other Inadmissible Deductions	2,376,151
Add Backs Accounting Depreciation	182,865,966
<b>Admissible Deductions:</b>	<b>472,209,914</b>
Tax Depreciation / Initial Allowance for Current Year	374,043,551
Other Admissible Deductions	97,197,502
Tax (Loss) on Sale of Assets	968,861
Unabsorbed Tax Depreciation for Previous Years	-
<b>Income/(Loss) from Business</b>	<b>44,541,485</b>

The Income Tax Return for the said tax year show that the company has declared nominal income amounting to Rs. **44,541,485** after taking into account the admissible expenses.

	<b>2017</b>	<b>2018</b>	<b>2019</b>
<u>GP Ratio</u>	17.89%	20.10%	16.87%
Cost of Sales to Sales Ratio	82.11%	79.90%	83.13%
Raw Material to Cost Ratio	88.59%	77.29%	88.17%
Tax Depreciation to Gross Revenue Ratio	8.97%	19.24%	5.66%
Financial Charges to Total Indirect Expenses Ratio	69.51%	81.36%	80.80%

As can be seen above, the financial charges claimed by the company are very huge which indicates its pledging or loan facilities from the banks. The company shows 83.13% cost of sales to sales ratio which is on higher side for tax year 2019. Major part of cost of sales is the purchase of sugar cane which is undocumented and

hence all the companies, including Alliance Sugar Mills has room to manipulate its cost of sales.

Similarly, Alliance Sugar Mills has also availed the tax credits u/s 65 B of Income Tax Ordinance, 2001 and has adjusted all its liability against the same. Therefore, its actual contribution to exchequer in terms of income tax payment is very minimal, as can be seen below:

<b>Tax Liability</b>	<b>49,170,590</b>
Tax Credits / Tax Credit for Non-Equity Investment in Plant and Machinery u/s 65B	55,951,663
	<b>(6,781,073)</b>
<b>Withholding Income Tax</b>	54,245,165
<b>Advance Income tax</b>	15,426,438
<b>Refundable Income Tax</b>	<b>(56,638,111)</b>

#### **Findings and Recommendations:**

Complete audit of income tax affairs is recommended in this case.

It is found from above analysis that the taxpayer is contributing very little to government exchequer. The tax deducted during last five years have been adjusted against tax liability and remaining amount I claimed as refund.

There are excessive cash withdrawals observed in this case. It is recommended that information be sought from all banks regarding second parties details. This will also enable the tax authorities to trace the benami persons involved in sale of sugar.



**Al-Moiz Industries Limited****Year of Incorporation:** 2005**Registered Address:** 2 D-1, Gulberg III, Lahore 54000, Punjab-Pakistan**Paid up capital:**Rs.3,200,000,000**Principal Business of the Company:** Sugar and Allied**Auditor of the Company:** Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants**Financial Statements:** 2018 and 2019**MAJOR OBSERVATIONS:**

S #	MAJOR OBSERVATIONS	TOR No.	Para No.
1.	Benami transactions in the sale of sugar stock	Q	390
2.	Purchase of Sugarcane below the minimum support price	S	420
3.	Fictitious "advances from customers" used for parking differential cane payment amount illegally withheld from growers	S	428 (e)
4.	Concealment of Income Tax by showing reduced profit	S	428 (r)
5.	Profiteering by showing increased cost of production	S	428 (s)
6.	Illegal weight deductions of sugarcane and beet	S	448
7.	Falsification of Accounts and Double/Parallel Record Keeping	S	472

**Directors for the years 2018, 2019 and 2020:**

S. No	Names of Directors/Chief Executive	Designation
1.	Mr. Muhammad Shamim Khan	Chairman/Chief Executive
2.	Mr. Nauman Ahmed Khan	Managing Director
3.	Mr. Adnan Ahmed Khan	Director
4.	Mrs. Qaiser Shamim Khan	Director
5.	Mrs. Farrah Khan	Director
6.	Mr. Muhammad Khan	Director
7.	Mrs. Sarah H. Khan	Director
8.	Mrs. Maria Razvi	Director

**Shareholders for the years 2018, 2019 and 2020:**

S. No	Name of Shareholder	Shares
1	Mr. Muhammad Shamim Khan – Chairman/CEO	125,769,100
2	Mr. Nauman Ahmed Khan – Managing Director	59,424,202
3	Mr. Adnan Ahmed Khan – Director	47,526,662

4	Mrs. QaiserShamim Khan – Director	74,889,787
5	Mrs. Farrah Khan – Director	7,543,149
6	Mr. Muhammad Khan – Director	5,000
7	Mrs. Sarah H. Khan – Director	700
8	Mrs. Maria Razvi – Director	700
9	Mr. Rab Nawaz	4,510,100
10	Mr. Muhammad Ehsan	330,100
11	Abdul Hanif	100
12	Liaqat Ali	100
13	Abdul Rashid Javid	100
14	Muhammad Zaheer	100
15	Gulzar Khan	100
	Total	320,000,000

#### Key Financial Ratios:

Ratios	2018	2019
<b>Return on Investment</b>	1.37%	19.40%
<b>Liquidity Ratios:</b>		
Current Ratio	0.99	0.84
Acid Test	0.34	0.47
<b>Leverage Ratios:</b>		
Debt-to-Equity Ratio (Total Debt/Total Equity)	5.09	3.31
Long-Term Debt Ratio (Long-Term Debt/(Long-Term Debt + Total Equity))	0.66	0.60
Total Debt Ratio (Total Assets - Total Equity)/Total Assets:	0.86	0.80
<b>Efficiency Ratio:</b>		
Inventory Turnover = Cost of Goods Sold/Average Inventory	1.27	5.34
Accounts Receivables Turnover = Revenue/Average Accounts Receivable	11.89	17.00

#### Horizontal and Vertical Analysis:

Detailed Horizontal and Vertical analysis of Balance Sheet and Profit and Loss Account for the years ended 2018 & 2019 are tabulated as under:-

#### Horizontal and Vertical Analysis of the Balance Sheet:

<b>FINANCIAL ANALYSIS</b>	<b>30-Sep-18</b>		<b>30-Sep-17</b>	
	Rs.		Rs.	
Issued, Subscribed and Paid-up Capital	3,200,000,000	13.43%	3,200,000,000	19.05%
Reserves	0		0	
Accumulated Profit / (Loss)	175,706,160	0.74%	816,488,785	4.86%
	3,375,706,160		4,016,488,785	
Long Term Financing - secured	4,344,657,004	18.24%	4,695,000,000	27.95%
Loan from Directors and	2,222,460,000	9.33%	2,155,660,000	12.83%



associates				
Liabilities Against Assets Subject To Finance Lease	20,075,420	0.08%	5,730,266	0.03%
Deferred Liabilities	159,484,363	0.67%	126,409,064	0.75%
Current Liabilities				
Short term Borrowings	9,009,033,087	37.82%	3,148,807,929	18.75%
Trade and other Payable	2,916,072,819	12.24%	1,575,147,712	9.38%
Mark-up Accrued	166,656,961	0.70%	91,861,665	0.55%
Loans from Associates	115,200,000	0.48%	0	0.00%
Current Portion of Long Term Liabilities	1,492,913,206	6.27%	981,206,631	5.84%
	<u>13,699,876,073</u>		<u>5,797,023,937</u>	
TOTAL	<u>23,822,259,020</u>	100%	<u>16,796,312,052</u>	100%
Property Plant & Equipment	9,973,624,387	41.87%	9,618,087,725	57.26%
Intangibles	7,693,913	0.03%	9,792,253	0.06%
Long Term Deposits	8,800,100	0.04%	11,950,935	0.07%
Deferred Tax Assets	312,390,700	1.31%	312,390,700	1.86%
Current Assets				
Stores spares parts & Loose Tools	679,271,562	2.85%	784,972,575	4.67%
Stock in trade	8,872,018,875	37.24%	3,005,131,000	17.89%
Trade debts	992,756,478	4.17%	478,679,815	2.85%
Loans and Advances	831,628,609	3.49%	1,054,810,481	6.28%
Trade Deposits and other Prepayments	792,921,145	3.33%	244,710,210	1.46%
Tax Recoverable or Adjustable	1,292,887,144	5.43%	1,143,800,641	6.81%
Cash & Bank	<u>58,266,107</u>	0.24%	<u>131,985,717</u>	0.79%
	<u>13,519,749,920</u>	56.75%	<u>6,844,090,439</u>	
TOTAL	<u>23,822,259,020</u>	100.00%	<u>16,796,312,052</u>	100.00%

#### Horizontal and Vertical Analysis of the Profit and Loss Statement:

Profit and Loss	For the year ended 30-Sep-18		For the year ended 30-Sep-17	
Net Sales	11,799,054,871	100.00%	12,782,305,484	100.00%
Cost of Goods Sold	<u>(11,231,642,231)</u>	-95.19%	<u>(11,602,224,637)</u>	-90.77%
Gross Profit	567,412,640	4.81%	1,180,080,847	9.23%
Administrative expenses	<u>(241,447,014)</u>	-2.05%	<u>(209,684,519)</u>	-1.64%

Distribution/Selling expenses	<u>(207,881,993)</u>	-1.76%	<u>(94,463,533)</u>	-0.74%
	<u>(449,329,007)</u>	-3.81%	<u>(304,148,052)</u>	-2.38%
<b>Operating profit</b>	<b>118,083,633</b>	1.00%	<b>875,932,795</b>	6.85%
Other Income	18,516,348	0.16%	4,568,825	0.04%
<b>Earning Before Interest and Tax</b>	<b>136,599,981</b>		<b>880,501,620</b>	
Other charges	0	0.00%	<u>(28,804,657)</u>	-0.23%
Financial charges	<u>(775,712,735)</u>	-6.57%	<u>(350,434,818)</u>	-2.74%
	<u>(775,712,735)</u>	-6.57%	<u>(379,239,475)</u>	-2.97%
<b>Profit before taxation</b>	<b>(639,112,754)</b>	-5.42%	<b>501,262,145</b>	3.92%
Taxation	<u>0</u>	0.00%	<u>14,183,358</u>	0.11%
<b>Profit / (Loss) after taxation</b>	<b>(639,112,754)</b>	-5.42%	<b>515,445,503</b>	4.03%
Extraordinary items	<u>0</u>		<u>0</u>	
<b>Net profit</b>	<b>(639,112,754)</b>		<b>515,445,503</b>	
Unappropriated profit b/f	<u>816,488,785</u>		<u>304,910,892</u>	
	177,376,031		820,356,395	
Bonus	0		0	
Dividends	0		0	
	0		0	
Others	<u>(1,669,871)</u>		<u>(3,867,610)</u>	
Unappropriated profit c/f	<u>175,706,160</u>		<u>816,488,785</u>	

#### Horizontal and Vertical Analysis of the Balance Sheet:

<b>FINANCIAL ANALYSIS</b>	<b>30-Sep-19</b>		<b>30-Sep-18</b>	
	Rs.		Rs.	
Issued, Subscribed and Paidup	3,200,000,000	17.31%	3,200,000,000	13.43%
Reserves	0		0	
Accumulated Profit / (Loss)	<u>482,264,419</u>	2.61%	<u>175,706,160</u>	0.74%
	3,682,264,419		3,375,706,160	
Long Term Financing -secured	3,268,980,266	17.69%	4,344,657,004	18.24%



Loan from Directors and	2,237,460,000	12.10%	2,222,460,000	9.33%
Liabilities Against Assets Subject	24,623,678	0.13%	20,075,420	0.08%
Deferred Liabilities	202,016,464	1.09%	159,484,363	0.67%
Current Liabilities				
Short term Borrowings	4,725,335,603	25.56%	9,009,033,087	37.82%
Trade and other Payable	2,098,567,639	11.35%	2,916,072,819	12.24%
Mark-up Accrued	303,061,366	1.64%	166,656,961	0.70%
Loans from Associates	0	0.00%	115,200,000	0.48%
Current Portion of Long Term	1,942,060,187	10.51%	1,492,913,206	6.27%
	<u>9,069,024,795</u>		<u>13,699,876,073</u>	
TOTAL	<u>18,484,369,622</u>	100%	<u>23,822,259,020</u>	100%
Property Plant & Equipment	10,616,915,752	57.44%	9,973,624,387	41.87%
Intangibles	5,595,573	0.03%	7,693,913	0.03%
Long Term Deposits	6,773,550	0.04%	8,800,100	0.04%
Deferred Tax Assets	243,111,602	1.32%	312,390,700	1.31%
Current Assets				
Stores spares parts & Loose	789,430,740	4.27%	679,271,562	2.85%
Stock in trade	3,321,200,646	17.97%	8,872,018,875	37.24%
Trade debts	1,185,004,827	6.41%	992,756,478	4.17%
Loans and Advances	670,908,943	3.63%	831,628,609	3.49%
Trade Deposits and other	283,792,205	1.54%	792,921,145	3.33%
Tax Recoverable or Adjustable	1,061,582,690	5.74%	1,292,887,144	5.43%
Cash & Bank	<u>300,053,094</u>	1.62%	<u>58,266,107</u>	0.24%
	<u>7,611,973,145</u>	41.18%	<u>13,519,749,920</u>	56.75%
TOTAL	<u>18,484,369,622</u>	100.00%	<u>23,822,259,020</u>	100.00%

#### Horizontal and Vertical Analysis of the Profit and Loss Statement:

<b>PROFIT AND LOSS ACCOUNT</b>	<b>For the year ended 30-Sep-19</b>		<b>For the year ended 30-Sep-18</b>	
Net Sales	20,150,526,633	100.00%	11,799,054,871	100.00%
Cost of Goods Sold	<u>(17,723,690,101)</u>	-87.96%	<u>(11,231,642,231)</u>	-95.19%
Gross Profit	2,426,836,532	12.04%	567,412,640	4.81%
Administrative expenses	<u>(346,585,741)</u>	-1.72%	<u>(241,447,014)</u>	-2.05%
Distribution/Selling expenses	<u>(362,334,532)</u>	-1.80%	<u>(207,881,993)</u>	-1.76%

	(708,920,273)	-3.52%	(449,329,007)	-3.81%
<b>Operating profit</b>	<b>1,717,916,259</b>	<b>8.53%</b>	<b>118,083,633</b>	<b>1.00%</b>
Other Income	64,749,736	0.32%	18,516,348	0.16%
<b>Earning Before Interest and Tax</b>	<b>1,782,665,995</b>		<b>136,599,981</b>	
Other charges	(20,121,134)	-0.10%	0	0.00%
Financial charges	(1,380,243,315)	-6.85%	(775,712,735)	-6.57%
	(1,400,364,449)	-6.95%	(775,712,735)	-6.57%
<b>Profit before taxation</b>	<b>382,301,546</b>	<b>1.90%</b>	<b>(639,112,754)</b>	<b>-5.42%</b>
Taxation	(71,153,713)	-0.35%	0	0.00%
<b>Profit / (Loss) after taxation</b>	<b>311,147,833</b>	<b>1.54%</b>	<b>(639,112,754)</b>	<b>-5.42%</b>
Extraordinary items	0		0	
Net profit	311,147,833		(639,112,754)	
Unappropriated profit b/f	175,706,160		816,488,785	
	486,853,993		177,376,031	
Bonus	0		0	
Dividends	0		0	
	0		0	
Others	(4,589,574)		(1,669,871)	
Unappropriated profit c/f	482,264,419		175,706,160	

#### MAJOR OBSERVATIONS REGARDING TAX:

Analysis of Income Tax return:

Summary of tax declarations filed for tax year 2019 is as under:

Tax Year	2019
Special Tax Year/Period	01-Oct-2017 - 30-Sep-2018
<b>Gross Revenue</b>	<b>11,799,054,871</b>
Domestic Sales	10,818,328,199
Export Sales	980,726,672
<b>Cost of sales</b>	<b>11,230,531,683</b>
Opening Stock	2,717,363,465
Net Purchases	14,315,468,943
Consumed	8,543,047,337



Direct Expenses	2,687,484,346
Closing Stock	8,489,785,071
<b>Gross Profit</b>	<b>568,523,188</b>
Other Revenues	17,405,800
<b>Management, Administrative, Selling &amp; Financial Expenses ( Incl. Financial Charges)</b>	<b>1,225,041,742</b>
<b>Profit on Debt ( Financial Charges)</b>	<b>775,712,735</b>
Other Indirect Expenses	
<b>Accounting Profit / (Loss)</b>	<b>(639,112,754)</b>
<b>Inadmissible deductions:</b>	<b>683,241,723</b>
Add Backs u/s 28(1)(b) Lease Rental not admissible	1,123,190
Add Backs Tax Gain on Sale of Assets	4,077,801
Other Inadmissible Deductions	39,277,177
Add Backs Accounting Amortization	-
Add Backs Accounting Depreciation	638,763,555
<b>Admissible Deductions:</b>	<b>4,646,657,927</b>
Accounting Gain on Sale of Assets	3,211,287
Tax Amortization for Current Year	
Tax Depreciation / Initial Allowance for Current Year	992,547,508
Other Admissible Deductions	299,187,880
Tax (Loss) on Sale of Assets	-
Unabsorbed Tax Depreciation for Previous Years	3,351,711,252
<b>Income/(Loss) from Business</b>	<b>(4,602,528,958)</b>

The above shows that the company has declared huge losses amounting to **Rs. (4,602,528,958)** after taking into account the admissible expenses for tax year 2019. On the basis of above, different ratios have been worked out for the company as under:

	2017	2018	2019
<u>GP Ratio</u>	11.84%	9.23%	4.82%
Cost of Sales to Sales Ratio	88.16%	90.77%	95.18%
Raw Material to Cost Ratio	84.71%	82.76%	76.07%
Tax Depreciation to Gross Revenue Ratio	12.65%	10.82%	21.36%
Financial Charges to Total Indirect Expenses Ratio	61.96%	51.46%	63.32%

The trend seen in the above analysis is similar to the JDW Sugar Mills as here the company is showing reduced GP ratio for tax year 2019 and has increased its

cost of sales. Financial charges/ Interest paid has also increased as compared to previous years. Further, the company has adjusted all the tax liability against the tax credit u/s 65B which resulted in Nil tax payment. However, the taxes withheld at source are the only payments by the company and that too have been claimed as refund, being over and above its tax liability. The detail is as under:

Tax Liability	131,844,232
Tax Credits / Tax Credit for Non-Equity Investment in Plant and Machinery u/s 65B	355,265,446
	(223,421,214)
Withholding Income Tax	279,662,606
Refundable Income Tax	(279,662,606)

The company has availed huge refunds of income tax, to the tune of Rs. 781 million in previous five years. However, no refunds have been issued for tax year 2019.

From taxation point of view, the company has declared advances from customer of Rs. 1,063,079,836 in the year 2018 and Rs. 2, 248,574,231 in the year 2019. The taxpayer was required to discharge sales tax liability on these advances; however, it remained failed to do so.

#### **Findings and Recommendations:**

In this case, compete audit of last five tax years is recommended as the company has claimed huge tax credits over the years. In tax year 2019, it has set off its full tax liability against tax credits, rather un adjusted credit amount is carried forward to next year. Complete details of plant and machinery installed in the mill(s) must be examined during audit, in addition to physical verification of the machinery on the spot.

The company also shows increasing trends in export of sugar; which indicates that the company delays its sales of sugar till the time exports are allowed and thus, avoids payments of sales tax.

The company has availed refund of income tax withheld from it during previous tax years and has claimed refund for tax year 2019 as well. Its contribution in terms of tax contribution is very minimal for all the previous tax years.

It is also recommended that audit of withholding taxes may be conducted to see whether the company is discharging its liability as withholding agent or not, along with identifying its unregistered buyers and potential revenue loss.



**Hamza Sugar Mills Limited****Registered Address:** A/22, S.I.T.E Mauripur Road, Karachi**Paid up capital:** Rs. 748,800,000**Principal Business of the Company:** The Company is engaged in production of sugar.**Auditor of the Company:** Ibrahim, Shaikh & Co., Chartered Accountants**Financial Statements:** 2018 and 2019 (Unaudited)**MAJOR OBSERVATIONS:**

Sr. No.	Major Observation	TOR No.	Para No.
1.	Benami Transactions and profits	Q	395-400
2.	Illegal weight deductions by sugar mills to pay less to the farmers	S	457
3.	Use of unlicensed oracle database by the company management	S	491
4.	<i>Off the book sugarcane purchases and sugar Production concealed sugarcane</i>	S	495

**Directors for the years 2018, 2019 and 2020:**

S No	Name	Designation
1	Mr. Riaz Ahmed	Director/Chairman
2	Mr. Muhammad Tayyab	Director/CEO
3	Mr. Naveed Riaz	Director
4	Mr. Muhammad Ahmed	Director
5	Mr. Zulfiqar Ahmed	Director
6	Mr. Muhammad Tariq	Director
7	Mr. Muhammad Tahir	Director

**Shareholders for the years 2018, 2019 and 2020:**

S No	Name	Designation
1	Riaz Ahmed, Director/ Chairman	1,261,000
2	Muhammad Ahmed, Director	9,347,857
3	Zulfiqar Ahmed, Director	5,266,253
4	Naveed Riaz, Director	6,193,572
5	Nisar Ahmed	12,143
6	Khalid Riaz	5,999,175
7	Mian Muhammad Tayyab, Director/CEO	19,450,827
8	Mian Muhammad Tahir, Director	8,551,272
9	Mian Muhammad Tariq, Director	8,563,873
10	Mst Yasmin Bano	41,021
11	Mst. Ambrin	4,1021
12	Mst. Bushra Rafique	5,700
13	Mst. Sarfaraz Begum	417,662
14	Mst. Sajida Rafique	41,021

15	Mst. FaryalGohar	41,508
16	Mrs. Amina Tayyab	9,,455,365
17	Mrs. Saba Tariq	95,365
18	Mrs. Hina Tahir	95,365
Total		74,880,000

#### Key Financial Ratios:

Ratios	2018	2019
Gross profit percentage	5.42%	10.36%
Net profit percentage	0.05%	3.55%
Current ratio	124%	78%
Debt ratio	33%	0%
Debt to equity ratio	137%	0%

#### Horizontal and Vertical Analysis:

Detailed Horizontal and Vertical analysis of Balance Sheet and Profit and Loss

Account for the years ended 2018 & 2019 are tabulated as under:-

#### Horizontal and Vertical Analysis of the Balance Sheet: 2018

	2018		2017		increase %
<b>Non-Current Assets</b>					
property plant and equipment	49%	7,512,469,364	77%	7,197,689,647	4%
Capital Work in progress	1%	87,103,234	4%	359,376,157	-76%
Long term deposit	0%	226,730	0%	226,730	0%
Total Non-Current Assets	50%	7,599,799,328	80%	7,557,292,534	1%
<b>Current Assets</b>					
Stores, Spare parts and losse tools	5%	735,830,519	7%	652,194,547	13%
Stock in trade	31%	4,727,424,927	0%	12,944,588	36420%
Trade debts	6%	933,139,725	3%	247,547,668	277%
Advances deposits and prepayments	3%	409,714,235	1%	111,943,057	266%
Advance Income Tax	5%	828,889,651	8%	728,178,793	14%
Cash and bank balance	0%	18,575,543	1%	91,997,946	-80%
Total Current Assets	50%	7,653,574,600	20%	1,844,806,599	315%



<b>Total Assets</b>	100%	15,253,373,928	100%	9,402,099,133	62%
Share Capital and Reserve					
Issued, Subscribed and paid up capital	5%	748,800,000	8%	748,800,000	0%
Surplus on revaluation of fixed assets	0%	60,944,396	1%	91,416,592	-33%
Reserves	19%	2,881,920,186	30%	2,843,942,039	1%
Total share capital and reserve	24%	3,691,664,582	39%	3,684,158,631	0%
<b>Non Current Liabilities</b>					
Long term loans from directors	22%	3,371,310,882	40%	3,772,495,092	-11%
long term loans from others	11%	1,643,276,925	7%	643,276,925	155%
Deferred Taxation	2%	363,307,591	3%	308,537,212	18%
<b>Total Non Current Liabilities</b>	35%	5,377,895,398	50%	4,724,309,229	14%
<b>Current Liabilities</b>					
short term borrowing	33%	5,072,948,877	0%	-	
Trade and other payables	3%	397,717,082	4%	392,900,104	1%
Markup accrued on loan	1%	119,384,377	0%	22,711,838	426%
provision on taxation	4%	593,763,612	6%	578,019,331	3%
<b>Total current liabilities</b>	41%	6,183,813,948	11%	993,631,273	522%
<b>Total liabilities and reserves</b>	100%	15,253,373,928	100%	9,402,099,133	62%

#### Horizontal and Vertical Analysis of the Profit and Loss Statement: 2018

	2018		2017		Increase %
Sales	100%	14,435,162,525	100%	20,677,459,668	-30%
Cost of sales	94.58%	13,653,408,826	94.27%	19,492,937,236	-30%
Gross Profit	5.42%	781,753,699	5.73%	1,184,522,432	-34%
Administrative	3.88%	560,438,172	2.88%	594,550,545	-6%

expenses					
Distribution cost	0.40%	58,389,320	0.06%	11,500,848	408%
other operating expenses	0.00%	650,209	0.17%	34,896,982	-98%
other operating income	-0.03%	(4,330,084)	-0.17%	(34,922,091)	-88%
Total operating expenses	4.26%	615,147,617	2.93%	606,026,284	2%
Operating profit	1.15%	166,606,082	2.80%	578,496,148	-71%
Finance cost	1.09%	157,832,962	0.52%	107,639,767	47%
Profit before taxation	0.06%	8,773,120	2.28%	470,856,381	-98%
Taxation	0.01%	1,267,169	0.18%	38,145,137	-97%
Profit after taxation	0.05%	7,505,951	2.09%	432,711,244	-98%
Earning per share	0.00%	0.10	0.00%	5.78	

#### Horizontal and Vertical Analysis of the Balance Sheet: 2019

	2019		2018		% increase
Non-Current Assets					
property plant and equipment	57%	8,037,647,369	49%	7,512,469,364	7%
Capital Work in progress	1%	202,077,885	1%	87,103,234	132%
Long term deposit	0%	226,730	0%	226,730	0%
Total Non-Current Assets	59%	8,239,951,984	50%	7,599,799,328	8%
Current Assets					
Stores, Spare parts and loose tools	6%	777,816,525	5%	735,830,519	6%
Stock in trade	13%	1,846,337,823	31%	4,727,424,927	-61%
Trade debts	5%	758,324,773	6%	933,139,725	-19%
Advances deposits and prepayments	1%	186,018,764	3%	409,714,235	-55%
Advance Income Tax	7%	918,224,774	5%	828,889,651	11%
Cash and bank balance	9%	1,309,219,065	0%	18,575,543	6948%
Total Current Assets	41%	5,795,941,724	50%	7,653,574,600	-24%
Total Assets	100%	14,035,893,708	100%	15,253,373,928	-8%
Share Capital and Reserve					
Issued, Subscribed and paid up capital	5%	748,800,000	5%	748,800,000	0%
Surplus on revaluation	0%	30,472,200	0%	60,944,396	-50%



of fixed assets					
Reserves	25%	3,482,833,577	19%	2,881,920,186	21%
Total share capital and reserve	30%	4,262,105,777	24%	3,691,664,582	15%
Non-Current Liabilities					
Long term loans from directors	34%	4,796,310,882	22%	3,371,310,882	42%
long term loans from others	16%	2,286,076,925	11%	1,643,276,925	39%
Deferred Taxation	3%	365,425,153	2%	363,307,591	1%
Total Non-Current Liabilities	53%	7,447,812,960	35%	5,377,895,398	38%
Current Liabilities					
short term borrowing	0%	-	33%	5,072,948,877	-100%
Advances from customers	5%	768,277,590	0%		
Trade and other payables	6%	862,616,904	3%	397,717,082	117%
Markup accrued on loan	0%	25,055,415	1%	119,384,377	-79%
provision on taxation	5%	670,025,062	4%	593,763,612	13%
Total current liabilities	17%	2,325,974,971	41%	6,183,813,948	-62%
Total liabilities and reserves	100%	14,035,893,708	100%	15,253,373,928	-8%

#### Horizontal and Vertical Analysis of the Profit and Loss Statement: 2019

	2019		2018		Increase %
<b>Sales</b>	100%	16,016,551,393	100%	14,435,162,525	11%
Cost of sales	89.64%	14,358,001,925	94.58%	13,653,408,826	5%
<b>Gross Profit</b>	10.36%	1,658,549,468	5.42%	781,753,699	112%
Administrative expenses	3.52%	564,576,864	3.88%	560,438,172	1%
Distribution cost	0.30%	47,614,173	0.40%	58,389,320	-18%
other operating expenses	0.33%	52,703,329	0.00%	650,209	8006%
other operating income	-0.04%	(6,013,281)	-0.03%	(4,330,084)	39%
<b>Total operating expenses</b>	4.11%	658,881,085	4.26%	615,147,617	7%
<b>Operating profit</b>	6.24%	999,668,383	1.15%	166,606,082	500%
Finance cost	1.80%	288,555,355	1.09%	157,832,962	83%
<b>Profit before taxation</b>	4.44%	711,113,028	0.06%	8,773,120	8006%
Taxation	0.89%	142,300,844	0.01%	1,267,169	11130%
<b>Profit after taxation</b>	3.55%	568,812,184	0.05%	7,505,951	7478%
Earnings per share		7.16		0.10	

**MAJOR OBSERVATIONS REGARDING TAX:****Analysis of Income Tax Returns:**

Below is the summary of the tax return of the year 2019:

<b>Tax Years</b>	<b>2019</b>
<b>Special Tax Year/Period</b>	<b>01-Oct-2017 - 30-Sep-2018</b>
<b>Gross Revenue</b>	<b>12,041,426,229</b>
Domestic Sales	1,270,375,791
Export Sales	10,771,050,438
Cost of sales	11,324,650,671
Opening Stock	3,914,890,230
Net Purchases	8,639,705,389
Consumed	10,256,030,223
Direct Expenses	1,068,620,448
Closing Stock	2,298,565,396
<b>Gross Profit</b>	<b>716,775,558</b>
Other Revenues	410,773,144
Management, Administrative, Selling & Financial Expenses ( Incl. Financial Charges)	1,135,996,701
Profit on Debt ( Financial Charges)	481,475,587
<b>Accounting Profit / (Loss)</b>	<b>(8,447,999)</b>
<b>Inadmissible deductions:</b>	<b>397,507,785</b>
Add Backs u/s 28(1)(b) Lease Rental not admissible	1,187,182
Add Backs Tax Gain on Sale of Assets	
Other Inadmissible Deductions	33,192,866
Add Backs Accounting Amortization	
Add Backs Accounting Depreciation	363,127,737
<b>Admissible Deductions:</b>	<b>2,077,913,814</b>
Accounting Gain on Sale of Assets	222,574
Tax Depreciation / Initial Allowance for Current Year	432,122,423
Other Admissible Deductions	272,779,378
Tax (Loss) on Sale of Asset	232,631
Unabsorbed Tax Depreciation for Previous Years	1,372,556,808
<b>Income/(Loss) from Business</b>	<b>(1,688,854,028)</b>

As far as the income tax declaration of the company is concerned, the Tax Return for tax year 2019, the taxpayer declared Accounting profit to the tune of **Rs. 8,952,163**; however, after taking into account the admissible expenses, it has declared losses amounting to **Rs. (281,681,873)**.



	2017	2018	2019
GP Ratio	7.35%	5.73%	5.42%
Cost of Sales to Sales Ratio	92.65%	94.27%	94.58%
Raw Material to Cost Ratio	92.66%	93.26%	90.59%
Tax Depreciation to Gross Revenue Ratio	4.18%	4.51%	6.50%
Financial Charges to Total Indirect Expenses Ratio	40.28%	14.57%	20.31%

The risk area highlighted from above is its huge cost of sales to percentage as it manifests that the taxpayer has purchased sugar cane at exorbitant price. Similarly, for tax year 2019, the company has declared loan from directors of Rs. 3.8 billion, which is very huge and needs further investigation of the actual transaction between the company and its directors.

The company has adjusted all its tax liability against tax credits u/s 65B of Income Tax Ordinance, 2001 . In this case the claim of tax credits is lower than the tax liability, however, the company has adjusted refund claims of previous year to settle the tax liability. In nutt shell, its actual tax payments are nil. The details are as follows:

Tax Liability	<b>157,488,533</b>
Tax Credits / Tax Credit for Non-Equity Investment in Plant and Machinery u/s 65B	90,474,020
	<b>67,014,513</b>
Refund Adjustment of Other Year(s) against Demand of this Year	50,715,105
<b>Withholding Income Tax</b>	34,660,207
<b>Refundable Income Tax</b>	-

#### Findings and Recommendations:

It is found that the only tax contribution by the company is taxes withheld from it on different transactions. It has adjusted its liability against claim of tax credits and it has also adjusted previous yea refund against liability of tax year 2019. It is recommended that case may be selected for audit. The company has availed refunds of Rs. 440 Million during previous five tax years, however, for tax year 2019, no refunds have been issued.

The company has also availed loan of Rs. 3.8 billion from directors during the period under consideration. Treatment of this loan for taxation purposes needs to be examined by tax authorities.

Further, verification of tax credits is very important in the case to check the claim of installation of plant of machinery against which credit is claimed. Further, audit of withholding taxes is also necessary to see whether the company is fulfilling its liability as withholding agent.

The company makes sales transactions through brokers and whole sellers, therefore, like in other cases, in this case too, data of buyers and brokers needs to be investigated for potential benami transactions and evasion of taxes.



**Hunza Sugar Mills (Pvt.) Limited****Year of Incorporation:** November 13, 2002**Registered Address:** 1-A - New Muslim Town Lahore.**Paid up capital:** 1,770,000,000**Principal Business of the Company:** The Company is engaged in the manufacturing of white refined crystalline sugar, molasses, ethanol fermented from sugarcane molasses and CO2 as by product.**Auditor of the Company:** Amin, Mudassar & Co., Chartered Accountants**Financial Statements:** 2018 and 2019**MAJOR OBSERVATIONS:**

Sr. No.	Major Observations	TOR No.	Para No.
1.	Satta (Imaginary/virtual advance sale)	G	126
2.	Forward contracts, confiscation of Biyanas and its laundering	G	126
3.	Hoarding at Whole sale/Retail level and within sugar mills vis-à-vis stocks of last year	J	162
4.	Benami sale of Hunza Sugar Mills	Q	381-389
5.	Purchase of Sugarcane below the minimum support price	S	420
6.	Illegal enhancement in crushing capacity	S	525-527

**Directors for the years 2018, 2019 and 2020:**

Sr. No	Name	Designation
1	Muhammad Saeed Ch	Director
2	Muhammad WaheedCh	Director/CEO
3	Muhammad IdreesCh	Director

**Shareholders for the years 2018, 2019 and 2020:**

Sr. No	Name	No of Shares
1	Muhammad Saeed Ch, Director	184,600
2	Umer Farooq	215,805
3	Haider Saeed	32,809
4	Muhammad Waheed Ch, Director/CEO	244,857
5	Muhammad IdreesCh, Director	10,323
6	Mrs. Zeba Saeed	124,846
7	Mrs. Naghmana Idrees	108,796
8	Mrs. Nasreen Ch	133,507
9	Muhammad Faizan Ch	284,991
10	Salman Ch	429,466
	TOTAL	1,770,000

**Key Financial Ratios:**

Ratio	2018	2019
<b>Return on Investments</b>	-1.45%	20.55%
<b>Liquidity Ratios</b>		
Current Ratio	0.86	0.89
Acid test ratio	0.46	0.71
<b>Leverage ratio</b>		
Debt to equity ratio	3.11	2.33
Long term debt ratio	0.72	0.53
Total debt ratio	3.58	2.60
<b>Efficiency ratio</b>		
Inventory Turnover	4.49	12.23
Account receivable turnover	8.78	14.38

**Horizontal and Vertical Analysis:**

Detailed Horizontal and Vertical analysis of Balance Sheet and Profit and Loss

Account for the years ended 2018 & 2019 are tabulated as under:-

**Horizontal Analysis of the Balance Sheet:**

LIABILITIES	Increase/ decrease from 2017 to 2018	% up/ down	2018	2017
	-	-	Rs (000)	Rs (000)
<b>Non-Current Liabilities</b>	-	-		
Long Term loan from Related Parties	Loan from individuals were repaid by Mills to some of directors and shareholders and one of director paid loan of 9.5 m to Mills	6.22%	791,872	745,496
Long Term loan from Other		100.00%	0	100,565
Long Term loan from Banks	Running Finance facility obtained from HBL as long term finance	31.49%	965,945	734,604
Liabilities against assets subject to finance lease	Not significant	-2.65%	9,148	9,397
Retirement benefits	Actuarial valuation of Co's gratuity scheme conducted		1,102	0
<b>Current Liabilities</b>				
Trade and other payables	Payments to be made to creditors suppliers of inputs.	88.77%	800,330	423,973
Deposits, accrued liabilities and advances	Decreased in amount is due to reduction of advances from customers	-22.54%	123,676	159,672
Mark up accrued	Not significant	-0.92%	216,029	218,031
Current maturity of long term loan from banks	Loan amount increased due to increase in production in year 2017-18	9.45%	314,120	286,989



Current maturity of liabilities against assets subject to finance lease	Not significant	9.24%	4,113	3,765
Short term borrowing from banking companies	Not significant	-5.81%	5,397,545	5,730,273
Short term borrowing from related parties	Borrowing is taken from Hunza Ghee Industries (Pvt.) Limited (Associated Company)	225.17%	114,186	35,116
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, Plant and Equipment	Increase in due to civil work of building (Addition during the year).	13.60%	4,916,831	4,328,156
Investment Property				
Long term investment				
Long term security deposit	This is Depoist against Ijarah Vehicles		2,311	-
Deffered tax	Not significant	-8.83%	278,663	305,649
<b>Current Assets</b>				
Stock in trade	The decrease is due to Sugar finished goods. Sugar finish goods is decreased Rs.3.50 Billion to Rs. 1.86 Billion this year.	-40.89%	2,523,711	4,269,829
Store, spares and loose tools	Due to nature of items no bifurcation is available in annual accounts	36.55%	286,370	209,719
Trade debts	Not Significant	-1.77%	246,925	251,382
short term investments				
loans and advances	Not Significant	0.22%	797,292	673,094
Receivable from related parties	Funds provided to the associated company to meet their financial needs. Hunza Power (Pvt.) Limited installed machinery for generation of electricity through bagasse, however, it could not be operational due to tariff issues.		201,468	122,467
Trade deposits and short term repayments	Amount increased due to Advance income tax / Sales tax refundable	32.66%	734,316	553,543
Markup receivable		0.00%	2,700	2,700
other receivables	Increase is due to sugar export subsidy receivable around Rs. 894 million	463.17%	1,166,629	207,153

Cash and bank balances	Increase is due to increase of cash in bank accounts of the Company	809.92%	23,849	2,621
Depreciation Charge; Allocation				
Cost of sales	Not Significant	-4.99%	347,507	365,754
Administrative expenses	Increase due to increase in salaries and vehicle, repair, running and maintenance	-16.92%	15,620	18,802
		-5.57%	363,127	384,556

#### Horizontal Analysis of the Profit and Loss Statement:

	Increase/ decrease from 2017 to 2018	% up/ down	2018 <u>Rs'000</u>	2017 <u>Rs'000</u>
Sales	Bumper crop in 2017, production in 2018 increased and Mill exported sugar 88% of its stock.	36%	12,041,426	8,866,380
Cost of Sales	Like-wise, cost of sugarcane also increased	45%	11,324,650	7,819,417
<b>Gross Profit / (Loss)</b>		-32%	716,776	1,046,963
Selling and Distribution	Godown and export expenses increased	84%	393,218	213,365
Admin and General Exp	no significant increase observed	1%	261,302	258,439
<b>Operating Profit / (Loss)</b>		-89%	62,256	575,159
Other Operating Income	Biyana confiscated by the Mills, exchange gain and income due to unwinding of loan.	292%	410,773	104,869
Financial Cost	Due to increase in short term borrowings from financial institutions	27%	481,476	378,198
<b>Profit / (Loss) before tax</b>	Due to export and finance cost expenses, the Mills was in loss	-103%	(8,447)	301,830
Tax	Majority of local sales made to unregistered buyers	732%	26,986	3,245
<b>Profit / (Loss) after tax</b>		-112%	(35,433)	298,585



## Vertical Analysis of the Balance Sheet:

LIABILITIES	2018		2017	
<b>Non Current Liabilities</b>				
Long Term from Related Parties	791,872	9.06%	745,496	8.82%
Long Term from Other	0	0.00%	100,565	1.19%
Long Term from Banks	965,945	11.05%	734,604	8.70%
Liabilities agaisnt assets subject to finance leas	9,148	0.10%	9,397	0.11%
Retirement benefits	1,102	0.01%	0	0.00%
	<b>1,768,067</b>	<b>20.23%</b>	<b>1,590,062</b>	<b>18.82%</b>
<b>Current Liabilites</b>				
Trade and other payables	800,330	9.16%	423,973	5.02%
Deposits, accrued liabilities and advances	123,676	1.42%	159,672	1.89%
Mark up accrued	216,029	2.47%	218,031	2.58%
Current maturity of long term loan from banks	314,120	3.59%	286,989	3.40%
Current maturity of liabilities agaisnt assets sut	4,113	0.05%	3,765	0.04%
Short term borrowing from banking companies	5,397,545	61.77%	5,730,273	67.83%
Short term borrowing from related parties	114,186	1.31%	35,116	0.42%
	<b>6,969,999</b>	<b>80%</b>	<b>6,857,819</b>	<b>81%</b>
<b>Total Liabilities</b>	<b>8,738,066</b>	<b>100%</b>	<b>8,447,881</b>	<b>100%</b>
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, Plant and Equipment	4,916,831	43.97%	4,328,156	39.61%
Investment Property				
Long term investment				
Long term security deposit	2,311	0.02%	-	
Deffered tax	278,663	2.49%	305,649	2.80%
	<b>5,197,805</b>	<b>0</b>	<b>4,633,805</b>	<b>0</b>
<b>Current Assets</b>				
Stock in trade	2,523,711	22.57%	4,269,829	39.08%
Store, spares and loose tools	286,370	2.56%	209,719	1.92%
Trade debts	246,925	2.21%	251,382	2.30%
short term investments				
loans and advances	797,292	7.13%	673,094	6.16%
Receivable from related parties	201,468	1.80%	122,467	1.12%
Trade deposits and short term repayments	734,316	6.57%	553,543	5.07%
Markup receivable	2,700	0.02%	2,700	0.02%
other receivables	1,166,629	10.43%	207,153	1.90%
Cash and bank balances	23,849	0.21%	2,621	0.02%
	<b>5,983,260</b>	<b>54%</b>	<b>6,292,508</b>	<b>58%</b>
<b>Total Assets</b>	<b>11,181,065</b>	<b>100%</b>	<b>10,926,313</b>	<b>100%</b>
<b>Equity</b>	<b>2,442,999</b>		<b>2,478,432</b>	

### Horizontal Analysis of the Balance Sheet:

LIABILITIES	Increase/ decrease from 2018 to 2019	% up/ down	2019	2018
		-	-	-
<b>Non Current Liabilities</b>		-	-	-
Long Term from Related Parties	Increase in loan from individual (Ms. Zeba) with 60 million and 50 million from associated companies	12.89%	893,944	791,872
Long Term from Other				0
Long Term from Banks	Some repayment of long terms loans portions	-23.34%	740,495	965,945
Liabilities agaisnt assets subject to finance lease	Repayment of Finance lease	-41.25%	5,374	9,148
Retirement benefits	Actuarial gain on retirement benefits	198.82%	3,293	1,102
<b>Current Liabilities</b>				
Trade and other payables	Payments to be made to creditors suppliers of inputs and WPPF and WWF liability added as per law.	-40.38%	477,139	800,330
Deposits, accrued liabilities and advances	Advance from customers are from brokers/dealers and the registered buyers of sugar reduced due to export of sugar in foreign market	-46.16%	66,581	123,676
Mark up accrued	Borrowing from financial institutions and related parties increased.	36.51%	294,901	216,029
Current maturity of long term loan from banks		13.12%	355,346	314,120
Current maturity of liabilities agaisnt assets subject to finance lease		-8.19%	3,776	4,113
Short term borrowing from banking companies	Slight repayment of short term borrowings	-4.71%	5,143,238	5,397,545
Short term borrowing from related parties	Reduction in loan from Hunza Ghee	-83.41%	18,943	114,186
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, Plant and Equipment	168 million increased in PPE to increase capacity of Unit-II of Mills	4.65%	5,145,330	4,916,831
Investment Property	Construction made at Unit - II of Mills		2,048	
Long term investment	Sales tax refund bond issued by FBR		2,462	



Long term security deposit	Deposit made to Bank for Ijarah Rentals	5.02%	2,427	2,311
Deferred tax	Tax credit u/s 65B was not availed	-9.43%	252,376	278,663
<b>Current Assets</b>				
Stock in trade	As last years' stock was sold locally and export this year and less inventory available.	-65.67%	866,343	2,523,711
Store, spares and loose tools	no significant increase observed	2.60%	293,826	286,370
Trade debts		127.34%	561,368	246,925
short term investments	Based on last years' profit, investment in TFC and Sukuk made		459,740	
loans and advances	Advance extended to Sugar Mills to provide Molasses to Hunza for its distillery	141.46%	1,925,170	797,292
Receivable from related parties	Funds provided to the associated companies to meet their financial needs. Hunza Power (Pvt.) Limited installed machinery for generation of electricity through bagasse, however, it could not be operational due to tariff issues with NEPRA. Upon operational, the said amount shall be paid-off. Swera Traders (Pvt.) Limited engaged in the trading of ghee in the market.	95.33%	393,530	201,468
Trade deposits and short term repayments	Sales tax refunds bond matured	-7.84%	676,752	734,316
Markup receivable	Outstanding from TFCs	140.74%	6,500	2,700
other receivables	Due to less export, receivable on sugar export subsidy decreased	-59.22%	475,772	1,166,629
Cash and bank balances	Outstanding balance in cash and bank	-50.72%	11,752	23,849
<b>Depreciation Charge; Allocation</b>				
Cost of sales	Not Significant	-4.13%	333,145	347,507
Administrative expenses		13.77%	17,771	15,620
		-3.36%	350,916	363,127

### Horizontal Analysis of the Profit and Loss Statement:

	Increase/ decrease from 2018 to 2019	% up/ down	2019	2018
			<u>Rs'000</u>	<u>Rs'000</u>
Sales	Sufficient stock was available from 2018, out of which 65% of stock was exported and rest sold in local market.	5%	12,594,091	12,041,426
Cost of Sales	Due to less crushing, cost of sugarcane decreased.	-6%	10,594,333	11,324,650
<b>Gross Profit / (Loss)</b>		179%	<b>1,999,758</b>	<b>716,776</b>
Selling and Distribution	Due to less export and godown expenses	-26%	290,577	393,218
Admin and General Exp	Increase in directors' and staff remuneration, insurance expense and Ijarah rentals	37%	357,675	261,302
<b>Operating Profit / (Loss)</b>		2071%	<b>1,351,506</b>	<b>62,256</b>
Other Operating Income	Biyana confiscated by the Mills and made part of the other income and no entry of unwinding of loans.	-27%	301,342	410,773
Financial Cost	Due to increase in short and long term borrowings from financial institutions	84%	887,074	481,476
<b>Profit / (Loss) before tax</b>	Mainly due to less expenses on export, godown and earning made on the sale of last year's stock	-9166%	<b>765,774</b>	<b>(8,447)</b>
Tax	Tax rate increased from 8% to 17%	398%	134,445	26,986
<b>Profit / (Loss) after tax</b>		-1882%	<b>631,329</b>	<b>(35,433)</b>



## Vertical Analysis of the Balance Sheet:

LIABILITIES	2019		2018	
<b>Non Current Liabilities</b>				
Long Term from Related Parties	893,944	11.17%	791,872	9.06%
Long Term from Other		0.00%	0	0.00%
Long Term from Banks	740,495	9.25%	965,945	11.05%
Liabilities agaisnt assets subject to finance leas	5,374	0.07%	9,148	0.10%
Retirement benefits	3,293	0.04%	1,102	0.01%
	<b>1,643,106</b>	<b>20.53%</b>	<b>1,768,067</b>	<b>20.23%</b>
<b>Current Liabilites</b>				
Trade and other payables	477,139	5.96%	800,330	9.16%
Deposits, accrued liabilities and advances	66,581	0.83%	123,676	1.42%
Mark up accrued	294,901	3.68%	216,029	2.47%
Current maturity of long term loan from banks	355,346	4.44%	314,120	3.59%
Current maturity of liabilities agaisnt assets sut	3,776	0.05%	4,113	0.05%
Short term borrowing from banking companies	5,143,238	64.27%	5,397,545	61.77%
Short term borrowing from related parties	18,943	0.24%	114,186	1.31%
	<b>6,359,924</b>	<b>79%</b>	<b>6,969,999</b>	<b>80%</b>
<b>Total Liabilities</b>	<b>8,003,030</b>	<b>100%</b>	<b>8,738,066</b>	<b>100%</b>
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, Plant andEquipment	5,145,330	46.46%	4,916,831	43.97%
Investment Property	2,048	0.02%		
Long term investment	2,462	0.02%		
Long term security deposit	2,427	0.02%	2,311	0.02%
Deffered tax	252,376	2.28%	278,663	2.49%
	<b>5,404,643</b>	<b>48.80%</b>	<b>5,197,805</b>	<b>0</b>
<b>Current Assets</b>				
Stock in trade	866,343	7.82%	2,523,711	22.57%
Store, spares and loose tools	293,826	2.65%	286,370	2.56%
Trade debts	561,368	5.07%	246,925	2.21%
short term investments	459,740	4.15%		
loans and advances	1,925,170	17.38%	797,292	7.13%
Receivable from related parties	393,530	3.55%	201,468	1.80%
Trade deposits and short term repayments	676,752	6.11%	734,316	6.57%
Markup receivable	6,500	0.06%	2,700	0.02%
other receivables	475,772	4.30%	1,166,629	10.43%
Cash and bank balances	11,752	0.11%	23,849	0.21%
	<b>5,670,753</b>	<b>51%</b>	<b>5,983,260</b>	<b>54%</b>
<b>Total Assets</b>	<b>11,075,396</b>	<b>100%</b>	<b>11,181,065</b>	<b>100%</b>
<b>Equity</b>	<b>3,072,366</b>		<b>2,442,999</b>	

**MAJOR OBSERVATIONS REGARDING TAX:****Analysis of Income Tax Declarations:**

Brief description of the income tax declarations made by the company for tax year 2019 is given below:

<b>Tax Years</b>	<b>2019</b>
<b>Hunza</b>	
<b>Special Tax Year/Period</b>	<b>01-Oct-2017 - 30-Sep-2018</b>
<b>Gross Revenue</b>	<b>12,041,426,229</b>
<b>Domestic Sales</b>	1,270,375,791
<b>Export Sales</b>	10,771,050,438
<b>Cost of sales</b>	<b>11,324,650,671</b>
Opening Stock	3,914,890,230
Net Purchases	8,639,705,389
Consumed	<b>10,256,030,223</b>
Direct Expenses	<b>1,068,620,448</b>
Closing Stock	2,298,565,396
<b>Gross Profit</b>	<b>716,775,558</b>
Other Revenues	410,773,144
<b>Management, Administrative, Selling &amp; Financial Expenses ( Incl. Financial Charges)</b>	1,135,996,701
<b>Profit on Debt ( Financial Charges)</b>	481,475,587
<b>Accounting Profit / (Loss)</b>	<b>(8,447,999)</b>
<b>Inadmissible deductions:</b>	<b>397,507,785</b>
Add Backs u/s 28(1)(b) Lease Rental not admissible	1,187,182
Add Backs Tax Gain on Sale of Assets	
Other Inadmissible Deductions	33,192,866
Add Backs Accounting Amortization	
Add Backs Accounting Depreciation	363,127,737
<b>Admissible Deductions:</b>	<b>2,077,913,814</b>
Accounting Gain on Sale of Assets	222,574
Tax Depreciation / Initial Allowance for Current Year	432,122,423
Other Admissible Deductions	272,779,378
Tax (Loss) on Sale of Asset	232,631
Unabsorbed Tax Depreciation for Previous Years	1,372,556,808
<b>Income/(Loss) from Business</b>	<b>(1,688,854,028)</b>



In Income Tax Return for tax year 2019, the company has declared huge losses amounting to **Rs. (1,688,854,028)** after taking into account the admissible expenses. Further, it can also be seen that despite the fact that sales of taxpayer phenomenally surged in the tax year 2019, from 8.8 billion in 2018 to 11 billion in 2019, the Gross Profit Margin (GPM) of the company reduced from 11.81% in the tax year 2018 to 5.95% in the tax year 2019 as can be seen below in comparison of ratios. This aspect needs further enquiry.

	2017	2018	2019
GP Ratio	6.89%	11.81%	5.95%
<b>Cost of Sales to Sales Ratio</b>	93.11%	88.19%	94.05%
Raw Material to Cost Ratio	87.71%	85.41%	90.56%
Tax Depreciation to Gross Revenue Ratio	5.31%	5.22%	3.59%
Financial Charges to Total Indirect Expenses Ratio	47.76%	44.49%	42.38%

The company has absorbed its tax liability, like other sugar manufacturers, against its credit u/s 65 B of Income Tax Ordinance, 2001 which eliminates its tax liability. The detail is as under:

Tax Liability	<b>15,879,697</b>
Tax Credits / Tax Credit for Non-Equity Investment in Plant and Machinery u/s 65B	153,364,521
	<b>(137,484,824)</b>
Withholding Income Tax	146,488,542
Advance Income Tax	83,557,630
Refundable Income Tax	<b>(230,046,172)</b>

#### Findings and Recommendations:

It is found that the company is not contributing to revenue collection of the government as it sets off its liability against its claim of credits and there is huge claim of tax refund as well. It is also observed that there is irregular pattern of sales as compared to other sugar mills. In tax year 2019, the company has exported almost all of its sugar instead of local sales. This aspect needs to be probed. Further its exports subsidy also needs to be checked from taxation point of view.

Complete audit of the case for last five tax years is required to examine the veracity of its claim of tax credits and other issues.

Withholding audit and investigation of buyers / brokers is also important

**JDW Sugar Mills Limited****Year of Incorporation:** 31-05-1990**Registered Address:** 17 - ABID MAJEED ROAD, LAHORE CANTONMENT, LAHORE**Paid up capital:** Rs. 597,766,610**Principal Business of the Company:** Sugar & Allied**Auditor of the Company:** KPMG Taseer Hadi& Co., Chartered Accountants**Financial Statements:** 2018 and 2019**MAJOR OBSERVATIONS:**

S. No.	MAJOR Observations	TOR No.	Para No.
1.	Market Manipulation through "Satta"	F	102
2.	Market Manipulation through Forward Contracts	F	107
3.	Purchase of sugarcane through unregistered agents	M	287
4.	Shortage of Sugar Pledged Stock	O	337
5.	Benami Transactions by JDW Mills	Q	372
6.	Cash withdrawals from Company's bank account by Mr. Amir Waris – Rs. 2.54 billion	Q	551
7.	Advances from Customers against sale	S	501
8.	Capacity Enhancement despite prohibition	S	530
9.	Extra rates charged by JDW and Cash Transfer to Deharki Sugar Mills	S	562-563

**Directors for the years 2018, 2019 and 2020**

	2020
S#	Name of Directors
1	Raheal Masud
2	Asim Nisar Bajwa
3	Ijaz Ahmed
4	Jahangir Khan Tareen - CEO
5	Mrs. Samira Mahmud
6	Mukhdoom Syed Ahmed Mahmud
7	Qasim Hussain Safdar



**Shareholders:** Major shareholders from 2018-2020 are given below:

Name of Share Holder	2018		2019		2020	
	No. of Share	% age of Share	No. of Share	% age of Share	No. of Share	% age of Share
Jahangir Khan Tareen	12,802,293	21.42%	9,802,293	16.39%	9,802,293	16.39%
Mukhdoom Syed Ahmed Mahmud	15,843,932	26.51%	15,843,932	26.50%	15,843,932	26.50%
Mrs. Samira Mahmud	651,864	1.09%	651,864	1.09%	651,864	1.09%
Ali Khan Tareen	8,136,988	13.61%	11,136,988	18.63%	11,136,988	18.63%
Rana Nasim Ahmed	4,437,381	7.42%	4,437,381	7.42%	4,437,381	7.42%
Mrs. Amina Tareen w/o Jahangir Khan Tareen	2,285,636	3.82%	2,285,636	3.82%	2,285,636	3.82%
	44,158,094	73.85%	44,158,094	73.85%	44,158,094	73.85%
OTHERS	15,618,567	26.15%	15,618,567	26.15%	15,618,567	26.15%
TOTAL SHARES	59,776,661	100.00%	59,776,661	100.00%	59,776,661	100.00%

*\*based on annual audited accounts of 30-09-2018, 30-09-2019, 30-09-2019*

**Key Financial Ratios:**

PARTICULARS	FY2017-18	FY2018-19
<b>RETURN ON INVESTMENT:</b>	<b>-2%</b>	<b>6%</b>
Net Profit	-203,440,515	553,296,423
Total Equity	8,227,486,660	8,772,864,476
<b>LIQUIDITY / CURRENT RATIO:</b>	<b>0.84</b>	<b>0.71</b>
Current Assets	32,617,934,756	23,762,939,730
Current Liabilities	38,984,691,971	33,576,408,072
<b>LONG TERM DEBT- EQUITY RATIO:</b>	<b>1.29</b>	<b>0.67</b>
Long Term Debt	10,601,323,976	5,910,952,329
Total Equity	8,227,486,660	8,772,864,476
<b>TOTAL DEBT - EQUITY RATIO</b>	<b>6.03</b>	<b>4.5</b>
Long Term + Short Term Debt	49,586,015,947	39,487,360,401
Total Equity	8,227,486,660	8,772,864,476
<b>EFFICIENCY RATIO:</b>		
<b>RETURN ON ASSETS</b>	<b>-0.4%</b>	<b>1%</b>
Net Profit	-203,440,515	553,296,423
Total Assets	57,813,502,607	48,260,224,877

**Horizontal and Vertical Analysis:**

Detailed Horizontal and Vertical analysis of Balance Sheet and Profit and Loss Account for the years ended 2018 & 2019 are tabulated as under:-

### Horizontal and Vertical Analysis of the Balance Sheet:

	2018	2017	% Change
	Rupees	Rupees	
<b>Share Capital &amp; Reserves</b>			
Share Capital	597,766,610	597,766,610	0.0%
Share Premium Reserve	678,316,928	678,316,928	0.0%
Accumulated Profit	6,951,403,122	7,343,537,818	-5.3%
	<b>8,227,486,660</b>	<b>8,619,621,356</b>	<b>-4.5%</b>
<b>Non-current Liabilities</b>			
Long Term Finances-Secured	8,785,694,471	9,792,313,674	-10.3%
Liabilities against assets subject to finance lease-Secured	144,677,914	153,047,674	-5.5%
Deferred Taxation	1,617,167,472	1,753,983,783	-7.8%
Retirement Benefits	53,784,119	29,618,756	81.6%
	<b>10,601,323,976</b>	<b>11,728,963,887</b>	<b>-9.6%</b>
<b>Current Liabilities</b>			
Short Term Borrowings	23,553,685,516	10,053,163,155	134.3%
Current Portion of Non-Current Liabilities	4,106,050,113	3,368,757,109	21.9%
Trade and Other Payables	2,618,215,431	1,882,686,700	39.1%
Advances from Customers	8,138,041,881	6,418,358,640	26.8%
Unclaimed dividend	34,072,815	64,248,402	-47.0%
Accrued Profit/Interest/Markup	534,626,215	226,191,820	136.4%
	<b>38,984,691,971</b>	<b>22,013,405,826</b>	<b>77.1%</b>
Contingencies and Commitments			
<b>Total</b>	<b>57,813,502,607</b>	<b>42,361,991,069</b>	<b>36.5%</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	22,010,170,144	21,476,751,288	2.5%
Investment Property	218,599,597	218,599,597	0.0%
Intangibles	618,849,288	620,889,016	-0.3%
Long Term Investments	2,310,460,383	2,303,378,840	0.3%
Long Term Advances	-	3,272,223	-100.0%
Long Term Deposits	37,488,439	54,978,065	-31.8%
	<b>25,195,567,851</b>	<b>24,677,869,029</b>	<b>2.1%</b>



<b>Current Assets</b>			
Biological Assets	2,024,707,028	2,282,737,798	-11.3%
Stores, Spare Parts and Loose Tools	1,309,256,367	1,412,675,360	-7.3%
Stock-in-trade	19,730,034,110	7,939,757,487	148.5%
Trade debts-unsecured considered good	5,471,467,968	2,941,217,253	86.0%
Advances, deposits, prepayments and other receivables	3,028,850,483	2,182,572,665	38.8%
Advance tax-net	947,704,351	791,404,202	19.7%
Cash and Bank Balances	105,914,449	133,757,275	-20.8%
	<b>32,617,934,756</b>	<b>17,684,122,040</b>	<b>84.4%</b>
<b>Total</b>	<b>57,813,502,607</b>	<b>42,361,991,069</b>	<b>36.5%</b>

From the above analysis, it may be noted that the company went on a spree of short term borrowings as its current liabilities surged by 77% or Rs 16.9 billion during the year whereas its non-current liabilities declined to the tune of Rs1 billion or 9.6% as compared to last year. The company's equity also showed downward trend during the year; however, the company's asset base swelled by 36.5% or Rs15.5 billion during the year on the back of increased short term borrowings.

	<b>2018</b>	<b>% of Total</b>
	<b>Rupees</b>	
<b>Share Capital &amp; Reserves</b>		
Share Capital	597,766,610	1.0%
Share Premium Reserve	678,316,928	1.2%
Accumulated Profit	6,951,403,122	12.0%
	<b>8,227,486,660</b>	<b>14.2%</b>
<b>Non-current Liabilities</b>		
Long Term Finances-Secured	8,785,694,471	15.2%
Liabilities against assets subject to finance lease-Secured	144,677,914	0.3%
Deferred Taxation	1,617,167,472	2.8%
Retirement Benefits	53,784,119	0.1%
	<b>10,601,323,976</b>	<b>18.3%</b>
<b>Current Liabilities</b>		
Short Term Borrowings	23,553,685,516	40.7%
Current Portion of Non-Current Liabilities	4,106,050,113	7.1%
Trade and Other Payables	2,618,215,431	4.5%
Advances from Customers	8,138,041,881	14.1%
Unclaimed dividend	34,072,815	0.1%
Accrued Profit/Interest/Markup	534,626,215	0.9%
	<b>38,984,691,971</b>	<b>67.4%</b>

Contingencies and Commitments		
<b>Total</b>	<b>57,813,502,607</b>	<b>100.0%</b>
<b>Non-Current Assets</b>		
Property, Plant and Equipment	22,010,170,144	38.1%
Investment Property	218,599,597	0.4%
Intangibles	618,849,288	1.1%
Long Term Investments	2,310,460,383	4.0%
Long Term Advances	-	0.0%
Long Term Deposits	37,488,439	0.1%
	<b>25,195,567,851</b>	<b>43.6%</b>
<b>Current Assets</b>		
Biological Assets	2,024,707,028	3.5%
Stores, Spare Parts and Loose Tools	1,309,256,367	2.3%
Stock-in-trade	19,730,034,110	34.1%
Trade debts-unsecured considered good	5,471,467,968	9.5%
Advances, deposits, prepayments and other receivables	3,028,850,483	5.2%
Advance tax-net	947,704,351	1.6%
Cash and Bank Balances	105,914,449	0.2%
	<b>32,617,934,756</b>	<b>56.4%</b>
<b>Total</b>	<b>57,813,502,607</b>	<b>100.0%</b>

#### Horizontal and Vertical Analysis of the Profit and Loss Statement: FY 2017-18

	2018	2017	% Change
	Rupees	Rupees	
<b>Gross Sales</b>	40,251,476,355	49,962,324,692	-19.4%
Sale tax and others	(2,986,969,986)	(4,530,367,689)	-34.1%
<b>Net Sales</b>	<b>37,264,506,369</b>	<b>45,431,957,003</b>	-18.0%
Cost of Sales	(34,517,475,229)	(40,807,425,417)	-15.4%
<b>Gross Profit</b>	<b>2,747,031,140</b>	<b>4,624,531,586</b>	<b>-40.6%</b>
Administrative expenses	(1,033,466,077)	(1,099,255,365)	-6.0%
Selling expenses	(54,961,141)	(84,805,426)	-35.2%
Other income	475,637,156	571,049,173	-16.7%
Other expenses	(5,237,703)	(166,539,881)	-96.9%
	(618,027,765)	(779,551,499)	-20.7%
<b>Profit from Operations</b>	<b>2,129,003,375</b>	<b>3,844,980,087</b>	<b>-44.6%</b>
Finance Cost	(2,269,761,395)	(1,665,293,789)	36.3%
<b>Profit / (Loss) before taxation</b>	<b>(140,758,020)</b>	<b>2,179,697,916</b>	-106.5%
Taxation	(62,682,495)	(591,301,563)	-89.4%
<b>Profit / (Loss) after taxation</b>	<b>(203,440,515)</b>	<b>1,588,396,353</b>	<b>-112.8%</b>
<b>Earnings /(Loss) per share-basic and diluted</b>	<b>(3.40)</b>	<b>26.57</b>	<b>-112.8%</b>



As shown in the above table, the sales of the company declined significantly by 19.4% which adversely impacted the gross profits by 40.6%. Although the company managed to reduce its expenses by 20.7% or 160 million, however, the profit from operations were reduced by 44.6% during the year. On the other hand, finance cost increased appreciably by 36.3% or 600 million during the year. All these factors led to net loss of Rs203.44 million during the year as compared of Rs1.588 billion during FY 2017-18.

	2018	%
	Rupees	Analysis
<b>Gross Sales</b>	40,251,476,355	100%
Sale tax and others	(2,986,969,986)	-7.4%
<b>Net Sales</b>	37,264,506,369	92.6%
Cost of Sales	(34,517,475,229)	-85.8%
<b>Gross Profit</b>	<b>2,747,031,140</b>	<b>6.8%</b>
Administrative expenses	(1,033,466,077)	-2.6%
Selling expenses	(54,961,141)	-0.1%
Other income	475,637,156	1.2%
Other expenses	(5,237,703)	0.0%
	(618,027,765)	-1.5%
<b>Profit from Operations</b>	<b>2,129,003,375</b>	<b>5.3%</b>
Finance Cost	(2,269,761,395)	-5.6%
<b>Profit / (Loss) before taxation</b>	<b>(140,758,020)</b>	<b>-0.3%</b>
Taxation	(62,682,495)	-0.2%
<b>Profit / (Loss) after taxation</b>	<b>(203,440,515)</b>	<b>-0.5%</b>

#### Horizontal and Vertical Analysis of the Balance Sheet:[FY 2018-19]

	2019	2018	Horizontal
	Rupees	Rupees	Analysis
<b>Share Capital &amp; Reserves</b>			
Share Capital	597,766,610	597,766,610	0.0%
Share Premium Reserve	678,316,928	678,316,928	0.0%
Accumulated Profit	7,496,780,938	6,951,403,122	7.8%
	<b>8,772,864,476</b>	<b>8,227,486,660</b>	<b>6.6%</b>
<b>Non-current Liabilities</b>			

Long Term Finances-Secured	4,962,121,804	8,785,694,471	-43.5%
Liabilities against assets subject to finance lease-Secured	151,728,045	144,677,914	4.9%
Deferred Taxation	721,985,832	1,617,167,472	-55.4%
Retirement Benefits	75,116,648	53,784,119	39.7%
	<b>5,910,952,329</b>	<b>10,601,323,976</b>	<b>-44.2%</b>
<b>Current Liabilities</b>			
Short Term Borrowings	16,513,317,010	23,553,685,516	-29.9%
Current Portion of Non-Current Liabilities	4,146,556,265	4,106,050,113	1.0%
Trade and Other Payables	3,050,564,167	2,618,215,431	16.5%
Advances from Customers	9,091,672,650	8,138,041,881	11.7%
Unclaimed dividend	31,620,357	34,072,815	-7.2%
Accrued Profit/Interest/Markup	742,677,623	534,626,215	38.9%
	<b>33,576,408,072</b>	<b>38,984,691,971</b>	<b>-13.9%</b>
Contingencies and Commitments			
<b>Total</b>	<b>48,260,224,877</b>	<b>57,813,502,607</b>	<b>-16.5%</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	21,958,943,693	22,010,170,144	-0.2%
Investment Property	219,015,262	218,599,597	0.2%
Intangibles	616,809,560	618,849,288	-0.3%
Long Term Investments	1,651,603,405	2,310,460,383	-28.5%
Long Term Advances	-	-	
Long Term Deposits	50,913,227	37,488,439	35.8%
	<b>24,497,285,147</b>	<b>25,195,567,851</b>	<b>-2.8%</b>
<b>Current Assets</b>			
Biological Assets	2,018,952,863	2,024,707,028	-0.3%
Stores, Spare Parts and Loose Tools	1,527,111,297	1,309,256,367	16.6%
Stock-in-trade	11,505,748,375	19,730,034,110	-41.7%
Trade debts-unsecured considered good	7,254,991,500	5,471,467,968	32.6%
Advances, deposits, prepayments and other receivables	844,332,030	3,028,850,483	-72.1%
Advance tax-net	519,761,421	947,704,351	-45.2%
Cash and Bank Balances	92,042,244	105,914,449	-13.1%
	<b>23,762,939,730</b>	<b>32,617,934,756</b>	<b>-27.1%</b>
<b>Total</b>	<b>48,260,224,877</b>	<b>57,813,502,607</b>	<b>-16.5%</b>

During the year 2018-19, it is evident from the above table that the company has paid off its liabilities (both non-current and current) to the tune of Rs10 billion, which has also affected its total asset base and current assets which declined by 16.5% and 27% respectively. The equity has however increased slightly by 6.6% during this period on the back of increased profitability during the year.



	2019	Vertical
	Rupees	Analysis
<b>Share Capital &amp; Reserves</b>		
Share Capital	597,766,610	1.2%
Share Premium Reserve	678,316,928	1.4%
Accumulated Profit	7,296,780,938	15.1%
	<b>8,572,864,476</b>	<b>17.8%</b>
<b>Non-current Liabilities</b>		
Long Term Finances-Secured	4,962,121,804	10.3%
Liabilities against assets subject to finance lease-Secured	151,728,045	0.3%
Deferred Taxation	721,985,832	1.5%
Retirement Benefits	75,116,648	0.2%
	<b>5,910,952,329</b>	<b>12.2%</b>
<b>Current Liabilities</b>		
Short Term Borrowings	16,513,317,010	34.2%
Current Portion of Non-Current Liabilities	4,146,556,265	8.6%
Trade and Other Payables	3,050,564,167	6.3%
Advances from Customers	9,091,672,650	18.8%
Unclaimed dividend	31,620,357	0.1%
Accrued Profit/Interest/Markup	742,677,623	1.5%
	<b>33,576,408,072</b>	<b>69.6%</b>
Contingencies and Commitments		
<b>Total</b>	<b>48,260,224,877</b>	<b>100.0%</b>
<b>Non-Current Assets</b>		
Property, Plant and Equipment	21,958,943,693	45.5%
Investment Property	219,015,262	0.5%
Intangibles	616,809,560	1.3%
Long Term Investments	1,651,603,405	3.4%
Long Term Advances	-	0.0%
Long Term Deposits	50,913,227	0.1%
	<b>24,497,285,147</b>	<b>50.8%</b>
<b>Current Assets</b>		
Biological Assets	2,018,952,863	4.2%
Stores, Spare Parts and Loose Tools	1,527,111,297	3.2%
Stock-in-trade	11,505,748,375	23.8%
Trade debts-unsecured considered good	7,254,991,500	15.0%
Advances, deposits, prepayments and other receivables	844,332,030	1.7%
Advance tax-net	519,761,421	1.1%

Cash and Bank Balances	92,042,244	0.2%
	<b>23,762,939,730</b>	<b>49.2%</b>
<b>Total</b>	<b>48,260,224,877</b>	<b>100.0%</b>

#### Horizontal and Vertical Analysis of the Profit and Loss Statement: [FY 2018-19]

	2019	2018	Horizontal
	Rupees	Rupees	Analysis
<b>Gross Sales</b>	54,724,042,194	40,251,476,355	36.0%
Sale tax and others	(5,604,189,026)	(2,986,969,986)	87.6%
<b>Net Sales</b>	49,119,853,168	37,264,506,369	31.8%
Cost of Sales	(43,903,667,735)	(34,517,475,229)	27.2%
<b>Gross Profit</b>	<b>5,216,185,433</b>	<b>2,747,031,140</b>	<b>89.9%</b>
Administrative expenses	(1,241,560,050)	(1,033,466,077)	20.1%
Selling expenses	(62,008,119)	(54,961,141)	12.8%
Other income	593,359,062	475,637,156	24.8%
Other expenses	(754,315,845)	(5,237,703)	14301.7%
	(1,464,524,952)	(618,027,765)	137.0%
<b>Profit from Operations</b>	<b>3,751,660,481</b>	<b>2,129,003,375</b>	<b>76.2%</b>
Finance Cost	(3,511,600,842)	(2,269,761,395)	54.7%
<b>Profit / (Loss) before taxation</b>	240,059,639	(140,758,020)	-270.5%
Taxation	313,236,784	(62,682,495)	-599.7%
<b>Profit / (Loss) after taxation</b>	<b>553,296,423</b>	<b>(203,440,515)</b>	<b>-372.0%</b>
<b>Earnings /(Loss) per share-basic and diluted</b>	<b>9.26</b>	<b>(3.40)</b>	<b>-372.4%</b>

	2019	Vertical
	Rupees	Analysis
<b>Gross Sales</b>	54,724,042,194	100%
Sale tax and others	(5,604,189,026)	-10.2%
<b>Net Sales</b>	49,119,853,168	89.8%
Cost of Sales	(43,903,667,735)	-80.2%
<b>Gross Profit</b>	<b>5,216,185,433</b>	<b>9.5%</b>
Administrative expenses	(1,241,560,050)	-2.3%
Selling expenses	(62,008,119)	-0.1%
Other income	593,359,062	1.1%
Other expenses	(754,315,845)	-1.4%
	(1,464,524,952)	-2.7%
<b>Profit from Operations</b>	<b>3,751,660,481</b>	<b>6.9%</b>
Finance Cost	(3,511,600,842)	-6.4%
<b>Profit / (Loss) before taxation</b>	240,059,639	0.4%
Taxation	313,236,784	0.6%



<b>Profit / (Loss) after taxation</b>	<b>553,296,423</b>	<b>1.0%</b>
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#### **MAJOR OBSERVATIONS REGARDING TAX:**

##### **Analysis of Income Tax Declarations:**

Below is a brief of Income Tax return filed by the company for tax year 2019.

<b>Tax Years</b>	<b>2019</b>
<b>Special Tax Year/Period</b>	<b>01-Oct-2017 - 30-Sep-2018</b>
<b>Net Revenue</b>	<b>37,280,440,380</b>
Domestic Sales	25,700,353,754
Export Sales	11,580,086,626
<b>Cost of sales</b>	<b>34,148,122,116</b>
Opening Stock	7,939,757,487
Net Purchases	38,361,653,585
Consumed	<b>26,571,376,962</b>
Direct Expenses	<b>7,576,745,154</b>
Closing Stock	19,730,034,110
<b>Gross Profit</b>	<b>3,132,318,264</b>
Other Revenues	475,637,156
<b>Management, Administrative, Selling &amp; Financial Expenses ( Incl. Financial Charges)</b>	<b>3,732,779,429</b>
<b>Profit on Debt ( Financial Charges)</b>	<b>2,269,761,395</b>
<b>Accounting Profit / (Loss)</b>	<b>(124,824,009)</b>
<b>Inadmissible deductions:</b>	<b>3,050,916,107</b>
Add Backs u/s 28(1)(b) Lease Rental not admissible	17,037,141
Add Backs Tax Gain on Sale of Assets	422,042,981
Other Inadmissible Deductions	1,068,413,810
Add Backs Accounting Amortization	2,039,728
Add Backs Accounting Depreciation	1,541,382,447
<b>Admissible Deductions:</b>	<b>5,581,561,765</b>
Accounting Gain on Sale of Assets	222,815,041
Tax Amortization for Current Year	2,039,728
Tax Depreciation / Initial Allowance for Current Year	2,221,110,154
Other Admissible Deductions	3,135,596,842
Tax (Loss) on Sale of Assets	
Unabsorbed Tax Depreciation for Previous Years	
<b>Income/(Loss) from Business</b>	<b>(2,655,469,667)</b>

In Income Tax Return for the tax year 2019 (from October 17 to September 18), the company declared huge losses after taking into account the cost of sales and admissible expenses i.e. Tax Depreciation etc.

The detailed analysis of the factors leading to loss for the year shows the following results:

	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Gross Profit Ratio	17.31%	10.74%	8.40%
Cost of Sales to Sales Ratio	82.69%	89.26%	91.60%
Raw material to Cost ratio	85.53%	84.29%	77.81%
<b>Tax Depreciation to Gross Revenue Ratio</b>	4.71%	3.82%	5.96%
Financial expense to Indirect Expenses ratio	37.56%	55.04%	60.81%

It is observed that for tax year 2019, the company has shown reduced GP ratio in comparison to other years due to the fact that its cost of sales has increased from 89 to 91 %. Financial cost has also increased considerably.

Further, the company has availed huge tax credits u/s 65 B of Income Tax Ordinance, 2001 and has set off all its tax liability against this credit and has claimed refund of other taxes withheld at source. The detail is as under:

<b><u>Tax Liability</u></b>	<b><u>311,494,539</u></b>
<u>Tax Credits / Tax Credit for Non-Equity Investment in Plant and Machinery u/s 65B</u>	<u>(127,463,988)</u>
	<b><u>184,030,551</u></b>
<u>Withholding Income Tax</u>	<u>494,741,625</u>
<u>Advance Income Tax</u>	<u>157,567,617</u>
<b><u>Refundable Income Tax</u></b>	<b><u>(374,230,077)</u></b>

According to the Note 19.5 to the final accounts 2018 (tax year 2019), the taxpayer has disposed off various moveable assets including cars, tractors and aircraft. Most of these assets are sold at close to the book value, therefore, benefits provided by the purchasers of these assets should be tax under the law. Moreover, plant and machinery of book value of Rs. 260.4 million (cost: Rs. 456.34 million) was sold in the tax year 2019 at Rs. 430.6 million to M/s JK Sugar Mills (Pvt.) Limited. the purchaser company belongs to one of the major shareholders of the taxpayer namely Mr. Jehangir Tareen, therefore, fair market value of the



machinery is required to be determined to ascertain whether this transaction was arm's length or otherwise.

The company shows 91 % cost of sales ratio in this year which means that 91% of total revenue is claimed as cost, which is very huge and needs verification.

The company has availed refund of Rs. 210 million in previous five years, and for tax year 2019, its claim of refund is of Rs. 374,230,077 however, no refund has been issued.

#### **Findings and Recommendations:**

It is observed that in Tax year 2019, the company has not paid any substantial income tax as major part of tax chargeable has been adjusted against the tax credits u/s 65B and remaining has been adjusted against the taxes withheld. Total contribution by the company is the amount of withholding taxes and advance tax paid by it, which is ultimately claimed as refund, liability being adjusted against tax credits.

Complete audit of the company for last five tax years is required to ascertain the genuineness of the claims of credits and depreciation. For this purpose, survey of documents related to import and installation of plant and machinery is required.

The capacity and production of the mill also needs to be cross checked against the claim of tax credits as the plant and machinery thus installed is intended for balancing, modernization or replacement of existing machinery on the premises.

On spot visit of the factories is also necessary for verification of the above facts, along with examination of documents and record related to plant and machinery.

The company is also engaged in transactions with sister concerns, therefore, determination of arm's length transactions is also important in this case.

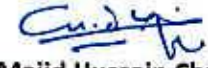
Company's withholding liability needs to be audited too to check if it is deducting due taxes from its distributors and wholesalers and the taxes so deducted are being deposited in government exchequer.

Aspects of benami transactions in names of employees or truck drivers are to be checked in detail.

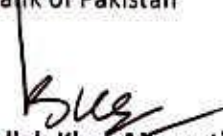
Complete investigation of cash withdrawals from bank accounts of the company is also required as the return reveals huge cash withdrawals in tax year 2019.

  
(Ahmad Kamal) PSP  
Deputy Director General  
Intelligence Bureau

  
(Muhammad Goher Nafees) PSP  
Director General  
Anti-Corruption Establishment, Punjab

  
(Majid Hussain Chaudhry)  
Joint Director  
State Bank of Pakistan

  
Colonel Muhammad Faisal Gul  
Inter Service Intelligence

  
(Dr. Bashirullah Khan Marwat)  
Director General I&I, IR  
FBR Islamabad

  
(Bilal Rasul)  
Executive Director  
SECP Islamabad

  
(Waheed Zia) PSP  
Director General  
Federal Investigation Agency

21/5/2020



# ANNEXURE 1

## TEMPLATE FOR COST OF PRODUCTION OF SUGAR (COGS)

Cane Crushed	Kg		Price	
Sugar production	Kg		Recovery Ratio	
Quantity of Molasses as by-product	Kg		Molasses Ratio	
Quantity of Bagasse as by-product	Kg			
Quantity of Mud as by-product	Kg		Mud ratio	
Sale Price of Molasses	Rs./Kg			
Sale Price of Bagasse	Rs./Kg			
Sale Price of Mud	Rs./Kg			

### Cost of sugarcane

	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	-	-
Roadcess	-	-
Sugar cane handling, freight & development expenses	-	-
Market Committee Fee	-	-

### Conversion Cost - Fixed

Depreciation (SUGAR MILL & BUILDING )	-	-
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	-	-
Repair & maintenance (SUGAR MILL & BUILDING)	-	-
Stores and spares (PRODUCTION PROCESS)	-	-
Other expenses (ONLY PRODUCTION RELATED)	-	-

### Conversion Cost - Variable

Packing material (SUGAR PRODUCTION)	-	-
Chemicals (SUGAR PRODUCTION)	-	-
Oil and lubricants (SUGAR PRODUCTION)	-	-

### Direct Costs of Electricity used for Production of Sugar

Cost of Steam	-	-
Electricity (TOTAL UNITS CONSUMED x Kw/h Rate)	-	-

### Others

Insurance expenses (SUGAR PRODUCTION)	-	-
Brokerage & commission	-	-
Other expenses	-	-
Other Income	-	-

### TOTAL DIRECT COST OF SUGAR PRODUCED

Revenue From By-Products	-	-
Less : Sale of Total Molasses (from crushing of sugarcane this year)	-	-
Sale of Total Bagasse (from crushing of sugarcane this year)	-	-
Stock of Bagasse	-	-
Sale of Total Mud (from crushing of sugarcane this year)	-	-

### Allocated Cost on the Basis of Sugar Production

Financial expenses	-	-
Salaries & Wages (Admin expenses)	-	-
Admin expenses	-	-

### COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS

-	-
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ADD: MARGIN @ 15%

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ADD: SALES TAX

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EX - MILL PRICE

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***Principles of IFRS – Cost of Production***

Financial statements prepared on IFRSs present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the true representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the "Conceptual Framework for Financial Reporting" (the Framework). Hence, the focus of the Framework is on principles rather on setting hard rules. Elements directly related to measurement of financial position (balance sheet) and financial performance (income statement) are defined in the Framework along with the recognition and measurement basis of these elements on the balance sheet and income statement.

Since recognition, measurement and presentation of expenses in financial statements is the purpose of this subject, only information relevant to this element is presented hereinafter:

**Definition of Expense:**

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

**Recognition of Expense:**

Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria



for recognition. An item that meets the definition of an element should be recognized if:

- (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and
- (b) the item has a cost or value that can be measured with reliability.

Recognition involves the depiction of the item in words and by a monetary amount and the inclusion of that amount in the balance sheet or income statement totals. Items that satisfy the recognition criteria should be recognized in the balance sheet or income statement. The failure to recognize such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.

Expenses are recognized in the income statement when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. **This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events; for example, the various components of expense making up the cost of goods sold are recognized at the same time as the income derived from the sale of the goods.** However, the application of the matching concept under this *Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

#### **Measurement of Expenses:**

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement. A number of different measurement bases are employed to

different degrees and in varying combinations in financial statements. They include the following: 1) *Historical cost*, 2) *Current cost*, 3) *Realizable (settlement value)* and 4) *present value*.

The Framework does not include concepts or principles for selecting which measurement basis should be used for particular for particular elements of financial statement or in particular circumstances. Individual standards and interpretations do provide this guidance, however.



### Analysis of expenses recognized in income statement:

The structure and contents of the complete set of financial statements are defined in International Accounting Standard (IAS) 1 "Presentation of Financial Statements".

**Para 99 of IAS 1** requires an entity to present an analysis of expenses recognized in income statement using a classification based on either nature or their function within the entity, whichever provides more reliable and more relevant information.

Extract of **para 102 and 103 of IAS 1** explaining these analyses along with examples are as follows:

*The first form of analysis is the 'nature of expense' method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:*

Revenue	X
Other income	X
Changes in inventories of finished goods and work in progress	X
Raw materials and consumables used	
X	
Employee benefits expense	X
Depreciation and amortisation expense	X
Other expenses	X
Total expenses	
(X)	
Profit before tax	X

*The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to*

*functions may require arbitrary allocations and involve considerable judgment.*

<i>Revenue</i>	<i>X</i>
<i>Cost of sales</i>	<i>(X)</i>
<i>Gross profit</i>	<i>X</i>
<i>Other income</i>	<i>X</i>
<i>Distribution costs</i>	<i>(X)</i>
<i>Administrative expenses</i>	<i>(X)</i>
<i>Other expenses</i>	<i>(X)</i>
<i>Profit before tax</i>	<i>X</i>

The Standards require management to choose a method which presents reliable and more relevant information considering historical and industry factors and nature of entity. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used.

**Definition of inventories in IAS 2 defines categories of inventories held by entities.**

*Inventories are assets:*

*(a) held for sale in the ordinary course of business;*

*(b) in the process of production for such sale; or*

*(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.*

Held for sale in ordinary course of business denotes finished goods produced by the manufacturer and goods purchased and held for resale including, for example, merchandise purchased by a retailer. Inventories in the process of production are work in process while other category represents raw material and consumable supplies to be used in production process by the manufacturer.

The inventories items defined above are measurement using basis as defined in para 9 of IAS -2, which is:

*Inventories shall be measured at the lower of cost and net realizable value.*

IAS 2 stipulates that the costs that are to be included in inventories value are “all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.”



Under this IFRS, the costs that are excluded from inventory value include: abnormal costs that are incurred as a result of material waste, labor or other production conversion inputs, storage costs (unless required as part of the production process), and all administrative overhead and selling costs.

These inventories items are expensed in the period in which related revenue is recognized. **Para 34 of IAS 2** states that:

*When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.*

A sugar manufacturing company is required to follow measurement and recognition criteria for measurement of expense and inventory for all of its line of business whether it is agricultural sale, power generation, manufacturing of main product or joint product or by-product except for measurement of agricultural produce at the point of harvest. Measurement of agricultural produce at the point of harvest is excluded from the scope of IAS – 2 and is covered in another standard i.e. **IAS 41 – “Agriculture”**. In accordance with **Para 13 of IAS 41**, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of **IAS 2**.

The terms ‘cost of sales’, ‘cost of goods sold’ or ‘cost of goods manufactured’ are not defined in IFRSs and neither are their components. However, the recognition criteria of expense, measurement basis of inventories and presentation of expense analysis as per their function construe the basis for presenting cost of sale/cost of goods sold in the income statement.

Measurement of inventory and recognition of expense is summarized below on the basis of principles contained in IFRSs:

### **Raw material held for production process and trading stock for trading:**

These are measured at lower of cost and NRV.

#### **Costs of purchase:**

The cost of raw material held for onward production process and trading stock held for resale comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

The carrying amount of trading stock determined on the above principle is expensed out in the period in which relevant revenue is recognized.

**Carrying amount of raw material determined on the above principle is expensed out as raw material consumed (cost of sugarcane) when raw material is issued for production process.**

**Carrying amount of self-agriculture produced used for production includes fair value of determined as per IAS 41 and transport, handling and other directly attributable costs incurred in bringing the inventory to the present location and condition. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.**

#### **Cost of Conversion:**

The costs of conversion of raw material to finished goods include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of



**the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration.**

Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at *net realizable value* and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

**The Cost of conversion is expensed out in the period in which related revenue from the sale of finished goods is recognized. These expenses are**

included in the cost of goods manufactured and presented as per "nature of expense" in the related note.

**Finished goods at year end:**

The cost of conversion determined on the allocation principle on finished products which are not sold at year is included in carrying value of finished goods along with related raw material carrying value subtracted from cost of goods manufactured to be accounted for as inventory on balance sheet. Any abnormal wastage due to inefficiency of labor, machine or material is not included while valuing finished good at hand and hence charged as period cost.



# Calculation of Cost of Sugar - JDW - 2017-2018

## ANNEXURE 1A

		Actual		JDW	
		2017-2018		2017-2018	
Cane Crushed	Kg	8,422,435,141	Price	176	
Sugar production	Kg	888,710,550	Recovery Ratio	10.55%	
Quantity of Molasses as by-product	Kg	422,650,290	Molasses Ratio	5.02%	
Quantity of Bagasse as by-product	Kg	2,582,350,000	Bagasse Ratio	30.66%	
Quantity of Mud as by-product	Kg	252,673,000	Mud ratio	3.00%	
Sale Price of Molasses	Rs./Kg	12.000		6.040	
Sale Price of Bagasse	Rs./Kg	2.900		1.137	
Sale Price of Mud	Rs./Kg	1.000		0.490	
Cost of sugarcane	Cost (Rs.)	Rs./Kg		Cost (Rs.)	Rs./Kg
Procurement of sugarcane	37,117,886,939	41.77		37,117,886,939	41.77
Roadcess	245,819,705	0.28		245,819,705	0.28
Sugar cane handling, freight & development expenses	52,673,378	0.06		59,861,396	0.07
Market Committee Fee				52,673,378	0.06
	37,416,380,022	42.10		37,476,241,418	42.17
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING)	829,386,563	0.93		829,386,563	0.93
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	1,711,976,455	1.93		1,711,976,455	1.93
Repair & maintenance (SUGAR MILL & BUILDING)	40,609,800	0.05		40,609,800	0.05
Stores and spares (PRODUCTION PROCESS)	909,217,187	1.02		909,217,187	1.02
Other expenses (ONLY PRODUCTION RELATED)	358,967,821	0.40		358,967,821	0.40
	3,850,157,825	4.33		3,850,157,825	4.33
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)	363,996,061	0.41		363,996,061	0.41
Chemicals (SUGAR PRODUCTION)	226,602,036	0.25		226,602,036	0.25
Oil and lubricants (SUGAR PRODUCTION)	73,492,884	0.08		73,492,884	0.08
	664,090,981	0.75		664,090,981	0.75
Direct Costs of Electricity used for Production of Sugar					
Cost of Steam	-	-		923,587,719	1.04
Electricity (TOTAL UNITS CONSUMED x Kw/h Rate)	2,035,676,589	2.29		293,808,408	0.33
	2,035,676,589	2.29		1,217,396,128	1.37
Others					
Insurance expenses (SUGAR PRODUCTION)	72,915,816	0.08		401,324,680	0.45
Brokerage & commission				15,934,011	0.02
Other expenses				5,237,703	0.01
Other Income				(396,510,061)	(0.45)
	72,915,816	0.08		25,986,333	0.03
TOTAL DIRECT COST OF SUGAR PRODUCED	44,039,221,234	7.45		43,233,872,686	6.48
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)	5,071,803,480	5.71		2,643,826,219	2.97
Sale of Total Bagasse (from crushing of sugarcane this year)	7,488,815,000	8.43		2,388,589,536	2.69
Stock of Bagasse	-	-		1,011,991,215	1.14
Sale of Total Mud (from crushing of sugarcane this year)	252,673,000	0.28		127,204,290	0.14
	12,813,291,480	14.42		6,171,611,259	6.94
Allocated Cost on the Basis of Sugar Production					
Financial expenses	-	-		1,682,652,486	1.89
Salaries & Wages (Admin expenses)	-	-		695,643,470	0.78
Admin expenses	-	-		234,641,052	0.26
	-	-		2,612,937,008	2.94
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	31,225,929,754	35.14		39,675,198,434	44.64
ADD: MARGIN @ 15%		5.27			6.70
ADD: SALES TAX		6.60			6.60
EX - MILL PRICE		47.01			57.94

# Calculation of Cost of Sugar - JDW - 2018-2019

## ANNEXURE 18

		Actual		JDW	
		2018-2019		2018-2019	
Cane Crushed	Kg	5,671,495,000	Price	181	
Sugar production	Kg	640,277,000	Recovery Ratio	11.29%	
Quantity of Molasses as by-product	Kg	231,294,000	Molasses Ratio	4.08%	
Quantity of Bagasse as by-product	Kg	1,625,166,000	Bagasse Ratio	28.65%	
Quantity of Mud as by-product	Kg	170,145,000	Mud ratio	3.00%	
Sale Price of Molasses	Rs./Kg	14.000			
Sale Price of Bagasse	Rs./Kg	3.200			
Sale Price of Mud	Rs./Kg	1.000			
Cost of sugarcane		Cost (Rs.)	Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane		25,643,223,017	40.05	25,643,223,017	40.05
Roadcess		164,963,240	0.26	164,963,240	0.26
Sugar cane handling, freight & development expenses		136,830,943	0.21	38,630,232	0.06
Market Committee Fee				136,830,943	0.21
		25,945,017,200	40.52	25,983,647,432	40.58
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING )		880,590,058	1.38	880,590,058	1.38
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)		2,191,416,356	3.42	2,191,416,356	3.42
Repair & maintenance (SUGAR MILL & BUILDING)		67,620,030	0.11	67,620,030	0.11
Stores and spares (PRODUCTION PROCESS)		702,702,634	1.10	702,702,634	1.10
Other expenses (ONLY PRODUCTION RELATED)		374,235,740	0.58	374,232,384	0.58
		4,216,564,818	6.59	4,216,561,461	6.59
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)		348,344,471	0.54	348,344,471	0.54
Chemicals (SUGAR PRODUCTION)		198,283,408	0.31	198,283,408	0.31
Oil and lubricants (SUGAR PRODUCTION)		89,690,046	0.14	89,690,046	0.14
		636,317,925	0.99	636,317,925	0.99
Direct Costs of Electricity used for Production of Sugar					
Cost of Steam		-	-	771,417,949	1.20
Electricity (TOTAL UNITS CONSUMED x Kw/h Rate)		1,431,646,874	2.24	222,487,203	0.35
		1,431,646,874	2.24	993,905,152	1.55
Others					
Insurance expenses (SUGAR PRODUCTION)		78,483,352	0.12	239,542,007	0.37
Brokerage & commission				14,592,485	0.02
Other expenses				43,612,533	0.07
Other Income				(423,042,498)	(0.66)
		78,483,352	0.12	(125,295,474)	(0.20)
TOTAL DIRECT COST OF SUGAR PRODUCED		32,308,030,169	9.94	31,705,136,496	8.94
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)		3,238,116,000	5.06	2,231,460,155	3.49
Sale of Total Bagasse (from crushing of sugarcane this year)		5,200,531,200	8.12	2,155,548,391	3.37
Stock of Bagasse		-	-	405,511,891	0.63
Sale of Total Mud (from crushing of sugarcane this year)		170,145,000	0.27	127,090,941	0.20
		8,608,792,200	13.45	4,919,611,379	7.68
Allocated Cost on the Basis of Sugar Production					
Financial expenses		-	-	2,163,089,701	3.38
Salaries & Wages (Admin expenses)		-	-	915,326,654	1.43
Admin expenses		-	-	215,522,033	0.34
		-	-	3,293,938,388	5.14
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS		23,699,237,969	37.01	30,079,463,505	46.98
ADD: MARGIN @ 15%			5.55		7.05
ADD: SALES TAX			6.60		6.60
EX - MILL PRICE			49.17		60.63



# Calculation of Cost of Sugar - JDW - 2019-2020

## ANNEXURE 1C

		Actual		JDW	
		2019-2020		2019-2020	
Cane Crushed	Kg	5,291,732,000	Price	211	
Sugar production	Kg	548,219,000	Recovery Ratio	10.36%	
Quantity of Molasses as by-product	Kg	227,238,000	Molasses Ratio	4.29%	
Quantity of Bagasse as by-product	Kg	1,519,624,000	Bagasse Ratio	28.72%	
Quantity of Mud as by-product	Kg	158,752,000	Mud ratio	3.00%	
Sale Price of Molasses	Rs./Kg	15.000			
Sale Price of Bagasse	Rs./Kg	4.000			
Sale Price of Mud	Rs./Kg	1.000			
Cost of sugarcane					
Procurement of sugarcane	Cost (Rs.)	27,969,465,051	Rs./Kg	51.02	
Roadcess		123,546,166		0.23	
Sugar cane handling, freight & development expenses		36,043,548		0.07	
Market Committee Fee				0.42	
		28,358,057,594		51.73	
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING )		916,011,869		1.67	
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)		2,510,557,991		4.58	
Repair & maintenance (SUGAR MILL & BUILDING)		74,382,033		0.14	
Stores and spares (PRODUCTION PROCESS)		772,972,897		1.41	
Other expenses (ONLY PRODUCTION RELATED)		381,787,143		0.70	
		4,655,711,934		8.49	
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)		277,808,354		0.51	
Chemicals (SUGAR PRODUCTION)		185,018,593		0.34	
Oil and lubricants (SUGAR PRODUCTION)		94,174,548		0.17	
		557,001,495		1.02	
Direct Costs of Electricity used for Production of Sugar					
Cost of Steam				1.40	
Electricity (TOTAL UNITS CONSUMED x Kw/h Rate)		1,281,511,704		2.34	
		1,281,511,704		2.03	
Others					
Insurance expenses (SUGAR PRODUCTION)		49,127,386		0.09	
Brokerage & commission				0.03	
Other expenses				0.38	
Other income				(0.25)	
		49,127,386		0.26	
TOTAL DIRECT COST OF SUGAR PRODUCED		34,901,410,112		11.80	
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)		3,408,570,000		6.22	
Sale of Total Bagasse (from crushing of sugarcane this year)		6,078,496,000		11.09	
Stock of Bagasse				0.17	
Sale of Total Mud (from crushing of sugarcane this year)		158,752,000		0.26	
		9,645,818,000		10.19	
Allocated Cost on the Basis of Sugar Production					
Financial expenses				3.07	
Salaries & Wages (Admin expenses)				1.84	
Admin expenses				0.43	
				5.34	
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS		25,255,592,112		58.67	
ADD: MARGIN @ 15%			6.85	8.80	
ADD: SALES TAX			10.20	10.20	
EX - MILL PRICE			62.79	77.68	

# Calculation of Cost of Sugar - HAMZA - 2017-2018

ANNEXURE 2A

Actual			
2017-18			
Cane Crushed	Kg	3,665,143,400	Price 180
Sugar production	Kg	382,495,000	Recovery Ratio 10.44%
Quantity of Molasses as by-product	Kg	186,000,000	Molasses Ratio 5.07%
Quantity of Bagasse as by-product	Kg	1,107,973,000	Bagasse Ratio 30.23%
Quantity of Mud as by-product	Kg	109,954,000	Mud ratio 3.00%
Sale Price of Molasses	Rs./Kg	12	
Sale Price of Bagasse/electricity	Rs./Kg	2.900	
Sale Price of Mud	Rs./Kg	1.000	

HAMZA			
2017-18			
3,665,143,400	Price	180	
382,495,000	Recovery Ratio	10.44%	
186,000,000	Molasses Ratio	5.07%	
1,107,973,000	Bagasse Ratio	30.23%	
109,954,000	Mud ratio	3.00%	
5			
0.799			
0.000			

Cost of sugarcane	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	16,533,756,899	43.23
Roadways	137,443,804	0.36
Sugar cane handling, freight & development expenses	-	-
Market Committee Fee	-	-
	16,671,200,703	43.59

Cost (Rs.)	Rs./Kg
16,533,756,899	43.23
137,443,804	0.36
-	-
-	-
16,671,200,703	43.59

Conversion Cost - Fixed	Cost (Rs.)	Rs./Kg
Depreciation (SUGAR MILL & BUILDING)	631,195,813	1.65
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	368,719,364	0.96
Repair & maintenance (SUGAR MILL & BUILDING)	249,317,724	0.65
Stores and spares (PRODUCTION PROCESS)	-	-
Other expenses (ONLY PRODUCTION RELATED)	24,037,861	0.06
	1,273,270,762	3.33

Cost (Rs.)	Rs./Kg
631,195,813	1.65
368,719,364	0.96
249,317,724	0.65
-	-
24,037,861	0.06
1,273,270,762	3.33

Conversion Cost - Variable	Cost (Rs.)	Rs./Kg
Packing material (SUGAR PRODUCTION)	169,550,009	0.44
Chemicals (SUGAR PRODUCTION)	171,841,621	0.45
Oil and lubricants, fuel and power (SUGAR PRODUCTION)	68,308,422	0.18
	409,700,052	1.07

Cost (Rs.)	Rs./Kg
169,550,009	0.44
171,841,621	0.45
68,308,422	0.18
409,700,052	1.07

Direct Costs of Electricity used for Production of Sugar	Cost (Rs.)	Rs./Kg
Electricity (*TOTAL UNITS CONSUMED x kw/h Rate)	744,711,015	1.95
	744,711,015	1.95

Cost (Rs.)	Rs./Kg
-	-
-	-

Others	Cost (Rs.)	Rs./Kg
Insurance expenses (SUGAR PRODUCTION)	1,194,325	0.0031
Brokerage & commission	-	-
Other expenses	-	-
Other income	-	-
	1,194,325	0.00312
<b>TOTAL DIRECT COST OF SUGAR PRODUCED</b>	<b>19,100,076,857</b>	<b>6.3501</b>

Cost (Rs.)	Rs./Kg
1,194,325	0.00
9,315,550	0.02
270,900,297	0.71
-	-
280,215,847	0.73
18,634,387,364	5.13

Revenue From By-Products	Cost (Rs.)	Rs./Kg
Less : Sale of Total Molasses (from crushing of sugarcane this year)	2,732,000,000	5.84
Sale of Total Bagasse/electricity (from crushing of sugarcane this year)	3,213,121,700	8.40
Sale of Total Mud (from crushing of sugarcane this year)	109,954,000	0.29
	5,555,075,700	14.52

Cost (Rs.)	Rs./Kg
1,022,100,001	2.67
878,290,272	2.30
-	-
1,900,390,273	4.97

Allocated Cost on the Basis of Sugar Production	Cost (Rs.)	Rs./Kg
Financial expenses	-	-
Salaries & Wages (Admin expenses)	-	-
Admin expenses	-	-
	-	-

Cost (Rs.)	Rs./Kg
157,832,962	0.41
324,451,103	0.85
235,987,069	0.62
718,271,134	1.88

COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	Cost (Rs.)	Rs./Kg
	13,545,001,157	35.41

Cost (Rs.)	Rs./Kg
17,452,268,225	45.63

ADD: MARGIN @ 15%	5.31
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6.84
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ADD: SALES TAX	6.60
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6.60
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EX - MILL PRICE	47.32
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59.09
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# Calculation of Cost of Sugar - HAMZA - 2018-2019

ANNEXURE 2B

		Actual		HAMZA	
		2018-19		2018-19	
Cane Crushed	Kg	2,133,725,360	Price	182	
Sugar production	Kg	231,006,000	Recovery Ratio	10.83%	
Quantity of Molasses as by-product	Kg	101,959,090	Molasses Ratio	4.78%	
Quantity of Bagasse as by-product	Kg	629,086,000	Bagasse Ratio	29.48%	
Quantity of Mud as by-product	Kg	64,012,000	Mud ratio	3.00%	
Sale Price of Molasses	Rs./Kg	14			
Sale Price of Bagasse/electricity	Rs./Kg	3.200			
Sale Price of Mud	Rs./Kg	1.000			
Cost of sugarcane	Cost (Rs.)		Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	9,703,977,488		42.01	9,703,977,488	42.01
Roadcess	80,015,340		0.35	80,015,340	0.35
Sugar cane handling, freight & development expenses	-		-	-	-
Market Committee Fee	9,783,992,828		42.35	9,783,992,828	42.35
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING)	628,581,561		2.72	628,581,561	2.72
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	412,709,316		1.79	412,709,316	1.79
Repair & maintenance (SUGAR MILL & BUILDING)	270,580,642		1.17	270,580,642	1.17
Stores and spares (PRODUCTION PROCESS)	-		-	-	-
Other expenses (ONLY PRODUCTION RELATED)	49,134,214		0.21	49,134,214	0.21
	1,361,005,733		5.89	1,361,005,733	5.89
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)	118,267,503		0.51	118,267,503	0.51
Chemicals (SUGAR PRODUCTION)	118,004,828		0.51	118,004,828	0.51
Oil and lubricants, fuel and power (SUGAR PRODUCTION)	107,032,341		0.46	107,032,341	0.46
	343,304,672		1.49	343,304,672	1.49
Direct Costs of Electricity used for Production of Sugar					
Electricity (*TOTAL UNITS CONSUMED x Kw/h Rate)	462,561,764		2.00	-	-
	462,561,764		2.00	-	-
Others					
Insurance expenses (SUGAR PRODUCTION)	1,134,911		0.0049	1,134,911	0.00
Brokerage & commission	-		-	26,715,662	0.12
Other expenses	-		-	577,356,382	2.50
Other income	-		-	-	-
	1,134,911		0.0049	604,072,044	2.61
TOTAL DIRECT COST OF SUGAR PRODUCED	11,951,999,908		9.3851	12,092,375,277	9.99
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)	1,427,427,260		6.18	906,264,549	3.92
Sale of Total Bagasse/electricity (from crushing of sugarcane this year)	2,013,075,200		8.71	593,847,724	2.57
Sale of Total Mud (from crushing of sugarcane this year)	64,012,000		0.28	-	-
	3,504,514,460		15.17	1,500,112,273	6.49
Allocated Cost on the Basis of Sugar Production					
Financial expenses	-		-	288,555,355	1.25
Salaries & Wages (Admin expenses)	-		-	328,663,264	1.42
Admin expenses	-		-	235,913,600	1.02
	-		-	853,132,219	3.69
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	8,447,485,448		36.57	11,445,395,223	49.55
ADD: MARGIN @ 15%			5.49		7.43
ADD: SALES TAX			6.60		6.60
EX - MILL PRICE			48.65		63.58

# Calculation of Cost of Sugar - HAMZA - 2019-2020

ANNEXURE 2C

		Actual	
		2019-20	
Cane Crushed	Kg	1,890,121,080	Price 219
Sugar production	Kg	189,478,920	Recovery Ratio 10.02%
Quantity of Molasses as by-product	Kg	92,000,000	Molasses Ratio 4.87%
Quantity of Bagasse as by-product	Kg	532,957,000	Bagasse Ratio 28.20%
Quantity of Mud as by-product	Kg	56,704,000	Mud ratio 3.00%
Sale Price of Molasses	Rs./Kg	15	
Sale Price of Bagasse/electricity	Rs./Kg	4.000	
Sale Price of Mud	Rs./Kg	1.000	
Cost of sugarcane		Cost (Rs.)	Rs./Kg
Procurement of sugarcane		10,351,719,932	54.63
Roadcess		70,880,233	0.37
Sugar cane handling, freight & development expenses		-	-
Market Committee Fee		-	-
		10,422,600,165	55.01
Conversion Cost - Fixed			
Depreciation (SUGAR MILL & BUILDING )		616,009,930	3.25
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)		425,090,595	2.24
Repair & maintenance (SUGAR MILL & BUILDING)		257,051,610	1.36
Stores and spares (PRODUCTION PROCESS)		-	-
Other expenses (ONLY PRODUCTION RELATED)		45,242,213	0.24
		1,343,394,348	7.09
Conversion Cost - Variable			
Packing material (SUGAR PRODUCTION)		100,423,827	0.53
Chemicals (SUGAR PRODUCTION)		106,204,345	0.56
Oil and lubricants, fuel and power (SUGAR PRODUCTION)		96,329,107	0.51
		302,957,279	1.60
Direct Costs of Electricity used for Production of Sugar			
Electricity (*TOTAL UNITS CONSUMED x Kwh Rate)		370,693,097	1.96
		370,693,097	1.96
Others			
Insurance expenses (SUGAR PRODUCTION)		-	-
Brokerage & commission		-	-
Other expenses		-	-
Other income		-	-
		-	-
TOTAL DIRECT COST OF SUGAR PRODUCED		12,439,644,889	10.6452
Revenue From By-Products			
Less : Sale of Total Molasses (from crushing of sugarcane this year)		1,380,000,000	7.28
Sale of Total Bagasse/electricity (from crushing of sugarcane this year)		2,131,828,000	11.25
Sale of Total Mud (from crushing of sugarcane this year)		-	-
		3,511,828,000	18.53
Allocated Cost on the Basis of Sugar Production			
Financial expenses		-	-
Salaries & Wages (Admin expenses)		-	-
Admin expenses		-	-
		-	-
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS		8,927,816,889	47.12
ADD: MARGIN @ 15%		7.07	
ADD: SALES TAX		10.20	
EX - MILL PRICE		64.39	

HAMZA	
2019-20	
1,890,121,080	Price 219
189,478,920	Recovery Ratio 10.02%
92,000,000	Molasses Ratio 4.87%
532,957,000	Bagasse Ratio 28.20%
56,704,000	Mud ratio 3.00%
15	
1.123	
Not Sold	
Cost (Rs.)	Rs./Kg
10,351,719,932	54.63
70,880,233	0.37
-	-
-	-
10,422,600,165	55.01
616,009,930	3.25
425,090,595	2.24
257,051,610	1.36
-	-
45,242,213	0.24
1,343,394,348	7.09
100,423,827	0.53
106,204,345	0.56
96,329,107	0.51
302,957,279	1.60
-	-
-	-
22,708,313	0.12
-	-
-	-
22,708,313	0.12
12,091,660,105	8.81
1,406,250,020	7.42
598,562,566	3.16
-	-
2,004,812,586	10.58
245,272,052	1.29
-	-
970,643,259	5.12
1,215,915,311	6.42
11,302,762,830	59.65
8.95	
10.20	
70.80	



# Calculation of Cost of Sugar - HUNZA - 2017-2018

ANNEXURE 3A

		Actual		HUNZA	
		2017-2018		2017-2018	
Cane Crushed	Kg	1,666,072,630	Price 180	1,666,072,630	Price 182
Sugar production	Kg	144,738,750	Recovery Ratio 8.687%	144,738,750	Recovery Ratio 8.687%
Quantity of Molasses as by-product	Kg	82,320,000	Molasses Ratio 4.941%	82,320,000	Molasses Ratio 4.941%
Quantity of Bagasse as by-product	Kg	491,558,930	Bagasse Ratio 29.504%	491,558,930	Bagasse Ratio 29.504%
Quantity of Mud as by-product	Kg	49,982,178	Mud ratio 3.000%	49,982,178	Mud ratio 3.000%
Sale Price of Molasses	Rs./Kg	12.000		9.648	
Sale Price of Bagasse	Rs./Kg	2.900		2.970	
Sale Price of Mud	Rs./Kg	1.000		0.536	
Cost of sugarcane		Cost (Rs.)	Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane		7,499,461,245	51.81	7,579,248,913	52.37
Roadcess		62,477,595	0.43	-	-
Sugar cane handling, freight & development expenses		6,146,541	0.04	-	-
Market Committee Fee				16,660,692	0.12
		7,568,085,381	52.29	7,579,248,913	52.37
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING)		155,935,743	1.08	159,642,544	1.10
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)		225,529,124	1.56	224,628,652	1.55
Repair & maintenance (SUGAR MILL & BUILDING)		167,791,502	1.16	156,527,898	1.08
Stores and spares (PRODUCTION PROCESS)		-	-	-	-
Other expenses (ONLY PRODUCTION RELATED)		-	-	11,876,369	0.08
		549,256,369	3.79	552,675,463	3.82
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)		87,028,705	0.60	80,571,292	0.56
Chemicals (SUGAR PRODUCTION)		54,883,724	0.38	52,920,029	0.37
Oil and lubricants (SUGAR PRODUCTION)		22,196,100	0.15	22,196,100	0.15
Fuel & Power		-	-	24,868,869	0.17
		164,108,529	1.13	180,556,290	1.25
Direct Costs of Electricity used for Production of Sugar					
Electricity (Total Units Consumed x Kw/h Rate)		325,146,952	2.25	656,418,000	4.54
* total electricity units to be inserted in KW/H		325,146,952	2.25	656,418,000	4.54
Others					
Insurance expenses (SUGAR PRODUCTION)		4,942,710	0.03	1,942,732	0.01
Brokerage & commission		-	-	-	-
Other expenses		-	-	-	-
Other income		-	-	-	-
		4,942,710	0.03	1,942,732	0.01
<b>TOTAL DIRECT COST OF SUGAR PRODUCED</b>		<b>8,611,539,941</b>	<b>7.21</b>	<b>8,970,841,398</b>	<b>9.61</b>
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)		987,840,000	6.82	493,920,000	3.41
Sale of Total Bagasse (from crushing of sugarcane this year)		1,425,520,897	9.85	104,045,920	0.72
Sale of Total Mud (from crushing of sugarcane this year)		49,982,178	0.35	-	-
		2,463,343,075	17.02	597,965,920	4.13
Allocated Cost on the Basis of Sugar Production					
Financial expenses		-	-	-	-
Salaries & Wages (Admin expenses)		-	-	-	-
Admin expenses		-	-	-	-
		-	-	-	-
<b>COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS</b>		<b>6,148,196,866</b>	<b>42.48</b>	<b>8,372,875,478</b>	<b>57.85</b>
ADD: MARGIN @ 15%		6.37		8.68	
ADD: SALES TAX		6.60		6.60	
EX - MILL PRICE		55.45		73.13	

## ANNEXURE 3B

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# Calculation of Cost of Sugar - HUNZA - 2019-2020

ANNEXURE 3C

		Actual		HUNZA	
		2019-2020		2019-2020	
Cane Crushed	Kg	1,505,377,808	Price	245	
Sugar production	Kg	138,405,000	Recovery Ratio	9.194%	
Quantity of Molasses as by-product	Kg	67,173,000	Molasses Ratio	4.462%	
Quantity of Bagasse as by-product	Kg	448,662,630	Bagasse Ratio	29.804%	
Quantity of Mud as by-product	Kg	45,161,334	Mud ratio	3.000%	
Sale Price of Molasses	Rs./Kg	15.00			
Sale Price of Bagasse	Rs./Kg	4.00			
Sale Price of Mud	Rs./Kg	1.00			
Cost of sugarcane		Cost (Rs.)	Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane		9,215,973,776	66.59	9,292,161,849	67.14
Roadcess		56,451,675	0.41	-	-
Sugar cane handling, freight & development expenses		4,274,704	0.03	-	-
Market Committee Fee				19,947,801	0.14
		9,276,700,155	67.03	9,292,161,849	67.14
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING)		60,099,200	0.43	144,477,288	1.04
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)		220,978,513	1.60	386,377,046	2.79
Repair & maintenance (SUGAR MILL & BUILDING)		88,606,637	0.64	219,097,599	1.58
Stores and spares (PRODUCTION PROCESS)		-	-	-	-
Other expenses (ONLY PRODUCTION RELATED)		-	-	36,407,868	0.26
		369,684,350	2.67	786,359,801	5.68
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)		52,708,282	0.38	64,043,396	0.46
Chemicals (SUGAR PRODUCTION)		29,902,701	0.22	36,333,390	0.26
Oil and lubricants (SUGAR PRODUCTION)		14,116,587	0.10	33,879,808	0.24
Fuel & Power		-	-	169,803,778	1.23
		96,727,570	0.70	304,060,372	2.20
Direct Costs of Electricity used for Production of Sugar					
Electricity ( Total Units Consumed x Kw/h Rate)		320,432,740	2.32	646,760,877	4.67
* total electricity units to be inserted in KW/H		320,432,740	2.32	646,760,877	4.67
Others					
Insurance expenses (SUGAR PRODUCTION)		4,538,733	0.03	10,892,959	0.08
Brokerage & commission		-	-	-	-
Other expenses		-	-	-	-
Other income		-	-	-	-
		4,538,733	0.03	10,892,959	0.08
TOTAL DIRECT COST OF SUGAR PRODUCED		10,068,083,548	5.72	11,040,235,858	12.63
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)		1,007,595,000	7.28	1,074,768,000	7.77
Sale of Total Bagasse (from crushing of sugarcane this year)		1,794,650,520	12.97	89,006,495	0.64
Sale of Total Mud (from crushing of sugarcane this year)		45,161,334	0.33	4,350,493	0.03
		2,847,406,854	20.57	1,168,124,988	8.44
Allocated Cost on the Basis of Sugar Production					
Financial expenses		-	-	-	-
Salaries & Wages (Admin expenses)		-	-	-	-
Admin expenses		-	-	-	-
		-	-	-	-
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS		7,220,676,693	52.17	9,872,110,870	71.33
ADD: MARGIN @ 15%		7.83		10.70	
ADD: SALES TAX		10.20		10.20	
EX - MILL PRICE		70.20		92.23	

# Calculation of Cost of Sugar - ALLIANCE - 2017-2018

ANNEXURE 4A

		Actual		ALLIANCE	
		2017-18		2017-18	
Cane Crushed	Kg	1,180,333,570	Price	164	
Sugar production	Kg	115,930,000	Recovery Ratio	9.82%	
Quantity of Molasses as by-product	Kg	58,659,670	Molasses Ratio	4.97%	
Quantity of Bagasse as by-product	Kg	344,362,319	Bagasse Ratio	29.18%	
Quantity of Mud as by-product	Kg	35,410,007	Mud ratio	3.00%	
Sale Price of Molasses	Rs./Kg	12.000		5.995	
Sale Price of Bagasse	Rs./Kg	2.900		1.709	
Sale Price of Mud	Rs./Kg	1.000		0.536	
Cost of sugarcane	Cost (Rs.)		Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	4,849,459,588	41.83		4,849,459,588	41.83
Roadcess	7,377,085	0.06		7,377,085	0.06
Sugar cane handling, freight & development expenses	5,306,064	0.05		5,306,064	0.05
Market Committee Fee	-	-		11,803,333	0.10
	4,862,142,737	41.94		4,873,946,070	41.94
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING )	173,722,667	1.50		173,722,667	1.50
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	214,542,298	1.85		214,542,298	1.85
Repair & maintenance (SUGAR MILL & BUILDING)	88,197,642	0.76		88,197,642	0.76
Stores and spares (PRODUCTION PROCESS)	32,084,657	0.28		32,084,657	0.28
Other expenses (ONLY PRODUCTION RELATED)	23,894,607	0.21		23,894,607	0.21
	532,441,871	4.59		532,441,871	4.59
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)	68,765,957	0.59		68,765,957	0.59
Chemicals (SUGAR PRODUCTION)	53,596,451	0.46		53,596,451	0.46
Oil and lubricants (SUGAR PRODUCTION)	14,163,515	0.12		14,163,515	0.12
	136,525,923	1.18		136,525,923	1.18
Direct Costs of Electricity used for Production of Sugar					
Electricity (*TOTAL UNITS CONSUMED x Kw/h rate)	349,033,955	3.01		693,618,925	5.98
	349,033,955	3.01		693,618,925	5.98
Others					
Insurance expenses (SUGAR PRODUCTION)	15,735,586	0.14		15,735,586	0.14
Brokerage & commission	-	-		3,429,750	0.03
Other expenses	-	-		14,189,303	0.12
Other income	-	-		(82,183,280)	(0.71)
	15,735,586	0.14		(48,828,641)	0.14
TOTAL DIRECT COST OF SUGAR PRODUCED	5,895,880,072	8.92		6,187,704,148	11.89
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)	703,916,040	6.07		351,664,722	3.03
Sale of Total Bagasse (from crushing of sugarcane this year)	998,650,725	8.61		588,515,203	5.08
Sale of Total Mud (from crushing of sugarcane this year)	35,410,007	0.31		18,979,764	0.16
	1,737,976,772	14.99		959,159,689	8.27
Allocated Cost on the Basis of Sugar Production					
Financial expenses	-	-		724,027,760	6.25
Salaries & Wages (Admin expenses)	-	-		73,432,914	0.63
Admin expenses	-	-		69,859,361	0.60
	-	-		867,320,035	7.48
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	4,157,903,299	35.87		6,095,864,495	53.04
ADD: MARGIN @ 15%		5.38			7.96
ADD: SALES TAX		6.60			6.60
EX - MILL PRICE		47.85			67.59



# Calculation of Cost of Sugar - ALLIANCE - 2018-2019

ANNEXURE 48

		Actual	
		2018-19	
Cane Crushed	Kg	1,179,315,780	Price 177
Sugar production	Kg	127,810,000	Recovery Ratio 10.84%
Quantity of Molasses as by-product	Kg	50,010,020	Molasses Ratio 4.24%
Quantity of Bagasse as by-product	Kg	346,129,181	Bagasse Ratio 29.35%
Quantity of Mud as by-product	Kg	35,379,473	Mud ratio 3.00%
Sale Price of Molasses	Rs./Kg	14.000	
Sale Price of Bagasse	Rs./Kg	3.200	
Sale Price of Mud	Rs./Kg	1.000	
Cost of sugarcane	Cost (Rs.)		Rs./Kg
Procurement of sugarcane	5,222,001,605		40.86
Roadcess	7,370,724		0.06
Sugar cane handling, freight & development expenses	4,096,485		0.03
Market Committee Fee	-		-
	5,233,468,814		40.95
Conversion Cost - Fixed			
Depreciation (SUGAR MILL & BUILDING)	177,919,333		1.39
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	292,901,844		2.29
Repair & maintenance (SUGAR MILL & BUILDING)	92,079,465		0.72
Stores and spares (PRODUCTION PROCESS)	22,951,163		0.18
Other expenses (ONLY PRODUCTION RELATED)	34,588,107		0.27
	620,439,912		4.85
Conversion Cost - Variable			
Packing material (SUGAR PRODUCTION)	67,976,714		0.53
Chemicals (SUGAR PRODUCTION)	46,612,785		0.36
Oil and lubricants (SUGAR PRODUCTION)	11,630,683		0.09
	126,220,182		0.99
Direct Costs of Electricity used for Production of Sugar			
Electricity (*TOTAL UNITS CONSUMED x Kw/h rate)	292,932,982		2.29
	292,932,982		2.29
Others			
Insurance expenses (SUGAR PRODUCTION)	14,614,879		0.11
Brokerage & commission	-		-
Other expenses	-		-
Other income	-		-
	14,614,879		0.11
TOTAL DIRECT COST OF SUGAR PRODUCED	6,287,676,769		8.25
Revenue From By-Products			
Less : Sale of Total Molasses (from crushing of sugarcane this year)	700,140,280		5.48
Sale of Total Bagasse (from crushing of sugarcane this year)	1,107,613,381		8.67
Sale of Total Mud (from crushing of sugarcane this year)	35,379,473		0.28
	1,843,133,134		14.42
Allocated Cost on the Basis of Sugar Production			
Financial expenses	-		-
Salaries & Wages (Admin expenses)	-		-
Admin expenses	-		-
	-		-
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	4,444,543,635		34.77
ADD: MARGIN @ 15%		5.22	
ADD: SALES TAX		6.60	
EX - MILL PRICE		46.59	

ALLIANCE	
2018-19	
1,179,315,780	Price 177
127,810,000	Recovery Ratio 10.84%
50,010,020	Molasses Ratio 4.24%
346,129,181	Bagasse Ratio 29.35%
35,379,473	Mud ratio 3.00%
8.750	
1.800	
0.375	
Cost (Rs.)	Rs./Kg
5,222,001,605	40.86
7,370,724	0.06
4,096,485	0.03
11,793,157	0.09
5,245,261,971	40.95
177,919,333	1.39
292,901,844	2.29
92,079,465	0.72
22,951,163	0.18
34,588,107	0.27
620,439,912	4.85
67,976,714	0.53
46,612,785	0.36
11,630,683	0.09
126,220,182	0.99
510,732,462	4.00
510,732,462	4.00
14,614,879	0.11
9,804,316	0.08
66,030,579	0.52
(10,700,391)	(0.08)
79,749,383	0.62
6,582,403,910	10.46
437,587,675	3.42
623,032,527	4.87
13,267,303	0.10
1,073,887,504	8.40
1,058,234,431	8.28
86,126,984	0.67
83,868,927	0.66
1,228,230,342	9.61
6,736,746,748	52.62
	7.89
	6.60
	67.11

# Calculation of Cost of Sugar - ALLIANCE - 2019-2020

ANNEXURE 4C

		Actual	
		2019-20	
Cane Crushed	Kg	978,199,925	Price 230
Sugar production	Kg	97,070,000	Recovery Ratio 9.92%
Quantity of Molasses as by-product	Kg	47,365,350	Molasses Ratio 4.84%
Quantity of Bagasse as by-product	Kg	289,253,718	Bagasse Ratio 29.57%
Quantity of Mud as by-product	Kg	29,345,998	Mud ratio 3.00%
Sale Price of Molasses	Rs./Kg	15.000	
Sale Price of Bagasse	Rs./Kg	4.000	
Sale Price of Mud	Rs./Kg	1.000	
Cost of sugarcane	Cost (Rs.)		Rs./Kg
Procurement of sugarcane	5,616,090,291		57.86
Roadcess	6,133,750		0.06
Sugar cane handling, freight & development expenses	4,669,993		0.05
Market Committee Fee	-		-
	5,626,894,034		57.97
Conversion Cost - Fixed			
Depredation (SUGAR MILL & BUILDING )	185,036,106		1.91
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	317,100,991		3.27
Repair & maintenance (SUGAR MILL & BUILDING)	106,812,179		1.10
Stores and spares (PRODUCTION PROCESS)	31,180,452		0.32
Other expenses (ONLY PRODUCTION RELATED)	42,845,865		0.44
	682,975,593		7.04
Conversion Cost - Variable			
Packing material (SUGAR PRODUCTION)	69,267,212		0.71
Chemicals (SUGAR PRODUCTION)	40,739,574		0.42
Oil and lubricants (SUGAR PRODUCTION)	13,491,592		0.14
	123,498,378		1.27
Direct Costs of Electricity used for Production of Sugar			
Electricity (*TOTAL UNITS CONSUMED x Kw/h rate)	233,354,374		2.40
	233,354,374		2.40
Others			
Insurance expenses (SUGAR PRODUCTION)	16,807,111		0.17
Brokerage & commission	-		-
Other expenses	-		-
Other income	-		-
	16,807,111		0.17
<b>TOTAL DIRECT COST OF SUGAR PRODUCED</b>	<b>6,683,529,489</b>		<b>10.89</b>
Revenue From By-Products			
Less : Sale of Total Molasses (from crushing of sugarcane this year)	710,480,250		7.32
Sale of Total Bagasse (from crushing of sugarcane this year)	1,157,014,871		11.92
Sale of Total Mud (from crushing of sugarcane this year)	29,345,998		0.30
	1,896,841,119		19.54
Allocated Cost on the Basis of Sugar Production			
Financial expenses	-		-
Salaries & Wages (Admin expenses)	-		-
Admin expenses	-		-
	-		-
<b>COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS</b>	<b>4,786,688,370</b>		<b>49.31</b>
ADD: MARGIN @ 15%			7.40
ADD: SALES TAX			10.20
EX - MILL PRICE			66.91

ALLIANCE		2019-20	
978,199,925	Price	230	
97,070,000	Recovery Ratio	9.92%	
47,365,350	Molasses Ratio	4.84%	
289,253,718	Bagasse Ratio	29.57%	
29,345,998	Mud ratio	3.00%	
8.750			
1.800			
0.375			
Cost (Rs.)		Rs./Kg	
5,617,242,736		57.87	
5,113,750		0.06	
2,347,403		0.02	
9,781,999		0.10	
5,635,485,888		57.96	
185,036,106		1.91	
188,530,453		1.94	
68,135,858		0.70	
9,792,139		0.10	
23,839,619		0.25	
475,334,175		4.90	
59,110,758		0.61	
42,026,131		0.43	
13,302,893		0.14	
114,439,782		1.18	
508,792,195		5.24	
508,792,195		5.24	
15,404,242		0.16	
9,804,316		0.10	
807,542		0.01	
(1,237,139)		(0.01)	
24,778,961		0.26	
6,758,831,001		11.57	
414,446,813		4.27	
520,656,692		5.36	
11,004,749		0.11	
946,108,254		9.75	
447,296,883		4.61	
52,971,443		0.55	
37,635,736		0.39	
537,904,062		5.54	
5,350,626,810		65.32	
		9.80	
		10.20	
		85.32	



# Calculation of Cost of Sugar - Al Moiz - 2017-2018

ANNEXURE 5A

		Actual	
		2017-2018	
Cane & Beet Crushed	Kg	2,513,433,318	Price 154
Sugar production	Kg	251,829,200	Recovery Ratio 10.02%
Quantity of Molasses as by-product	Kg	120,345,000	Molasses Ratio 4.79%
Quantity of Bagasse as by-product	Kg	629,758,747	Bagasse Ratio 29.36%
Quantity of Mud as by-product	Kg	60,372,161	Mud ratio 2.40%
Quantity of Pulp as by-product	Kg	83,288,350	Pulp ratio 3.31%
Sale Price of Molasses	Rs./Kg	12	
Sale Price of Bagasse	Rs./Kg	2.90	
Sale Price of Mud	Rs./Kg	1.000	
Sale Price of Pulp	Rs./Kg	1.427	

		Al Moiz	
		2017-2018	
2,513,433,318	Price	177	
251,829,200	Recovery Ratio	10.02%	
120,345,000	Molasses Ratio	4.79%	
629,758,747	Bagasse Ratio	29.36%	
60,372,161	Mud ratio	2.40%	
83,288,350	Pulp ratio	3.31%	
6			
-			
0.000			
1.205			

Cost of sugarcane	Cost (Rs.)	Rs./Kg
Procurement of sugarcane and Beet	9,690,517,065	38.48
Roadways	66,539,746	0.26
Sugar cane handling, freight & development expenses	174,948,621	0.69
Market Committee Fee	-	-
	9,932,005,432	39.44

Cost (Rs.)	Rs./Kg
11,120,398,256	44.16
66,538,137	0.26
131,343,652	0.52
10,655,638.00	0.04
11,328,935,683	44.99

Conversion Cost - Fixed	Cost (Rs.)	Rs./Kg
Depreciation (SUGAR MILL & BUILDING)	541,575,830	2.15
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	604,242,141	2.40
Repair & maintenance (SUGAR MILL & BUILDING)	344,051,645	1.37
Fuel & power	-	-
Other expenses (ONLY PRODUCTION RELATED)	126,665,437	0.50
	1,616,535,053	6.42

Cost (Rs.)	Rs./Kg
541,575,830	2.15
604,242,141	2.40
344,051,645	1.37
36,694,280	0.15
126,616,371	0.50
1,653,180,267	6.56

Conversion Cost - Variable	Cost (Rs.)	Rs./Kg
Packing material (SUGAR PRODUCTION)	106,587,604	0.42
Chemicals (SUGAR PRODUCTION)	207,269,514	0.82
Oil and lubricants (SUGAR PRODUCTION)	19,908,540	0.08
	333,765,658	1.33
Direct Costs of Electricity used for Production of Sugar		
Electricity (*TOTAL UNITS CONSUMED x Kw/h Rate)	907,536,040	3.60
	907,536,040	3.60

Cost (Rs.)	Rs./Kg
106,587,604	0.42
207,269,514	0.82
19,908,540	0.08
333,765,658	1.33
-	-
-	-

Others	Cost (Rs.)	Rs./Kg
Insurance expenses (SUGAR PRODUCTION)	16,378,410	0.07
Brokerage & commission	-	-
Other expenses	-	-
Other income	-	-
	16,378,410	0.07
TOTAL DIRECT COST OF SUGAR PRODUCED	12,806,220,593	11.41

Cost (Rs.)	Rs./Kg
16,378,410	0.07
-	-
-	-
-	-
16,378,410	0.07
13,332,260,018	7.96

Revenue From By-Products	Cost (Rs.)	Rs./Kg
Less : Sale of Total Molasses (from crushing of sugarcane this year)	1,444,140,000	5.73
Sale of Total Bagasse (from crushing of sugarcane this year)	1,826,300,367	7.25
Sale of Total Mud (from crushing of sugarcane this year)	60,372,161	0.24
Sale of Pulp	118,879,157	0.47
Sale of Electricity	-	-
	3,449,691,685	13.70

Cost (Rs.)	Rs./Kg
732,752,608	2.91
-	-
-	-
-	-
100,353,468	0.40
206,585,922	0.82
1,039,691,998	4.13

Allocated Cost on the Basis of Sugar Production	Cost (Rs.)	Rs./Kg
Financial expenses	-	-
Salaries & Wages (Admin expenses)	-	-
Admin expenses	-	-
	-	-

Cost (Rs.)	Rs./Kg
611,104,134	2.43
171,584,710	0.68
153,467,508	0.61
936,156,352	3.72

COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	Cost (Rs.)	Rs./Kg
	9,356,528,908	37.15

Cost (Rs.)	Rs./Kg
13,228,724,372	52.53

ADD: MARGIN @ 15%	Rs./Kg
	5.57

Rs./Kg
7.88

ADD: SALES TAX	Rs./Kg
	6.60

Rs./Kg
6.60

EX - MILL PRICE	Rs./Kg
	49.33

Rs./Kg
67.01

# Calculation of Cost of Sugar - Al Moiz - 2018-2019

ANNEXURE 5B

		Actual	
		2018-2019	
Cane & Beet Crushed	Kg	1,940,759,550	Price 175
Sugar production	Kg	205,659,500	Recovery Ratio 10.60%
Quantity of Molasses as by-product	Kg	85,411,130	Molasses Ratio 4.40%
Quantity of Bagasse as by-product	Kg	409,778,592	Bagasse Ratio 29.36%
Quantity of Mud as by-product	Kg	41,692,087	Mud ratio 2.15%
Quantity of Pulp as by-product	Kg	102,350,674	Pulp ratio 5.27%
Sale Price of Molasses	Rs./Kg	14	
Sale Price of Bagasse	Rs./Kg	3.20	
Sale Price of Mud	Rs./Kg	1.000	
Sale Price of Pulp	Rs./Kg	1.622	

		Al Moiz	
		2018-2019	
1,940,759,550	Price	179	
205,659,500	Recovery Ratio	10.60%	
85,411,130	Molasses Ratio	4.40%	
409,778,592	Bagasse Ratio	50.81%	
41,692,087	Mud ratio	2.15%	
102,350,669	Pulp ratio	5.27%	
10			
-			
0.000			
1.364			

	Cost (Rs.)	Rs./Kg
<b>Cost of sugarcane</b>		
Procurement of sugarcane and Beet	8,503,552,963	41.35
Roadcases	40,729,221	0.20
Sugar cane handling, freight & development expenses	129,330,529	0.63
Market Committee Fee		
	8,673,612,713	42.17
<b>Conversion Cost - Fixed</b>		
Depreciation (SUGAR MILL & BUILDING)	591,737,206	2.88
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	644,323,425	3.13
Repair & maintenance (SUGAR MILL & BUILDING)	326,024,465	1.59
Fuel & power	40,242,197	0.20
Other expenses (ONLY PRODUCTION RELATED)	143,115,352	0.70
	1,745,442,645	8.49
<b>Conversion Cost - Variable</b>		
Packing material (SUGAR PRODUCTION)	109,993,367	0.51
Chemicals (SUGAR PRODUCTION)	227,477,953	1.11
Oil and lubricants (SUGAR PRODUCTION)	21,820,705	0.11
	353,292,025	1.72
<b>Direct Costs of Electricity used for Production of Sugar</b>		
Electricity (*TOTAL UNITS CONSUMED x Kw/h Rate)	767,835,470	3.73
	767,835,470	3.73
<b>Others</b>		
Insurance expenses (SUGAR PRODUCTION)	15,204,720	0.07
Brokerage & commission		
Other expenses		
Other Income		
	15,204,720	0.07
<b>TOTAL DIRECT COST OF SUGAR PRODUCED</b>	11,555,387,573	14.01
<b>Revenue From By-Products</b>		
Less : Sale of Total Molasses (from crushing of sugarcane this year)	1,195,755,820	5.81
Sale of Total Bagasse (from crushing of sugarcane this year)	1,311,291,495	6.38
Sale of Total Mud (from crushing of sugarcane this year)	41,692,087	0.20
Sale of Pulp	166,012,948	0.81
Sale of Electricity	-	-
	2,714,752,350	13.20
<b>Allocated Cost on the Basis of Sugar Production</b>		
Financial expenses	-	-
Salaries & Wages (Admin expenses)	-	-
Admin expenses	-	-
	-	-
<b>COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS</b>	8,840,635,223	42.99
<b>ADD: MARGIN @ 15%</b>		6.45
<b>ADD: SALES TAX</b>		6.60
<b>EX - MILL PRICE</b>		56.03

Cost (Rs.)	Rs./Kg
8,663,272,656	42.12
40,728,203	0.20
99,081,593	0.48
6,050,033.00	0.03
8,809,132,485	42.83
591,737,206	2.88
644,323,425	3.13
326,024,465	1.59
40,242,197	0.20
149,775,256	0.73
1,752,102,549	8.52
103,993,367	0.51
227,477,953	1.11
21,820,705	0.11
353,292,025	1.72
-	-
-	-
15,204,720	0.07
15,204,720	0.07
10,923,681,746	10.31
859,467,997	4.18
-	-
139,564,008	0.68
715,597,568	3.48
1,714,629,573	8.34
1,082,422,383	5.26
192,075,126	0.93
255,415,876	1.24
1,529,913,385	7.44
10,745,015,591	52.25
	7.84
	6.60
	68.48



# Calculation of Cost of Sugar - Al Moiz - 2019-2020

ANNEXURE 5C

		Actual	
		2019-2020	
Cane & Beet Crushed	Kg	1,249,204,285	Price 227
Sugar production	Kg	127,694,500	Recovery Ratio 10.22%
Quantity of Molasses as by-product	Kg	55,047,511	Molasses Ratio 4.41%
Quantity of Bagasse as by-product	Kg	360,314,385	Bagasse Ratio 29.36%
Quantity of Mud as by-product	Kg	19,608,487	Mud ratio 1.57%
Quantity of Pulp as by-product	Kg	-	Pulp ratio 0.00%
Sale Price of Molasses	Rs./Kg	15.00	
Sale Price of Bagasse	Rs./Kg	4	
Sale Price of Mud	Rs./Kg	1.00	
Sale Price of Pulp	Rs./Kg	0	

Al Moiz			
		2019-2020	
1,249,204,285	Price	227	
127,694,500	Recovery Ratio	10.22%	
55,047,511	Molasses Ratio	4.41%	
360,458,425	Bagasse Ratio	29.36%	
19,608,487	Mud ratio	1.57%	
-	Pulp ratio	0.00%	
7.66			
-			
0			
1.364			

Cost of sugarcane	Cost (Rs.)	Rs./Kg
Procurement of sugarcane and Beet	7,093,149,461	55.55
Roadcess	39,069,231	0.31
Sugar cane handling, freight & development expenses	14,960,840	0.12
Market Committee Fee		
	7,147,179,532	55.97

Cost (Rs.)	Rs./Kg
7,093,149,461	55.55
39,069,231	0.31
14,960,840	0.12
-	-
7,147,179,532	55.97

Conversion Cost - Fixed	Cost (Rs.)	Rs./Kg
Depreciation (SUGAR MILL & BUILDING)	307,712,636	2.41
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	327,407,478	2.56
Repair & maintenance (SUGAR MILL & BUILDING)	190,584,468	1.49
Fuel & power	41,373,389	0.32
Other expenses (ONLY PRODUCTION RELATED)	56,103,068	0.44
	923,181,039	7.23

Cost (Rs.)	Rs./Kg
307,712,636	2.41
327,407,478	2.56
190,584,468	1.49
41,373,389	0.32
56,103,068	0.44
923,181,039	7.23

Conversion Cost - Variable	Cost (Rs.)	Rs./Kg
Packing material (SUGAR PRODUCTION)	44,459,064	0.35
Chemicals (SUGAR PRODUCTION)	48,670,668	0.38
Oil and lubricants (SUGAR PRODUCTION)	14,560,779	0.11
	107,690,511	0.84

Cost (Rs.)	Rs./Kg
44,459,064	0.35
48,670,668	0.38
14,560,779	0.11
107,690,511	0.84

Direct Costs of Electricity used for Production of Sugar	Cost (Rs.)	Rs./Kg
Electricity (*TOTAL UNITS CONSUMED x Kw/h Rate)	511,130,507	4.00
	511,130,507	4.00

Cost (Rs.)	Rs./Kg
-	-
-	-

Others	Cost (Rs.)	Rs./Kg
Insurance expenses (SUGAR PRODUCTION)	8,614,848	0.07
Brokerage & commission		
Other expenses		
Other income		
	8,614,848	0.07
TOTAL DIRECT COST OF SUGAR PRODUCED	8,697,796,437	12.14

Cost (Rs.)	Rs./Kg
8,614,848	0.07
-	-
-	-
-	-
8,614,848	0.07
8,186,665,930	8.14

Revenue From By-Products	Cost (Rs.)	Rs./Kg
Less : Sale of Total Molasses (from crushing of sugarcane this year)	825,712,665	6.47
Sale of Total Bagasse (from crushing of sugarcane this year)	1,441,257,541	11.29
Sale of Total Mud (from crushing of sugarcane this year)	19,608,487	0.15
Sale of Pulp	-	-
Sale of Electricity	-	-
	2,286,578,693	17.91

Cost (Rs.)	Rs./Kg
421,880,200	3.30
-	-
-	-
-	-
345,957,818	2.71
767,838,018	6.01

Allocated Cost on the Basis of Sugar Production	Cost (Rs.)	Rs./Kg
Financial expenses	-	-
Salaries & Wages (Admin expenses)	-	-
Admin expenses	-	-
	-	-

Cost (Rs.)	Rs./Kg
531,345,744	4.16
170,282,347	1.33
232,816,049	1.82
934,444,140	7.32

COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	Cost (Rs.)	Rs./Kg
	6,411,217,744	50.21

Cost (Rs.)	Rs./Kg
8,353,272,052	65.42

ADD: MARGIN @ 15%	Rs./Kg
	7.53
ADD: SALES TAX	Rs./Kg
	10.20
EX - MILL PRICE	Rs./Kg
	82.94

Rs./Kg
9.81
Rs./Kg
10.20
Rs./Kg
85.43

# Calculation of Cost of Sugar - AL ARABIA - 2017-2018

ANNEXURE 6A

		Actual		AL Arabia	
		2017-2018		2017-2018	
Cane Crushed	Kg	450,032,035	Price	450,032,035	Price
Sugar production	Kg	46,260,000	Recovery Ratio	46,260,000	Recovery Ratio
Quantity of Molasses as by-product	Kg	25,100,000	Molasses Ratio	25,100,000	Molasses Ratio
Quantity of Bagasse as by-product	Kg	128,565,000	Bagasse Ratio	128,565,000	Bagasse Ratio
Quantity of Mud as by-product	Kg	13,500,961	Mud ratio	13,500,961	Mud ratio
Sale Price of Molasses	Rs./Kg	12.000		5.235	
Sale Price of Bagasse	Rs./Kg	2.900		0.309	
Sale Price of Mud	Rs./Kg	1.000		0.300	
Cost of sugarcane	Cost (Rs.)	Rs./Kg	Cost (Rs.)	Rs./Kg	
Procurement of sugarcane	1,989,304,234	43.00	1,999,545,191	43.22	
Roadcases	16,877,173	0.36	16,877,173	0.36	
Sugar cane handling, freight & development expenses	17,946,063	0.39	17,946,063	0.39	
Market Committee Fee			4,500,321	0.10	
	2,024,127,470	43.76	2,038,868,748	44.07	
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING)	10,444,548	0.23	10,444,548	0.23	
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	323,961,360	7.00	323,961,360	7.00	
Repair & maintenance (SUGAR MILL & BUILDING)	269,348	0.01	269,348	0.01	
Stores and spares (PRODUCTION PROCESS)	-	-	-	-	
Other expenses (ONLY PRODUCTION RELATED)	29,329,061	0.63	29,329,061	0.63	
	364,004,317	7.87	364,004,317	7.87	
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)	23,333,782	0.50	23,333,782	0.50	
Chemicals (SUGAR PRODUCTION)	35,905,724	0.78	35,905,724	0.78	
Oil and lubricants (SUGAR PRODUCTION)	9,699,252	0.21	9,699,252	0.21	
	68,938,758	1.49	68,938,758	1.49	
Direct Costs of Electricity used for Production of Sugar					
Electricity (*TOTAL UNITS CONSUMED x KW/h Rate)	125,289,200	2.71	-	-	
	125,289,200	2.71	-	-	
Others					
Insurance expenses (SUGAR PRODUCTION)	8,875,944	0.19	8,875,944	0.19	
Brokerage & commission	-	-	-	-	
Other expenses	-	-	79,357,273	1.715	
Other Income	-	-	-	-	
	8,875,944	0.19	88,233,217	1.91	
TOTAL DIRECT COST OF SUGAR PRODUCED	2,591,235,689	12.26	2,560,016,100	11.27	
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)	301,200,000	6.51	131,392,726	2.84	
Sale of Total Bagasse (from crushing of sugarcane this year)	372,838,500	8.06	39,780,000	0.86	
Sale of Total Mud (from crushing of sugarcane this year)	13,500,961	0.29	4,050,287	0.09	
	687,539,461	14.86	175,223,013	3.79	
Allocated Cost on the Basis of Sugar Production					
Financial expenses	-	-	-	-	
Salaries & Wages (Admin expenses)	-	-	-	-	
Admin expenses	-	-	-	-	
	-	-	-	-	
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	1,903,696,228	41.15	2,384,822,027	51.55	
ADD: MARGIN @ 15%		6.17		7.73	
ADD: SALES TAX		6.60		6.60	
EX - MILL PRICE		53.92		65.88	



# Calculation of Cost of Sugar - AL ARABIA - 2018-2019

ANNEXURE 6B

		Actual		AL Arabia	
		2018-2019		2018-2019	
Cane Crushed	Kg	668,962,160	Price	668,962,160	182.65
Sugar production	Kg	68,545,000	Recovery Ratio	68,545,000	10.25%
Quantity of Molasses as by-product	Kg	30,300,000	Molasses Ratio	30,300,000	4.53%
Quantity of Bagasse as by-product	Kg	194,059,000	Bagasse Ratio	194,059,000	29.01%
Quantity of Mud as by-product	Kg	20,068,865	Mud ratio	20,068,865	3.00%
Sale Price of Molasses	Rs./Kg	14.000		9.488	
Sale Price of Bagasse	Rs./Kg	3.200		0.289	
Sale Price of Mud	Rs./Kg	1.000		0.255	
Cost of sugarcane	Cost (Rs.)		Rs./Kg	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	3,054,625,397		44.56	3,107,781,696	45.34
Roadcess	25,087,260		0.37	25,087,260	0.37
Sugar cane handling, freight & development expenses	6,552,827		0.10	6,552,827	0.10
Market Committee Fee	-		-	6,705,675	0.10
	3,086,265,484		45.03	3,146,127,458	45.90
Conversion Cost - Fixed					
Depreciation (SUGAR MILL & BUILDING )	615,787,342		8.98	626,331,822	9.14
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	293,153,990		4.28	294,850,642	4.30
Repair & maintenance (SUGAR MILL & BUILDING)	75,177,948		1.10	75,704,736	1.10
Stores and spares (PRODUCTION PROCESS)	-		-	-	-
Other expenses (ONLY PRODUCTION RELATED)	12,508,405		0.18	20,512,325	0.30
	996,627,685		14.54	1,017,399,525	14.84
Conversion Cost - Variable					
Packing material (SUGAR PRODUCTION)	40,788,674		0.60	40,788,674	0.60
Chemicals (SUGAR PRODUCTION)	27,847,714		0.41	27,847,714	0.41
Oil and lubricants (SUGAR PRODUCTION)	7,610,771		0.11	7,610,771	0.11
	76,247,160		1.11	76,247,159	1.11
Direct Costs of Electricity used for Production of Sugar					
Electricity (*TOTAL UNITS CONSUMED x KW/h Rate)	184,498,925		2.69	-	-
	184,498,925		2.69		
Others					
Insurance expenses (SUGAR PRODUCTION)	5,522,237		0.08	7,258,707	0.11
Brokerage & commission	-		-	-	-
Other expenses	-		-	36,763,381	0.54
Other Income	-		-	-	-
	5,522,237		0.08	44,022,088	0.64
TOTAL DIRECT COST OF SUGAR PRODUCED	4,349,161,491		18.42	4,283,796,230	0.64
Revenue From By-Products					
Less : Sale of Total Molasses (from crushing of sugarcane this year)	424,200,000		6.19	287,472,379	4.19
Sale of Total Bagasse (from crushing of sugarcane this year)	620,988,800		9.06	56,052,304	0.82
Sale of Total Mud (from crushing of sugarcane this year)	20,068,865		0.29	5,114,805	0.07
	1,065,257,665		15.54	348,639,488	5.09
Allocated Cost on the Basis of Sugar Production					
Financial expenses	-		-	-	-
Salaries & Wages (Admin expenses)	-		-	-	-
Admin expenses	-		-	-	-
	-		-	-	-
COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	3,283,903,826		47.91	3,935,156,742	57.41
ADD: MARGIN @ 15%			7.19		8.61
ADD: SALES TAX			6.60		6.60
EX - MILL PRICE			61.70		72.62

# Calculation of Cost of Sugar - AL ARABIA - 2019-2020

ANNEXURE 6C

		Actual	
		2019-2020	
Cane Crushed	Kg	373,783,245	Price 226.59
Sugar production	Kg	37,180,000	Recovery Ratio 9.95%
Quantity of Molasses as by-product	Kg	15,155,000	Molasses Ratio 4.05%
Quantity of Bagasse as by-product	Kg	105,858,000	Bagasse Ratio 28.32%
Quantity of Mud as by-product	Kg	11,213,497	Mud ratio 3.00%
Sale Price of Molasses	Rs./Kg	15.000	
Sale Price of Bagasse	Rs./Kg	4.000	
Sale Price of Mud	Rs./Kg	1.000	

AL Arabia		
2019-2020		
373,783,245	Price	229.75
37,180,000	Recovery Ratio	9.95%
15,155,000	Molasses Ratio	4.05%
105,858,000	Bagasse Ratio	28.32%
11,213,497	Mud ratio	3.00%
14.874		
-		
-		

Cost of sugarcane	Cost (Rs.)	Rs./Kg
Procurement of sugarcane	2,117,342,290	56.95
Roadcess	13,536,383	0.36
Sugar cane handling, freight & development expenses	6,361,206	0.17
Market Committee Fee	-	-
	2,137,239,879	57.48

Cost (Rs.)	Rs./Kg
2,146,897,446	57.74
13,536,383	0.29
6,361,206	0.14
3,609,539	0.08
2,170,404,574	58.25

Conversion Cost - Fixed	Cost (Rs.)	Rs./Kg
Depreciation (SUGAR MILL & BUILDING )	554,208,608	14.91
Salaries and wages (DIRECT LABOUR & PRODUCTION STAFF)	135,763,371	3.65
Repair & maintenance (SUGAR MILL & BUILDING)	17,148,698	0.46
Stores and spares (PRODUCTION PROCESS)	-	-
Other expenses (ONLY PRODUCTION RELATED)	7,107,938	0.19
	714,228,615	19.21

Cost (Rs.)	Rs./Kg
577,837,952	15.54
352,915,000	9.49
45,480,191	1.22
-	-
23,456,833	0.63
999,689,976	26.89

Conversion Cost - Variable	Cost (Rs.)	Rs./Kg
Packing material (SUGAR PRODUCTION)	19,453,164	0.52
Chemicals (SUGAR PRODUCTION)	18,149,498	0.49
Oil and lubricants (SUGAR PRODUCTION)	6,676,034	0.18
	44,278,696	1.19

Cost (Rs.)	Rs./Kg
20,490,292	0.55
20,282,182	0.55
7,152,999	0.19
47,925,473	1.29

Direct Costs of Electricity used for Production of Sugar	Cost (Rs.)	Rs./Kg
Electricity ("TOTAL UNITS CONSUMED x KW/h Rate")	106,473,887	2.86
	106,473,887	2.86

Cost (Rs.)	Rs./Kg
-	-
-	-

Others	Cost (Rs.)	Rs./Kg
Insurance expenses (SUGAR PRODUCTION)	1,906,056	0.05
Brokerage & commission	-	-
Other expenses	-	-
Other income	-	-
	1,906,056	0.05

Cost (Rs.)	Rs./Kg
5,329,938	0.14
-	-
21,722,126	0.58
-	-
27,052,064	0.73

TOTAL DIRECT COST OF SUGAR PRODUCED	Cost (Rs.)	Rs./Kg
	3,004,127,133	23.32

Cost (Rs.)	Rs./Kg
3,245,072,087	28.90

Revenue From By-Products	Cost (Rs.)	Rs./Kg
Less : Sale of Total Molasses (from crushing of sugarcane this year)	227,325,000	6.11
Sale of Total Bagasse (from crushing of sugarcane this year)	423,432,000	11.39
Sale of Total Mud (from crushing of sugarcane this year)	11,213,497	0.30
	661,970,497	17.80

Cost (Rs.)	Rs./Kg
225,422,477	6.06
-	-
-	-
225,422,477	6.06

Allocated Cost on the Basis of Sugar Production	Cost (Rs.)	Rs./Kg
Financial expenses	-	-
Salaries & Wages (Admin expenses)	-	-
Admin expenses	-	-
	-	-

Cost (Rs.)	Rs./Kg
-	-
-	-
-	-
-	-

COST OF SUGAR PRODUCED NET OF REVENUE OF BY-PRODUCTS	Cost (Rs.)	Rs./Kg
	2,342,156,636	63.00

Cost (Rs.)	Rs./Kg
3,019,649,610	81.09

ADD: MARGIN @ 15%	Rs./Kg
	9.45

Rs./Kg
12.16

ADD: SALES TAX	Rs./Kg
	10.20

Rs./Kg
10.20

EX - MILL PRICE	Rs./Kg
	82.64

Rs./Kg
103.46



**Benami Transactions (Prohibition Act), 2017****(i) Objective**

BTPA, 2017 has been enacted by the Majlis-e-Shura (Parliament) of Islamic Republic of Pakistan to provide for prohibition of entering and holding property in benami, restricting right to recover or transfer property held benami and providing mechanism and procedure for confiscation of property held benami, and matters connected therewith or incidental thereof.

**(ii) Key Definitions**

The key definitions are as under:

**Benami Transaction – Section 2(1)(8)**

*“Benami transaction” means,—*

**(A)** *a transaction or arrangement,—*

*(a) where a property is transferred to, or is held by, a person and the consideration for such property has been provided, or paid by, another person; and*

*(b) the property is held for the immediate or future benefit, direct or indirect, of the person who has provided the consideration, except when the property is held by:—*

*(i) a person standing in a fiduciary capacity for the benefit of another person towards whom he stands in such capacity and includes a trustee, executor, partner, director of a company, agent or legal adviser, and any other person as may be notified by the Federal Government for this purpose; or*

*(ii) any person being an individual in the name of his spouse or in the name of any child or in the name of his brother and sister or lineal ascendant or descendant and the individual appearing as joint owner in any document of such individual and the consideration for such property has been provided or paid out of known resources of income of the individual; or*

**(B)** *a transaction or arrangement in respect of a property carried out or made in a fictitious name; or*

**(C)** *a transaction or arrangement in respect of a property where the owner of the property is not aware of, or denies knowledge of, such ownership; or*

**(D)** *a transaction or arrangement in respect of a property where the person providing the consideration is not traceable or is fictitious;”*

**Benami Property – Section 2(1)(7)**

*“Benami Property” means any property which is the subject matter of benami transaction and also includes the proceeds from such property;”*

**Benamidar – Section 2(1)(9)**

*“Benamidar” means a person or a fictitious person, as the case may be, in whose name the benami property is transferred or held and includes a person who lends his name”*

**Beneficial Owner – Section 2(1)(11)**

*“Beneficial owner” means a person, whether his identity is known or not, for whose benefit the benami property is held by a benamidar”*

**(iii) Important Provisions of BTPA, 2017**

**Section 3.**

*“3. Prohibition of benami transaction.- (1) No person shall enter into any benami transaction.*

*(2) Whoever enter; into any benami transaction or holds any benami property on and after the date of the commencement of this Act, shall be punishable in accordance with the provisions contained in Chapter VIII.”*

**Section 4.**

*“4. Property held benami liable to confiscation.—Any property, which is subject matter of benami transaction, shall be liable to be confiscated by the Federal Government.”*

**Section 51.**

*“51. Penalty for benami transaction.—(1) Where any person enters into a benami transaction or holds benami property in order to defeat the provisions of any law or to avoid payment of statutory dues or to avoid payment to creditors the beneficial owner, benamidar and any other person who abets or induces any person to enter into the benami transaction, shall be guilty of an offence of benami transaction.”*



GOVERNMENT OF PAKISTAN  
MINISTRY OF INDUSTRIES & PRODUCTION

<><><>

SUBJECT: COST OF PRODUCTION OF SUGAR FOR EXPORT TO OTHER COUNTRIES

On the request of Pakistan Sugar Mills Association (PSMA), a meeting of the Sugar Advisory Board was held in the Ministry of Industries & Production on 7<sup>th</sup> September, 2017 at 11:00 A.M. The meeting was represented by the Governments of Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan in addition to the representatives of the various Ministries and Departments of the Federal Governments besides the representatives of the Kissan Board.

2. After detailed discussion, it was unanimously agreed and accepted that 1.5 million metric tonnes sugar can be allowed for export after factoring in projected consumption of next three months. Detailed recommendations of the Sugar Advisory Board are contained in the enclosed minutes which should form part of the summary for the ECC of the Cabinet to be prepared by the Ministry of Commerce (Annexure-I).

3. The Prime Minister of Pakistan also held a meeting in the Prime Minister's Office with PSMA on 07.09.2017 in which among other directives, Ministry of Industries & Production was directed to work out production cost of sugar which can be made basis for deliberating on the demand of PSMA for grant of subsidy for export purpose, today positively.

4. In pursuance of the directions of the Honourable Prime Minister an extensive exercise has been undertaken in the M/o Industries & Production and cost has been worked out which comes to Rs.52.46 per kg (Annexure-II).

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Taking today's International price, viz 376.60 US\$ per Metric Tonne, the price differential which can form basis for subsidy works out to Rs.10.70 per kg. The details of the assumptions and other methodologies used for the purpose are based on the previous practice of this Ministry. For linking export of sugar to payment to the sugarcane growers and the issue of price stability in the domestic market may be deliberated by the ECC of the Cabinet.

5. As regards inland transportation cost and other export related overheads, the same may be worked out by the Ministry of Commerce and Textile and reflected in the Summary for the ECC.

6. Similarly the subsidy on the balance exportable surplus already approved by the ECC may be deliberated as deemed appropriate.

7. Ministry of Commerce and Textile may take further necessary action.

Encl: As above

  
(KHIZAR HAYAT GONDAL)  
SECRETARY

Secretary, Ministry of Commerce & Textile, Government of Pakistan, Islamabad.  
MOI&P's U.O. No. 1(6)/2016-CAO, dated 8<sup>th</sup> September, 2017

CC:

1. Secretary to the Prime Minister, Prime Minister's Office, Islamabad.
2. PSO to Minister for Industries & Production



GOVERNMENT OF PAKISTAN  
MINISTRY OF INDUSTRIES & PRODUCTION  
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Subject: **MINUTES OF MEETING OF THE SUGAR ADVISORY BOARD  
(SAB) HELD ON SEPTEMBER 07, 2017**

On the request of Pakistan Sugar Mills Association (PSMA), a meeting of the Sugar Advisory Board (SAB) was held in the Ministry of Industries and Production on September 7, 2017 at 11:00 hours under the Chairmanship of Secretary, Industries and Production to review the availability of sugar stock, estimated consumption before start of the next crushing season 2017-18 and workout the exportable surplus, if any. List of participants is at Annex-A.

2. The meeting started with recitation from the Holy Quran. The Chair welcomed the participants and apprised them of the background for convening the meeting. Chairman, Pakistan Sugar Mills Association (PSMA) was invited first to present PSMA's point of view. The Chairman, PSMA agreed with the figures of sugar stocks available as on 1<sup>st</sup> September, 2017 presented before the Board in shape of working paper and apprised of the problems being faced by the Sugar Industry i.e. high cost of production, vis-à-vis low sale price, stocks pledged with the State Bank of Pakistan with consequent delay in release of payment to sugarcane growers, impact on domestic markets and approval for export of smaller quantities of sugar vis-à-vis large exportable surplus. He further apprised that the cost of production of sugar as worked out in consultation with the Government of Punjab comes to Rs. 62.96 per kg including sales tax of Rs.6/- whereas sugar stock have been pledged with the banks at the rate of Rs. 50/51 per kg and after deduction of sales tax @ Rs.6/- per kg, the net price of Rs.44/- per kg returns to the sugar mills. Chairman, PSMA proposed that keeping in view aforesaid situation at least two (2) million metric tonnes of sugar be allowed for export with subsidy of Rs.18 per kg enabling the sugar mills to secure release of pledged

stocks, made outstanding payment to the sugarcane growers and address cash flow issues for purchasing sugarcane during the next crushing season 2017-18.

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3. The representative of Kissan Board on his turn complained about the huge amount outstanding against the sugar mills on account of purchase of sugarcane. He proposed that only those sugar mills be allowed to export sugar which have cleared the outstanding dues of the growers besides the assurance to the growers that the sugarcane during the next crushing season will continue to be procured @ Rs.180/- per 40 kg.

4. The Secretary Food, Government of Punjab apprised that after keeping the provision for consumptions of two months, there is surplus sugar of 1 million metric tonnes for export before next crushing season. He also stated that sugarcane cropped area has increased from last year's 1.92 million acres to 2.13 million acres this year (10% increase). Resultantly sugarcane crop production and sugar production will also increase by 13% as compared to last crushing season. He, therefore, recommended export of 1.5 million metric tonnes of sugar upto 30.06.2018 and the question of subsidy be dealt with by the Federal Government. On a query by the chair he declined to endorse statement of the Chairman PSMA that Punjab Government has worked out cost of production as Rs. 62.96.

5. The Cane Commissioner, Government of Sindh stated that PSMA, Sindh Zone had approached them with the request for export of 1.8 million tonnes of sugar with a rebate of Rs.18/- per kg and Government of Sindh supports their request, which they have already conveyed to MoIP in writing. The representative of Government of Khyber Pakhtunkhwa neither supported export of sugar being sugar deficit province nor grant of subsidy on export, whereas representative of Balochistan Government supported export without making it a time-bound activity. She also stressed the need for setting up sugar mills in Jaffarabad/Dera Murad Jamali area.



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6. Representative of Ministry of National Food Security & Research (MNFS&R) while taking part in the deliberations apprised that there is an increase of sugarcane crop acreage as stated by the representative of Punjab Government. He also supported the export of surplus sugar.

7. Representative of Finance Division on her turn said that Finance Division supports export of sugar, if any without subsidy. She also stated that previous permissions for export were allowed without any export subsidy.

8. The Chair asked the representative of Ministry of Commerce (MoC) to contribute their point of view, who stated that MoC is of the view that the estimation of production cost and subsidy, if any, is the mandate of Ministry of Industries and Production. MoC supports exports of any production that is earmarked as surplus by MoIP and Sugar Advisory Board. He further stated that out of 0.725 MMT of sugar earlier permitted for export, export of 0.423 MMT has actually materialized.

9. The Chair asked the representatives of PSMA that the estimates of next crushing season (2017-18) may not be mixed up with the crushing season (2016-17) and surplus sugar needs be reviewed on a quarterly basis. The Chair then enquired about the sugar data from MoIP. Joint Secretary (F&R) explained the details thereof as under:

**1. Opening Inventory & Production During Crushing Season 2016-17**

(Qty in Million Tonnes)

Provinces	Opening Inventory before Crushing Season 2016-17	Production during Crushing Season 2016-17	Total Availability (Inventory + production) 2016-17	Stocks available on September 1, 2017
Punjab	0.646	4.332	4.978	1.500
Sindh	0.310	2.234	2.544	1.150
Khyber Pakhtunkhawa	0.040	0.500	0.540	0.138
Balochistan	-	-	-	-
Total:	0.996	7.066	8.062	2.788

\*Source: Provincial Cane Commissioners

ii. Consumption / Exports / Strategic Reserve

Description	Qty in Million Tonnes
Total consumption for 2 months before start of new crushing season (@ 0.425)	0.850
Strategic reserves (45 days)	0.630
Remaining Qty of sugar to be exported from already approved Qty+ (Total Qty allowed for exports – Qty actually exported upto 28.08.2017)= (0.725 – 0.406=0.319)	0.319
<b>Total:</b>	<b>1.799</b>

Source: MOC / MNFSR

iii. Expected Closing Inventory Before Start of Crushing Season 2017-18

Description	Qty in Million Tonnes
Sugar Stocks available as on September 1, 2017	2.788
Expected Consumption / Remaining quantity to be exported / strategic reserve	1.799
<b>Net Difference:</b>	<b>0.989</b>

10. PSMA requested that as the next crushing season will commence in November, 2017, therefore, strategic reserves for 45 days may not be deducted from the closing inventory and they may be allowed 2.00 MMT to export including the remaining quantity of already approved quantity of sugar not yet exported with subsidy of Rs.18/kg. The Board considered the request of PSMA in the backdrop of sugarcane crop estimates for the next crushing season 2017-18 and recommendations of the representatives of Government of Punjab and Sindh endorsed by other stakeholders and decided that instead of keeping provision for two months consumption and 45 days strategic reserve, it would be appropriate to deduct the estimated consumption for next three months i.e. September – November, 2017 @ 0.425 MMT per month involving a total impact of 1.275 MMT from the available stock. Accordingly, the exportable surplus was worked out to 1.5 MMT, without taking into account previously allowed quantity for export purposes.

11. After consulting all the stakeholders, it was concluded unanimously by the Board that total surplus sugar by the end of season will be 1.5 MMT; therefore, it will be safe to recommend export of 1.5 MMT sugar. As regard the issue of subsidy, the Board



observed that it does not fall under its domain. However, MoIP may assist the Ministry of Commerce & Textile in working out the same.

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12. The meeting ended with a vote of thanks to and from the Chair.

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**LIST OF PARTICIPANTS OF THE SUGAR ADVISORY BOARD (SAB) MEETING HELD ON  
SEPTEMBER 7, 2017**

1. Mr. Khizar Hayat Gondal, Secretary, Mol&P. In Chair.
2. Mr. Muhammad Arshad Khan, JS, Mol&P
3. Mr. Muhammad Ashraf, Director General, M/o Commerce.
4. Mr. Abdul Razzak Mughal, Deputy Secretary (Reg), Mol&P.
5. Mr. Imtiaz Ali Gopang, Food Security Commissioner, M/o NFS&R.
6. Mr. Umer Bhatti, Section Officer, M/o Commerce
7. Miss. Zobia Neelum, Research Officer, Finance Division.
8. Mr. Muhammad Yasir Iqbal, Cost Accounts Officer, MolP.
9. Mr. Abdul Hameed Memon, Chief (A&AM), FBR
10. Syed Fawad Ali Shah, Secretary (Export Policy), FBR,
11. Mr. Sundeep Kumar, Deputy Director, State Bank of Pakistan.
12. Mr. Shokat Ali, Secretary, Food Department, Punjab.
13. Mr. Waqas Alam, Cane Commissioner, Punjab.
14. Mr. Anwar Zahoor Qazi, Director, Industries Deptt, Punjab.
15. Mr. Naveed Ashraf, Deputy Director, Industries, Punjab.
16. Mr. Muhammad Anwar Baig, Director Agriculture CRS, Punjab.
17. Mr. Muhammad Nawaz, Statistician, CRS, Punjab.
18. Mr. Agha Zaheer uddin, Cane Commissioner, Sindh
19. Mr. Askar Khan, Food Department, KP.
20. Mr. Muhammad Hizbullah Khan, Industries Department, KP
21. Mr. S Munir Hussain Shah, D.D Food, KP
22. Miss. Saira Atta, Director General, Industries & Commerce, Balochistan
23. Mr. Javed Kayani, Chairman, PSMA.
24. Mr. Iskandar Khan, Senior Vice chairman, PSMA.
25. Mr. Ikram -ul-Haq, Director, Ext Member, PSMA
26. Mr. Aslam Faruque, Sindh Zone, PSMA,
27. Mr. Ahmed A. Bawany, Sindh Zone, PSMA
28. Mr. Zaid Zakaria, Director, Sindh Zone, PSMA
29. Mr. Ahsan Latif, PSMA, Punjab Zone,
30. Mr. Nauman Khan, PSMA, Punjab Zone,
31. Mr. Inayatullah Khan, PSMA, Islamabad
32. Col. Aamir Rauf, Army Welfare Trust (AWT), PSMA.
33. Mr. Sarfraz Ahmed Shah, Senior Vice President, Kissan Board of Pakistan



# ESTIMATED EX-MILL PRICE OF SUGAR FROM SUGAR CANE PRICES

SEASON 2016-17

## Factors

Sugar Recovery %age	9.87
Molasses Recovery %age	4.40
Sales price of molasses Rs. / kg	12.00
Manufacturing Profit Rs. / Kg before tax	

1	Price of Sugar Cane (Raw Material cost)	Rs. Per 40 kg	181.00
2	Sale of molasses	Rupees	21.12
3	Net Cost of raw material	Rupees	159.88
4	Development cess	Rupees	1.50
5	Market Committee Fee	Rupees	0.30
	Freight	Rupees	2.00
6	Total Cost of Raw material	Rupees	163.68
7	Sugar obtained from 40kgs of cane	kgs	3.95
8	cost of raw material per kg of sugar	Rs./ kg	41.46
9	Processing cost & other overheads	Rs./ kg	11.00
10	Total manufacturing cost	Rs./ kg	52.46

\*Source: Provincial Cane Commissioner/ PSMA

## International Prices of Sugar

London Board

Dated 07-09-2017

376.6 \$/Tonne, Premium =20\$


376.6\$+20\$=396.6\$

PKR 41.80 (396.6\$\*Rs.105.40\$/1000)

Source: Sugaronline.com

Price Differential Between International Price and Domestic Cost of Production

Rs.52.46-Rs.41.80= Rs.10.7

  
Muhammad Yasir Iqbal  
Cost Accounts Officer  
Ministry of Industries & Production  
Government of Pakistan  
Islamabad

## ESTIMATED EX-MILL PRICE OF SUGAR FROM SUGARCANE PRICES

## CRUSHING SEASON 2016-17

Sugar Recovery %age	9.87%	As per production of sugar from sugarcane for the year 2016-17
Molasses Recovery %age	4.40%	As mentioned in PSMA* annual report 2017 (Annex-I)
Sales price of molasses Rs. / kg	12/kg	The price of Molasses basis on the average price of last 5 year export prices of molasses as mentioned in PSMA Annual Report 2017 (Annex-II)
Factors	Amount (Rs)	Remarks
1 Price of Sugar Cane (Raw Material Cost)	181/ 40kg	Average price of Sindh and Punjab as notified by provincial governments
2 Sale of molasses	(21.12)/40 kg	40kg of Sugarcane * Molasses Recovery% = Molasses in Kgs (40*4.40% = 1.76kgs) Molasses Price * Molasses in kgs= Sale price of molasses (12* 1.76 =21.12)
3 Raw material	* 59.88/40kg	Raw material cost - Sale of Molasses (181- 21.12 = 159.88)
4 Direct Expenses	Rs. 2.00	As mentioned in PSMA Calculation (Annex-III)
5 Salaries & wages	Rs.1.50	As mentioned in PSMA Calculation (Annex-III)
6 Committee fee	Rs.0.30	As mentioned in PSMA Calculation (Annex-III)
Total Cost of Raw material	163.68/40 kg	Net cost of Raw material + Direct Expenses (159.88 +2 = 161.88)
Cost of raw material per kg of sugar	41.46/kg	Sugar obtain from 40 kg of sugarcane = 40kg sugarcane* Sugar Recovery% (40*9.87%=3.95kgs) Cost of raw material per kg of sugar = Total Cost of Raw Material / Sugar obtained from 40 kg of sugarcane ( 161.88 /3.95 = 41.46 )
7 Processing cost & other overheads	11/kg	As Calculated by PSMA (Salaries n wages, packing expenses, Fuel n Power, Oil n lub, Chemical, Repair, other mfg, Depreciation, Stores and Spares Cost, Admin & selling, Financial cost/expenses short and long term)
10 Total manufacturing cost without Tax	52.46	

Note: The Price of Byproducts of Sugarcane i.e Bagasse, mud and others did not deducted due to lack of availability of data . The price of Molasses is also disputed between Ministry of Industries & Production calculation with PSMA calculations they claim that price of molasses is Rs.5/kg



Table 8 (i)

Mill wise Sugar Position Punjab  
Season 2016-17

PUNJAB		Days	CANE CRUSHED	Sugar PROD.	REC. %	* MOL PROD.	Qty. Tons
							Rec. %
1	ABDULLAH (Depalour)		276,714	25,250	9.12	12,452	4.5
2	ABDULLAH (Shahpur)						
3	ADAM	168	710,053	65,097	9.17	33,091	4.66
4	ASHRAF	169	1,529,531	151,585	9.91	78,628	4.89
5	AL-MOIZJI		851,587	85,579	10.05	38,321	4.5
6	BABA FARID		370,901	33,050	8.91	16,691	4.5
7	BROTHERS						
8	CHANAR		610,374	58,035	9.21	31,800	5.04
9	CHAUDHRY		522,958	52,070	9.96	23,533	4.5
10	SW (CHISHTIA)						
11	COLONY (PHALIA)						
12	COLONY (PUNJAB)						
13	ETIHAD		1,700,326	177,316	10.43	48,159	2.83
14	FATIMA		1,607,499	162,925	10.14	46,431	2.89
15	DARYA KHAN (Fecto)		867,154	79,240	9.14	39,022	4.5
16	HAMZA		3,916,616	399,999	10.21	176,248	4.5
17	HAQ BAHU		322,568	29,676	9.2	14,516	4.5
18	Hasseeb WAQAS		169,632	14,030	8.27	7,633	4.5
19	HUDA (FAUJI)		495,605	47,350	9.55	22,302	4.5
20	HUNZA (I)		1,068,352	96,295	9.01	48,076	4.5
21	HUNZA (II)		852,231	79,914	9.38	38,350	4.5
22	HUSEIN		660,136	65,043	9.85	29,706	4.5
23	INDUS	159	1,449,023	146,699	10.12	55,250	3.81
24	ITEFAQ		426,707	41,930	9.8	19,202	4.5
25	JAUHARABAD		546,857	53,972	9.87	16,990	2.92

Continued.....Punjab							
26	J.D.W - I (United)	168	3,528,599	357,733	10.14	149,681	4.24
27	J.D.W - II (United)	163	2,373,561	247,926	10.45	101,620	4.28
28	TWO STAR		1,751,261	164,650	9.4	78,807	4.5
29	KASHMIR	135	664,661	61,931	9.32	29,710	4.47
30	LAYYAH		1,831,557	176,520	9.64	82,420	4.5
31	MACCA		52,937	4,450	8.41	2,382	4.5
32	MADINA		1,205,955	115,416	9.57	54,268	4.5
33	NOON		1,115,492	113,308	10.16	16,845	1.51
34	POPULAR		668,764	66,159	9.89	30,094	4.5
35	PATTOKI		727,161	63,405	8.72	32,722	4.5
36	RAMZAN		982,208	93,709	9.54	44,199	4.5
37	RASOOL NAWAZ		389,481	37,410	9.61	17,526	4.5
38	R.Y.K		1,728,228	168,116	9.73	77,770	4.5
39	SAFINA (TIC) PH-Wall		1,038,142	102,768	9.9	46,716	4.5
40	SHAHTAJ	134	1,148,874	115,754	10.06	48,947	4.26
41	SHAKARGANJ (I)		838,456	77,627	9.25	37,731	4.5
42	SHAKARGANJ (II)		705,393	66,917	9.49	31,743	4.5
43	SHEIKHOO		2,340,612	222,539	9.51	105,328	4.5
44	TANDLIANWALA-I		702,070	62,542	8.91	31,593	4.5
45	TANDLIANWALA-III		1,375,104	130,474	9.49	61,880	4.5
TOTAL 2016-2017			44,143,322	4,314,229	9.77	1,877,383	4.25
TOTAL 2015-2016			28,552,068	2,837,761	9.94	1,279,715	4.48

\* Molasses figures estimated



Table 8 (3)

Mill wise Sugar Position Sindh  
Season 2016-17

		Qty: Tons					
	SINDH	Days	CANE CRUSHED	Sugar PROD.	REC. %	* MOL PROD.	Rec. %
1	AL-ABBAS	125	659,154	70,484	10.69	30,277	4.59
2	Abdullah Shah Ghazi	58	16,941	1,200	7.05	752	4.50
3	AL-NOOR	129	1,315,682	127,795	9.71	56,560	4.30
4	ALLIANCE	138	1,151,135	112,466	9.77	57,255	4.97
5	ANSARI	138	425,803	41,304	9.69	19,468	4.57
6	ARMYWELFARE	114	348,531	36,308	10.42	16,780	4.81
7	BAWANY	112	188,456	19,000	10.08	8,730	4.63
8	BANDI	134	709,987	68,800	9.69	29,985	4.22
9	CHAMBER	122	316,100	31,525	9.97	14,280	4.52
10	DEHARKI	137	1,950,674	205,041	10.51	79,352	4.06
11	DEWAN	99	507,088	52,026	10.25	24,260	4.78
12	DIGRI	136	471,251	47,468	10.07	23,478	4.98
13	FARAN	138	993,390	106,319	10.70	44,309	4.46
14	Gulf	139	1,204,370	125,165	10.40	54,197	4.50
15	J.D.W.-III (United)	137	2,016,687	207,747	10.30	81,210	4.03
16	HABIB	128	865,530	86,316	9.97	42,067	4.86
17	KHAIRPUR	140	852,226	83,579	9.80	33,237	3.90
18	KHOSKI	101	236,399	23,047	9.75	11,080	4.69
19	KIRAN	140	408,718	36,417	8.91	18,392	4.50
20	LARR	116	190,574	18,816	9.87	8,495	4.48
21	MATIARI	141	500,203	51,657	10.33	22,205	4.44
22	MEHRAN	133	1,056,198	116,780	11.06	47,865	4.53
23	MIRPURKHAS	131	738,378	78,897	10.69	34,850	4.72
24	MIRZA	96	134,593	12,655	9.40	6,745	5.01

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Continued..... SINDH							
25	NAJMA	Not Operated					
26	NAUDERO	139	268,019	26,405	9.85	10,965	4.09
27	NEW DADU	126	351,906	32,609	9.27	14,769	4.20
28	PANGRIO	Not Operated					
29	RANIPUR	109	338,174	30,645	9.06	14,877	4.40
30	SAKRAND	117	459,573	42,300	9.20	19,500	4.24
31	SANGHAR	133	625,237	63,380	10.20	30,300	4.85
32	SERI	16	9,650	573	6.00	434	4.50
33	SHAHMURAD	111	672,747	72,755	10.8	30,750	4.57
34	SINDABADGAR	126	593,037	61,670	10.41	28,781	4.85
35	THARPARKAR	127	334,171	32,521	10.50	17,921	5.36
36	TANDO M. KHAN	Not Operated					
37	S.G.M	126	537,606	54,690	10.17	24,192	4.50
38	TANDO ALLAHYAR	135	549,616	55,568	10.11	24,311	4.42
	Non- Members						
TOTAL 2016-2017 (C)			21,997,817	2,233,925	10.16	982,451	4.47
TOTAL 2015-2016 (C)			17,921,668	1,898,188	10.65	787,910	4.42

\* Estimated

Source: PSMA Zonal Offices/P.G



Pakistan Sugar Mills Association

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Table 11

Export of Sugar  
2002-2017

*Year	Quantity	Value	Qty: MT Value: '000' Rs. Avg. Price: Rs/MT Avg. Price
2002-03	45,669	627,949	13,750
2003-04	116,175	1,589,210	13,679
2004-05	54,771	1,028,710	18,782
2005-06	61,047	1,590,555	26,055
2006-07	12	330	27,500
2007-08	260,840	5,738,856	22,015
2008-09	23,980	639,677	26,675
2009-10	-	-	-
2010-11	-	-	-
2011-12	48,672	2,575,403	52,913
2012-13	1,064,215	51,692,066	48,573
2013-14	647,333	29,638,230	45,785
2014-15	708,356	32,685,502	46,143
2015-16	293,541	13,817,628	47,072
2016-17	399,309	21,266,438	53,258

Table 12

Export of Molasses  
2002-2017

*Year	Quantity	Value	Avg. Price
2002-03	1,272,630	2,652,975	2,084.63
2003-04	1,457,283	2,698,964	1,852.05
2004-05	1,151,431	4,297,617	3,732.00
2005-06	497,161	2,612,342	5,255.00
2006-07	373,177	1,704,034	4,566.00
2007-08	780,807	3,490,864	4,471.00
2008-09	936,338	7,488,584	7,996.00
2009-10	961,300	7,784,000	8,097.36
2010-11	86,437	892,087	10,321.00
2011-12	55,608	577,981	10,394.00
2012-13	225,221	2,747,341	12,198.00
2013-14	197,342	2,510,421	12,721.00
2014-15	83,229	1,010,347	12,139.00
2015-16	73,067	874,398	11,967.00
2016-17	101,410	1,217,122	12,001.00

Source: PBS/MOC (Fiscal Year)

\* Sugar year

## Calculation of Total Cost of Sugar Per KG

Assumptions		Comments
No of days	137	Cane Commissioner Office[Avg of 2016-17 crushing days of 41 sugar Mills]
Crushing Capacity M.Tons	9,200	Grossing up of data from RT4 [8,280 / 0.90]
Plant Factor	90%	
Average Capacity M. Ton	8,280	As per RT4 Data Verified by Cane Commissioner for FY2016-17
Crushing in M. Tons	1,134,360	Avg Capacity M. Tons * 137 Days
Recovery:		
Sugar	9.77%	As per RT4 Data Verified by Cane Commissioner for FY2016-17
Molasses	4.02%	Ranges from 4.0% to 4.25% as per PSMA. Could be verified from RT4
Molasses Produced M.Tons	45,601	Crushing in M. Tons * Recovery Rate of Molasses(1,134,360 * 4.02%)
Sugar Produced M. Tons	110,827	Crushing in M. Tons * Recovery Rate of Sugar (1,134,360 * 9.77%)
Sugar Bags of 50 KG	2,216,539	Sugar Produced in M. Tons * 20 [110,827 * 20]
Cost of Cane per 40 KG	183.80	
Cost of Cane-Govt. Rate	180.00	
Add: Dev Cess	1.50	Notified by Cane Commissioner
Market fee	0.30	Notified by Agriculture Market Deptt.
Freight	2.00	Calculated from notified freight
	3.80	
T. Cost of Cane per 40KG	183.80	T. Cane Cost per-40 Kg
Molasses Selling Price Per Ton	5,000	As per verbal confirmation from Shahtaj Sugar & Ashraf Sugar Mills Ltd.
Molasses T. Selling Price in Rs.	228,006,360	[Rs. 5,000 per M.Ton * 45,601 M.Tons]



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# Calculation of Total Cost of Sugar Per KG [Based on Avg. Capacity of 8,2

	Rs. In '000'		Rs. Per KG
Total Cost of Cane [Rs. 183.80 / KG * 1,134,360 M.T * 25/1,000]	5,212,384	A	47.03
Total Overhead Costs:			
Salaries n Wages	250,000		2.26
Packing expenses	36,000		0.32
Oil and Lub	22,000		0.20
Chemical	38,000		0.34
Repair	160,000		1.44
Fuel n power	28,000		0.25
other mfg.	56,000		0.51
Depreciation	170,000		1.53
Stores and Spares Cost	38,000		0.34
	798,000		7.20
Admin and selling expenses	120,000		1.08
Financial Cost / Expenses:			
Short term	215,448		1.94
Long term	120,000		1.08
	335,448		3.03
Total Overhead Costs	1,253,448		11.31
Less: Sale Value of Molasses	(228,006)		(2.06)
Total Conversion Cost	1,025,441	B	9.25
Add: Turnover tax	74,808	C	0.68
Total Cost of Sugar Per KG [Exclusive of Sales Tax]	A+B+C		56.96
Add: Sales Tax			6.00
Total Cost of Sugar Per KG [Inclusive of Sales Tax]			62.96

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UPDATED SUMMARY  
FOR ITEM No. 1

SECRET

Copy No. 57

F. No. 7(2)/2012-Exp-III  
GOVERNMENT OF PAKISTAN  
MINISTRY OF COMMERCE & TEXTILE  
(COMMERCE DIVISION)

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SUMMARY FOR THE ECC OF THE CABINETSUBJECT: EXPORT OF SUGAR (CROP YEAR 2016-17)

Economic Coordination Committee (ECC) of the Cabinet vide its decisions dated 28<sup>th</sup> December, 2016, 28<sup>th</sup> March, 2017, 18<sup>th</sup> July, 2017 and 14<sup>th</sup> September, 2017 allowed sugar exports of 0.225 million metric tons (MMT) with 30.04.2017 as deadline, 0.200 MMT with 31.07.2017 as deadline, 0.300 MMT and 0.5 MMT without any deadline subject to a common condition that "in case domestic sugar price stability as compared to 15<sup>th</sup> December 2016, is not maintained, the Inter-Ministerial Committee (constituted by the Prime Minister vide directive No. 3546/M/SPM/15 dated 25-11-2015 (Annex-I) would immediately recommend to the ECC for stoppage of further exports".

2. On the request of Pakistan Sugar Mills Association (PSMA), a meeting of the Sugar Advisory Board (SAB) was held in Ministry of Industries and Production (MoIP) on 27.10.2017 with Secretary MoIP in chair. The SAB observed that the production of sugar was 7.00 MMT and in the upcoming season it is expected to increase to 8.00 MMT and after deducting expected consumption of 5.100 MMT around 3.00 MMT sugar would be surplus. It was proposed that 1.5 MMT of sugar may be allowed for export. (Minutes of SAB are at Annex-II).

3. In pursuance of the SAB's meeting, a meeting of the Inter-Ministerial Committee mentioned in para-1 of the summary was held in the Ministry of Commerce on 13.11.2017 (Minutes of the meeting are at Annex-III).

4. After detailed deliberations, the following observations /recommendations for consideration of the ECC were unanimously agreed upon:

- i. That the national average price of sugar in the domestic market was Rs53.89/kg which was much lower than the level of December 15, 2016 (Rs62.61/kg)- the baseline price;
- ii. That the sugarcane crop is expected to be more than the targeted 68.5 MMT for 2017-18;



- iii. That the net availability of sugar from 2016-17 season works out to be 0.967 MMT, and with the expected new production of 8.0 MMT of sugar comes to 8.967 MMT for 2017-18. Therefore, allowing the export of One (1) MMT sugar would not affect the domestic availability and price;
  - iv. That the export of additional One Million Metric Ton (MMT) of sugar may be recommended subject to the conditions already approved by ECC vide its decision dated 14-09-2017(Annex-IV).
5. On 24<sup>th</sup> November 2017, in a meeting of Council of Common Interests (CCI), it was proposed by the Ministry of Commerce to deregulate the purchase of Sugarcane by the provincial governments and in case any provincial government continues with such a policy, it may bear the cost of freight support, for exports in case of surplus sugar production. It was further proposed that the Federal government should limit its liability upto the current commitment. (Annex-V)
6. ECC may like to approve that:
- i. Export of additional One (01) Million Metric Ton (MMT) of sugar may be allowed subject to the conditions already approved by the ECC vide its decision dated 14-09-2017;
  - ii. No export quota shall be issued by SBP to any sugar mill that fails to verify:
    - a. the start of cane crushing latest by 30<sup>th</sup> of November 2017 and continuation thereafter;
    - b. timely payments for all the procurements of sugarcane as provided in the conditions of the notified approval of the ECC decision of 14-09-2017;
  - iii. The Inter-Ministerial Committee shall provide estimates of surplus sugar quantities, after getting results of the crushing season 2017-18 latest by April 2018, which may be allowed for exports in one go by the ECC;
  - iv. No sugar freight support be provided for exports by the Federal government after utilization of the provision of one million tons, being allowed here.
7. The recommendations at Para-6 of the summary are submitted for consideration/approval of the ECC of the Cabinet.
8. As the representatives of Ministries of National Food Security & Research, Industries & Production and Finance were present during the meeting of the

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Inter-Ministerial Committee; their views are included in the above-mentioned recommendations.

9. Minister for Commerce has authorized the submission of this Summary.

**(Mohammad Younus Dagha)**  
Secretary

Islamabad, the 27<sup>th</sup> November, 2017





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(36) Annex

No. 3546/M/S/P/15

Minister's Office  
25-11-15

Subject:

**COMMITTEE TO EXAMINE THE PROBLEMS OF SUGAR MILLS IN PAKISTAN**

On a representation made by the Pakistan Sugar Mills Association on 20<sup>th</sup> November 2015, highlighting the problems currently being faced by sugar mill owners and sugar cane growers in Pakistan, the Prime Minister has been placed to constitute the following committee to examine the issue:

- |   |          |
|---|----------|
| i. Minister for Commerce                                  | Chairman |
| ii. Secretary National Food Security & Research           | Member   |
| iii. Secretary Industries & Production                    | Member   |
| iv. Mr. Noor Ahmad Additional Secretary, Finance Division | Member   |
| v. Secretary Commerce                                     |          |
| vi. Any co-opted member                                   |          |
- Secretary/Member  
Member

25th Nov. 2015  
(Fawad Hasan Fawad)  
Secretary to the Prime Minister  
25-11-2015

Secretary Commerce  
Secretary Finance  
Secretary National Food Security & Research  
Secretary Industries & Production

Urge  
Pl. speak

Sauje  
25/11/15

J. (IE)

mt  
27/11/15

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(37) 4000 3911

GOVERNMENT OF PAKISTAN  
MINISTRY OF INDUSTRIES & PRODUCTION  
\*\*\*\*\*

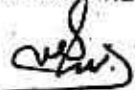
No. 1(6)2016-CAO

Islamabad November 3<sup>rd</sup>, 2017

**OFFICE MEMORANDUM**

Subject: **MINUTES OF THE MEETING OF SUGAR ADVISORY BOARD (SAB)  
HELD ON OCTOBER 27, 2017**

The undersigned is directed to enclose herewith a copy of minutes of the meeting of sugar advisory Board (SAB) held on October 27<sup>th</sup>, 2017 at 11: 00 hrs in the committee Room of Ministry Of Industries and Production for information and necessary action.

  
**Muhammad Sohail Mufti**  
**Deputy Secretary (REG)**  
Tel: 9206035

**Distribution:**

1. The Secretary Ministry of Finance Islamabad
2. The Secretary, M/o Commerce, Islamabad.
3. The Secretary, M/o National Food Security & R, Islamabad.
4. The Governor State Bank of Pakistan, Karachi.
5. The Chairman Federal Board of Revenue Islamabad
6. The Secretary Food Department, Government of KPK, Peshawar.
7. The Secretary, Industries Department, Government of KPK, Peshawar.
8. The Secretary, Agriculture Department, Government of Sindh, Karahi.
9. The Cane Commissioner (Punjab), Lahore.
10. The Cane Commissioner (Sindh), Shahbaz Building, Block-B, Hyderabad.
11. The Cane Commissioner (KPK), Peshawar.
12. The Chairman, Pakistan Sugar Mills Association, Rasheed Plaza, Blue Area, Islamabad.
13. The President, Kissan Board Pakistan, 718, Kamran Block, Illama Iqbal Town, Lahore.

**Cc.**

- I. PSO to Minister for Industries & Production, Islamabad.
- II. PS to Secretary, Mol&P, Islamabad.
- III. PS to Additional Secretary-II Mol&P, Islamabad
- IV. ASP to joint Secretary (PSD), Mol&P Islamabad.



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Subject: MINUTES OF THE MEETING OF SUGAR ADVISORY BOARD (SAB) HELD ON OCTOBER 27, 2017

On the request of Pakistan Sugar Mills Association (PSMA), a meeting of the Sugar Advisory Board (SAB) was held in the Ministry of Industries and Production on October 27, 2017 at 11:00 hours under the Chairmanship of Secretary, Industries and Production on behalf of the Chairman of the Board, in the Committee Room of MoIP. Agenda proposed by the Pakistan Sugar Mills Association (PSMA) was to review overall availability and stock position of sugar and to workout exportable surplus, if any. List of participants is at Annex-A.

2. Meeting started with the recitation from the Holy Quran. The Chair welcomed the participants and apprised the background of convening the meeting. Chairman, Pakistan Sugar Mills Association (PSMA) presented PSMA's view point. He agreed with the figures of sugar stocks available as on October 20, 2017 presented before the Board in the shape of working paper and apprised that in crushing season 2016-17, the production of sugar was 7.00 MMT which was the highest ever. The Chairman further added that in the upcoming season PSMA is expecting 8.00 MMT production of sugar and after deducting expected consumption of 5.100 MMT around 3.00 MMT sugar would be surplus. Chairman, PSMA proposed that keeping in view the aforesaid situation 1.5 Million Tonnes may be allowed for exports and SAB may further request Trading Corporation of Pakistan (TCP) to purchase 1.5 MMT of Sugar through open public tender. Moreover he stressed that the Mechanism of subsidy may be reviewed because in previous years Government gave a subsidy of Rs.10/kg and then Rs.13/kg. Whereas, in the current year the subsidy given to the tune of Rs.10.70/kg is not feasible.

3. The Chair acknowledged the brief of Chairman PSMA and pointed to the three main issues highlighted by PSMA (i) Exports of sugar (ii) rate of subsidy to be



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reviewed (iii) Purchase by TCP of 1.5 MMT Sugar. The Chair further added that the mandate of SAB is only restricted to evaluate the exportable surplus of sugar. Resultantly SAB had not taken up the issue of subsidy in last meeting as well. However, on the directions of Prime Minister the calculation was made to come up with the cost of production and its difference from International Market. Input from the Finance Division was also taken into account. Similarly on the issue of TCP the SAB could not take any decision as Inter Ministerial Committee is the relevant forum to discuss this matter.

4. The representative of Kissan Board of Pakistan complained about the huge amount outstanding against the sugar mills on account of purchase of sugarcane. He indicated that in Southern Punjab the crop is ready and the crushing must be started from 01 November, 2017, specifically in Southern Punjab. The growers were already protesting in these areas and facing hardships. He further indicated that 4 to 5 Sugar Mills have already been closed and huge amount is outstanding against them. Either these mills may be made operational or their NOCs may be cancelled. Only those sugar mills be allowed to export sugar which have cleared the outstanding amounts of the growers.

5. The Secretary Food, Government of Punjab apprised that last year the area of sugarcane cultivation was 1.95 Million Acres and now this area has increased by 2.13 Million Acres. Therefore, more sugar is expected in the year 2017-18. Punjab Government is likely to face two problems. First that the next crop is ready for crushing and secondly the payment to the growers for the next year will be delayed if the exportable surplus was not decided now. Punjab Government fully endorsed that 1.5 MMT sugar must be allowed for exports. The Senior Vice Chairman, PSMA indicated that practically it is not possible to export more than 0.200 MMT in one month, so it will take time to export this huge quantity.

6. The Cane Commissioner, Government of Sindh stated that every year 25000 acres cultivation of Sugarcane increases and on the other hand cultivation of cotton is reduced. Cotton belt has started converting into sugarcane growing area. Sindh Government stated that 1.8 MMT be allowed for exports with a rebate of Rs.18/- per kg



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on 50:50 percent sharing ratios by Federal Government and Provincial Governments.  
The representative of Government of Khyber Pakhtunkhwa neither supported export of sugar being sugar deficit province nor grant of subsidy on export. No representative of Government of Balochistan was present in the meeting.

7. Representative of Ministry of Commerce apprised that if all members agree on export of 1.5 MMT sugar, Ministry of Commerce will also endorse this move. Ministry of Commerce did not support the proposal of purchase of 1.5 MMT sugar by TCP through open tender.

8. Representative of Finance Division said that the issue of embezzlement in TCP has already been taken up by National Accountability Bureau (NAB) for the year 2011-12. On the issue of exports he pointed out that currently 0.053 MMT or 0.100 MMT of sugar has been exported out of 0.500 MMT as reported by Punjab Government and PSMA, and recommended that when the industry completes the export of 0.250 MMT sugar then the case may be considered by SAB for exportable surplus.

9. After consulting all the stakeholders, it was concluded unanimously by the Sugar Advisory Board (SAB) that;

- (a) By the end of crushing season 2016-17, 1.5 MMT surplus sugar will be available and hence it is decided to recommend its export.
- (b) Regarding issue of subsidy, the Board observed that subsidy might be reviewed by the concerned forum.
- (c) PSMA request for Trading Corporation of Pakistan (TCP) to purchase 1.5 MMT of sugar through tender process may be submitted for deliberation in upcoming Inter-Ministerial Committee meeting.

10. The meeting ended with a vote of thanks to and from the Chair.

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186 (41) "Annex-A" 4004

LIST OF PARTICIPANTS OF THE SUGAR ADVISORY BOARD (SAB) MEETING  
HELD ON OCTOBER 27, 2017

In Chair.

1. Mr. Maroof Afzal, Secretary, Mol&P.
2. Mr. Omar Rasul, Additional Secretary-II, Mol&P
3. Mr. Ghulam Dastgir Baloch, Joint Secretary (PSD) Mol&P
4. Mr. Zahoor Ahmed, Joint Secretary M/o Finance
5. Mr. Hussain Haider, Joint Secretary, M/o Commerce
6. Mr. Muhammad Sohail Mufti, Deputy Secretary (Reg), Mol&P
7. Mr. Imtiaz Ali Gopang, Food Security Commissioner, M/o NFS&R
8. Mr. Muhammad Yasir Iqbal, CAO, Mol&P
9. Mr. Umer Bhatti, Section Officer, M/o Commerce
10. Mr. Muhammad Ahmed, Section Officer, M/o Commerce
11. Mr. Moeen Afzal Ali, Secretary (Export Policy), FBR
12. Mr. Qadeerullah, Second Secretary, FBR
13. Mr. Aamer Amin Bhatti, Chief (IR-OPS), FBR
14. Mr. Sundeep Kumar, Deputy Director, State Bank of Pakistan (SBP)
15. Mr. Waheed Butt, Deputy Director, SBP
16. Mr. Shoukat Ali, Secretary Food, Punjab
17. Mr. Javed Iqbal Sr. Eco Advisor, Food Department, Punjab
18. Mr. Agha Zaheer uddin, Cane Commissioner, Sindh
19. Mr. Nisar Ahmed, Director, Cane Commissioner, KP
20. Ch. Nisar Ahmed, President, Kissan Board of Pakistan
21. Mr. Javed Kayani, Chairman, PSMA.
22. Mr. Iskandar Khan, Senior Vice chairman, PSMA
23. Mr. Ikram-ul-Haq, Director, Ext Member, PSMA
24. Mr. Aslam Faroque, PSMA (SZ)
25. Mr. Ahmed A. Bawany, Sindh Zone, PSMA
26. Mr. Ahsan Latif, PSMA, Punjab Zone
27. Mr. Nauman Khan, PSMA, Punjab Zone
28. Mr. Inayatullah Khan, Secretary General, PSMA, Islamabad
29. Mr. Ahmed Hashan, PSMA (SZ)
30. Mr. Asim Ghani, PSMA (SZ)



187

(42)

Annex II

3813

Minutes of the Inter-Ministerial Committee Meeting held on 13-11-2017

A meeting of the inter-ministerial Committee constituted by the Prime Minister vide directive No. 3546/M/SPM/15 dated 25-11-2015 was held in the Committee Room of Ministry of Commerce on 13-11-2017 at 1500 hrs with Secretary Commerce in chair. The list of participants is at Annex-I.

2. The Chair welcomed the participants and introduced the following agenda:

- i. A review of domestic sugar prices in the wake of the ECC's decisions dated 28.12.2016, 28.03.2017, 18.07.2017 and 14.09.2017 allowing 0.225 MMT, 0.200 MMT, 0.300 MMT and 0.5 MMT of sugar exports.
  - ii. Deliberations on the recommendation of Sugar Advisory Board (SAB) of Ministry of Industries and Production (MoIP) to allow additional export of 1.5 MMT of sugar.
3. The meeting was informed that the national average price of sugar in the domestic market according to the Sensitive Price Index for the week ending on 9<sup>th</sup> November, 2017 was Rs53.89/kg which was much lower than the level of December 15, 2016 (Rs62.61/kg)- the baseline price.
4. The meeting was also informed by the representative of Ministry of National Food Security and Research that the sugar cane crop is expected to be 81.4 MMT which is more than the targeted 68.5 MMT for 2017-18.
5. The meeting was also informed that total sugar stocks available on 20<sup>th</sup> October 2017 were 2.472 MMT whereas the average monthly sugar consumption was 0.425 MMT. The strategic reserves required for 45 days would be 0.630 MMT and 0.475 MMT sugar had already been exported out of total export quota of 0.925 MMT. The total expected utilization at the beginning of crushing season adds to 1.505 MMT (consumption+ reserves+ balance quota of exports). The net availability of sugar works out to be 0.967 MMT which added to the expected new production of 8.0 MMT of sugar, comes to 8.967 MMT for 2017-18. Therefore, allowing the export of 01 (one) MMT sugar would not affect the domestic availability and price.
6. The meeting was further informed that as per the ECC's decision dated 14.09.2017 almost 263,712 MT of sugar quota out of a total of 500,000 MT had been allocated by the SBP to the millers as of 13.11.2017 out of which 124,000 MT of sugar has already been exported.
7. After detailed deliberations, it was unanimously agreed to recommend to the ECC that export of additional 01 (One) Million Metric Ton (MMT) of sugar may be allowed subject to the conditions already approved by ECC vide its decision dated 14-09-2017 Annex-II.
8. The meeting ended with a vote of thanks to and from the Chair.
- ◇◇◇◇◇

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Annex-I

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**LIST OF PARTICIPANTS**  
**INTERMINISTERIAL MEETING ON SUGAR HELD ON 11.09.2017**

S.No.	Name	Designation	Organization
1.	Mr. Mohammad YounusDagha	Secretary	Ministry of Commerce
2.	Mr. Omer Rasul	Add.Secretary	Ministry of Industries & Production
3.	Mr. Zahoor Ahmed	Senior Joint Secretary	Ministry of Finance
4.	Mr. Imtiaz Ali Gopang	Food security commissioner	Ministry of National Food Security & Research



189 44  
Annex-IV  
383  
384  
GOVERNMENT OF PAKISTAN  
CABINET SECRETARIAT  
(CABINET DIVISION)  
\*\*\*

SECRET/IMMEDIATE

No.F.1/19/2017-Com

Islamabad, the 02<sup>nd</sup> October, 2017

**CORRIGENDUM**

Subject:

**DECISION OF THE MEETING OF ECONOMIC COORDINATION  
COMMITTEE (ECC) OF THE CABINET HELD ON 14-9-2017**

Reference Cabinet Division's Memorandum of even number dated 21<sup>st</sup> September, 2017 on the above subject.

2. Para-II of the decision in Case No.ECC-96/19/2017 dated 14-9-2017 may be substituted and read as under:-

"II. The ECC further decided as under:-

- 7016  
03-10-17
- As recommended by Sugar Advisory Board (SAB) of MoIP, a cash freight support of Rs.10.70/kg may be given to the sugar millers on export of sugar subject to the condition that the said amount of freight support will be given on a sliding scale between the international price of US\$376/MT (as on 08.09.2017) and \$499/MT (the international sugar price which equals with the cost of production as calculated by MoIP) i.e. once the price reaches at the level of \$499/MT in international market, the State Bank of Pakistan would effect stoppage of the freight support. On issuance of any export quota, the State Bank of Pakistan shall record the prevalent international price on the date of issuance of quota and calculate the amount of freight support that the exporter would become eligible to on utilization of export quota.
  - The provision of freight support will not be available for already utilized sugar export quota from the SBP allowed vide ECC's decision dated 18-7-2017. The rest of the unutilized quantity (including quota issued but not executed) out of 300,000 MT shall be considered withdrawn.
  - Freight support will be shared by the federal and the provincial governments on 50:50 basis."

*Ghulam Muhammad*  
(GHULAM MUHAMMAD)  
Joint Secretary  
(Cabinet Committees)  
Tele # 9203014

✓ **Secretary, Commerce Division**

Copy forwarded for information to the:-

- Urgent.
- Secretary to the President
  - Secretary to the Prime Minister
  - Section Officer (Progress-II), Cabinet Division

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PRIME MINISTER'S OFFICE  
ISLAMABAD

\*\*\*\*\*

Subject: SUGAR POLICY AND EXPORT OF SUGAR

(P P-3852-61)

7. The Prime Minister has seen and is pleased to approve the proposal at para 5 of the summary.

SECY. OFFICE  
11/11/17

23-11-2017

(Fawad Hasan Fawad)

Secretary to the Prime Minister

22-11-2017

Secretary Commerce

No. 3314/SPM/2017

Cc: Secretary Inter Provincial Coordination

By No. 26 JS (Imp & Exp)

23-11-2017

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**SECRET**

Case No. ECC-125/23/2017  
Dated: 28<sup>th</sup> November, 2017

**EXPORT OF SUGAR (CROP YEAR 2016-17)**

**DECISION**

The Economic Coordination Committee of the Cabinet considered the summary dated 27<sup>th</sup> November, 2017 submitted by Commerce Division regarding **Export of Sugar (Crop Year 2016-17)** and decided as under:

- i. Allowed export of additional 1.5 million metric ton of sugar subject to the conditions already approved by the ECC vide its decision dated 14-09-2017;
  - ii. No export quota shall be issued by SBP to any sugar mill that fails to verify:
    - a. the start of cane crushing latest by 30<sup>th</sup> of November 2017 and continuation thereafter;
    - b. timely payments for all the procurements of sugarcane as provided in the conditions of the notified approval of the ECC decision of 14-09-2017;
  - iii. The Inter-Ministerial Committee shall provide estimates of surplus sugar quantities, after getting results of the crushing season 2017-18 latest by April 2018, which may be allowed for exports in one go by the ECC;
  - iv. Federal Government shall not provide any freight support for export after crushing season 2017-18. Provinces should develop their own policies for such freight support, whenever required in future.
- II. The Economic Coordination Committee of the Cabinet further directed Ministry of Industries & Production to work out actual cost of production of sugar in the country to determine its price and submit a report thereof to the ECC for consideration.

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**NNEX-C****IMMEDIATE**

360

**GOVERNMENT OF PAKISTAN  
CABINET SECRETARIAT  
(CABINET DIVISION)**

No.F.1/23/2017-Com

Islamabad, the 19<sup>th</sup> March, 2018**CORRIGENDUM**

**Subject: DECISIONS OF THE MEETING OF ECONOMIC COORDINATION COMMITTEE (ECC) OF THE CABINET - EXPORT OF SUGAR (CROP YEAR 2016-17)**

Reference Cabinet Division's Memorandum of even number dated 06<sup>th</sup> December, 2017 on the above subject.

2. In the ECC decision under Case No.ECC-125/23/2017, dated 28<sup>th</sup> November, 2017, following may be added as Para I(v) of the decision:-

"1(v) As demand for subsidy by the sugar industry, inter-alia, is based upon the differential between cost of production of sugar and prices in the international market, the Ministry of Industries and Production was directed to get the cost of production validated through a third party".

*(Signature)*  
(GHULAM MUHAMMAD)  
Joint Secretary  
(Cabinet Committees)  
Tele # 9203014

1. Secretary, Commerce Division
2. Secretary, Industries and Production Division
3. Secretary, National Food Security & Research Division

Copy forwarded for information to the:-

1. Secretary to the President
2. Secretary to the Prime Minister
3. Section Officer (Progress-II), Cabinet Division

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Government of Pakistan  
Ministry of Industries & Production

\*\*\*

No. 1(6)/2016-CA

Islamabad, the January 2, 2018

OFFICE MEMORANDUM

**Subject: EXPORT OF SUGAR**

The undersigned is directed to refer to Economic Coordination Committee (ECC) of the Cabinet decision in Case No. ECC-125/23/2017 dated 28-11-2017 in which ECC of the Cabinet directed this Ministry to work out actual cost of production of sugar in the country to determine its price. Ministry of Industries and Production has worked out the same which is enclosed for vetting. (Flag/A).

2. It is requested that the same may kindly be returned after vetting to this Ministry for onward submission to the Cabinet Division.



(Muhammad Sohail)  
Deputy Secretary (Reg)  
Phone No: 9203065



Finance Division,  
Sr. Joint Secretary (Corporate Wing),  
Government of Pakistan,  
Islamabad.

Director General,  
Agricultural Policy Institute (API),  
3<sup>rd</sup> Floor Evacuee Trust Complex,  
Islamabad.

CC:

- o PS to Secretary, MoIP
- o PS to Additional Secretary-I MoIP



## ESTIMATED EX-MILL PRICE OF SUGAR FROM SUGAR CANE PRICES

SEASON 2016-17			
	Sugar Recovery %age	9.93%	As per production of sugar from sugarcane for the year 2016-17
	Molasses Recovery %age	4.40%	As mentioned in PSMA annual report 2016 and telephonically confirmed by Assist Cane Commissioner Sindh for the year 2016-17
	Sales price of molasses Rs. / kg	12/kg	The price of Molasses basis on the average price of last 5 year export prices of molasses as mentioned in PSMA annual Report 2016
	Factors	Amount (Rs)	Comments
1	Price of Sugar Cane (Raw Material cost)	181/ 40kg	Average price of Sindh and Punjab as notified by provincial governments
2	<i>Price</i> Sale of molasses	21.12/40kg	40kg of Sugarcane * Molasses Recovery% = Molasses in Kgs (40*4.40% = 1.76kgs) Molasses Price * Molasses in kgs= Sale price of molasses (12* 1.76 =21.12)
3	Net Cost of raw material	159.88/40kg	Raw material cost - Sale of Molasses (181- 21.12 = 159.88)
4	Development cess	1.50	As Calculated by PSMA with Punjab Govt
5	Market Committee Fee	0.30	As Calculated by PSMA with Punjab Govt
6	Freight	2.00	As Calculated by PSMA with Punjab Govt
7	Total Cost of Raw material	163.68/40 kg	Net cost of Raw material + Direct Expenses (159.88 +1.50+0.30+2 = 163.68)
8	Cost of raw material per kg of sugar	41.12/kg	Sugar from 40 kg of sugarcane = 40kg sugarcane* Sugar Recovery% (40*9.93%=3.98kgs) Cost of raw material per kg of sugar + Total Cost of Raw Material / Sugar obtained from 40 kg of sugarcane ( 163.68 /3.98 = 41.12 )
9	Processing cost & other overheads	11/kg	As Calculated by PSMA with Punjab Govt (Salaries n wages, packing expenses, Fuel n Power, Oil n lub, Chemical, Repair, other mfg, Depreciation, Stores and Spares Cost, Admin & selling, Financial cost/expenses short and long term)
10	Total manufacturing cost without Tax	52.12	

**Note:** The Price of Byproducts of Sugarcane i.e Bagasse and others did not deducted because it is not available in the market. The price of Molasses is also disputed between Ministry of Industries & Production calculation with Mills calculations they claim that price of molasses is Rs.5/kg



Government of Pakistan  
Ministry of Industries & Production

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F. No. 1(6)/2016-CAO

Islamabad, the February 27<sup>th</sup>, 2018

OFFICE MEMORANDUM

SUBJECT: DECISION OF THE ECONOMIC COORDINATION COMMITTEE (ECC)  
OF THE CABINET

The undersigned is directed to refer to the Cabinet Division's Office Memorandum No.130/P-II/2017 dated 20<sup>th</sup> December, 2017 on the above noted subject and to state that the Implementation status of case No.125/23/2017 dated 28-11-2017 duly signed by Joint Secretary (PSD) is hereby enclosed for further necessary action in the matter.



(Muhammad Yasir Iqbal)  
Cost Accounts Officer  
Ph: 051-9204720



Cabinet Division  
{Mr. Muhammad Javed  
Section Officer (Progress-II)  
Government of Pakistan,  
Islamabad.



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Government of Pakistan  
Ministry of Industries & Production

\*\*\*

Subject: PROGRESS REPORT ON IMPLEMENTATION STATUS OF ECC OF THE CABINET DECISION

<b>Text of Decision</b>	<b><u>Present Implementation Status</u></b>
<p><b>Case No.125/23/2017</b> <b>Dated 28-11-2017</b></p> <p>II. The ECC of the Cabinet also decided that:</p> <p>Ministry of Industries and Production to work out actual cost of production of sugar in the country to determine its price and submit a report thereof to the ECC for consideration.</p>	<p>Ministry of Industries and Production has implemented the ECC of the Cabinet decision to the extent of its obligation. In this context, Ministry of Industries and Production have calculated cost of sugar and sent it to Finance Division (Corporate Wing) and Agriculture Policy Institute (API) working under Ministry of National Food Security and Research for vetting purpose.</p> <p>Agriculture Policy Institute (API) endorsed the cost of sugar as calculated by the Ministry of Industries and Production. <b>(Annex-I)</b></p> <p>Finance Division (Corporate Wing) has made in depth calculations and provided comprehensive calculations which are more authentic and correct <b>(Annex-II)</b>. Ministry of Industries and Production endorses the calculations made by the Finance Division.</p>
<b>Reasons for delay, if any in implementing the decision.</b>	—
<b>Time by which the decision will be fully implemented?</b>	—
<b>Whether the Ministry wants to close the decision? If so, reason thereof</b>	—

CERTIFIED that the 'Present Status/Progress' indicated above has been approved by the Secretary, Ministry of Industries & Production.

  
**(Nadeem Ahmad Malik)**  
Joint Secretary (PSD)



F. No. 2(3) CF-C/2014-12

Islamabad, the 10<sup>th</sup> January, 2018

### OFFICE MEMORANDUM

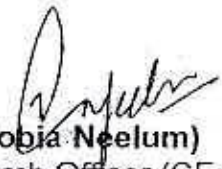
Subject:- EXPORT OF SUGAR

The undersigned is directed to refer to Ministry of Industries & Production (MoIP)'s O.M.No.1(6)/2016-CA dated 2<sup>nd</sup> January, 2018 on the above subject and to convey following views/comments of Finance Division:

- i. The underlying details forming basis of estimated cost have not been shared.
- ii. Basic cost variables comprise "sugar recovery" and "molasses recovery" percentage, which appear on the lower side, which essentially drive high cost of production of sugar.
- iii. Both "Development Cess" and "Market Committee Fee" are allowable expenditures under the Income Tax Ordinance, 2001, therefore inclusion thereof, in the cost is not justified as the same is recovered subsequently.
- iv. "Processing cost & other overhead" contain the aspect of depreciation and other post gross profit expenditure, which are either non-cash in nature or classified as period cost instead of product cost. Therefore, their inclusion in the cost sheet needs to be relooked. In case the said costs are restricted to only 70%, the manufacturing cost is likely to decrease substantially.
- v. Upshot of aforementioned aspects is tabulated below in different scenarios, in comparison with estimates provided by MoIP:-

Estimated Ex-mill price of Sugar		Base case	Scenario-I	Scenario-II	Scenario-III
Sugar Recovery %age		9.93%	11.00%	12.00%	13.00%
Molasses Recovery %age		4.40%	6.00%	7.00%	8.00%
Sales price of molasses Rs./kg		12	12	12	12
Factors		Amount (Rs)			
1	Price of sugar Cane (Raw Material cost)	181.00	181.00	181.00	181.00
2	Sale of molasses	21.12	28.80	33.60	38.40
3	Net Cost of raw material	159.88	152.20	147.40	142.60
4	Development cess	1.50	1.50	1.50	1.50
5	Market Committee Fee	0.30	0.30	0.30	0.30
6	Freight	2.00	2.00	2.00	2.00
7	Total Cost of Raw Material	163.68	156.00	151.20	146.40
8	Cost of raw material per kg of sugar	41.12	35.45	31.50	28.15
9	Processing cost & other overheads	11.00	11.00	11.00	11.00
10	Total manufacturing cost without Tax	52.12	46.45	42.50	39.15
Less: Adjustments					
	Development cess	-	1.50	1.50	1.50
	Market Committee Fee	-	0.30	0.30	0.30
	Processing cost & other overheads	-	3.30	3.30	3.30
	Sub-total	-	5.10	5.10	5.10
Net total manufacturing cost without tax		52.12	41.35	37.40	34.05

- 25
- vi. It may be noted that adjusted manufacturing cost as above, will be further subject to off-setting by other income (e.g. income from generation of electricity by sugar mills) which has not been quantified and factored in, which will further decrease the manufacturing cost.
- viii. MoIP may also examine the financial statements of the sugar mills for the purpose of cross verification. Similarly international benchmarks pertaining to sugar and molasses recovery may also be seen to arrive at a realistic manufacturing cost.
- ix. Additionally, MoIP may also see the post 18<sup>th</sup> Amendment scenario as the subject under reference falls under the purview of provinces.

  
(Zobia Neelum)

Research Officer (CF-C)  
051-9217856

Muhammad Sohail,  
Deputy Secretary (Reg),  
Ministry of Industries & Production,  
Government of Pakistan,  
Islamabad.




No.F.1(3)APD/API/2013  
 Government of Pakistan  
 Ministry of National Food Security and Research  
 Agriculture Policy Institute  
 Evacuee Trust Complex, F/51  
 Islamabad  
 \*\*\*\*\*

Dated: 08-02-2018

**Subject: EXPORT SUGAR**

Reference your letter No.1(6)/2016-CA dated January 2, 2018 on the subject cited above.


2. The calculation of estimated ex-mill price of sugar for sugarcane prices worked out by the M/o Industries and Production seems correct. Moreover, the API has also worked out mill-gate prices of sugarcane worked back from the various illustrative wholesale market prices of sugar for 2016-17 and hereby enclosed for necessary information.

  
 ( Abdul Karim )  
 Deputy Chief, API  
 PH: 9215967

Mr. Muhammad Sohail  
 Deputy Secretary (Reg)  
 Government of Pakistan  
 Ministry of Industries and Production  
 Islamabad.

  
 CAO

  
 9/2/18

  
 8/2/18

**MILL-GATE PRICES OF SUGARCANE WORKED BACK FROM THE EXPECTED  
WHOLESALE MARKET PRICES OF SUGAR DURING 2016-17**

S. No.	Item	WORKED BACK PRICES OF SUGARCANE					
		Rupees per tonne					
1	Average wholesale market prices of sugar (a)	55,000.00		60,000.00		65,000.00	
2	Wholesale dealer margin @ 5% on net price	2,619.05		2,857.14		3,095.24	
3	Federal excise duty @ 8%	4,074.07		4,444.44		4,814.81	
4	Net price of sugar (items 1-2-3)	48,306.88		52,698.41		57,089.95	
		Punjab	Sindh	Punjab	Sindh	Punjab	Sindh
5	Processing cost of sugar (b)	16,424.34	16,424.34	17,917.46	17,917.46	19,410.58	19,410.58
6	Value of cane to produce one tonne of sugar (item 4-Item 5)	31,882.54	31,882.54	34,780.95	34,780.95	37,679.37	37,679.37
7	Provincial base sugar recovery (Per cent)	9.94	10.65	9.94	10.65	9.94	10.65
8	Quantity of cane in tonnes required to produce one tonne of sugar (100/item 7)	10.06	9.39	10.06	9.39	10.06	9.39
9	Price of one tonne of sugarcane (item 6/item 8)	3,169.17	3,395.49	3,457.23	3,704.17	3,745.33	4,012.87
10	Price of 40 kgs of cane	126.76	135.82	138.29	148.17	149.81	160.51

Note: (a): Presumed.

(b): Ratio of cost of cane to processing cost is estimated at 66:34, study by API "Cost of Production of Sugar" jointly prepared in 1996 by API and Business and Consultancy Services, Islamabad.

Sources:

1. For FED: FBR, Islamabad.
2. For Recovery Ratio: PSMA, Islamabad.



IMMEDIATE

GOVERNMENT OF PAKISTAN  
CABINET SECRETARIAT  
CABINET DIVISION

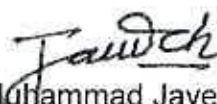
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No.130 /P-II/2017

Islamabad, the 14<sup>th</sup> March, 2018OFFICE MEMORANDUM

Subject: DECISION OF THE MEETING OF ECONOMIC COORDINATION  
COMMITTEE (ECC) OF THE CABINET.

The undersigned is directed to refer to Ministry of Industries & Production O.M No. 1(6)/2016-CAO dated 27-02-2018 on the above subject and to request to submit a requisite report to ECC in form of Summary in compliance of para-II of ECC decision in Case No. 125/23/2017 dated 28-11-2017 in its next meeting.



(Muhammad Javed)

Section Officer (Progress-II)

Ph: 9103581

Ministry of Industries & Production,  
(Muhammad Yasir Iqbal, Cost Accounts Officer,  
Government of Pakistan,  
Islamabad



SECRETARY

NO: 07/SY/CCP/1118/2019  
**COMPETITION COMMISSION OF PAKISTAN**  
**GOVERNMENT OF PAKISTAN**

9<sup>TH</sup> Floor (South), ISE Towers, 55-B,  
 Main Jinnah Avenue,  
 Blue Area, Islamabad  
 Tel: +92-51-9100250  
 Fax: +92-51-9100258  
 URL: [http:// www.cc.gov.pk](http://www.cc.gov.pk)

November 19, 2019

Muhammad Yasir Iqbal  
 Cost Accounts Officer  
 Ministry of Industries & Production  
 Islamabad.

**SUBJECT: DECISION OF THE MEETING OF ECONOMIC COORDINATION COMMITTEE (ECC) OF THE CABINET - EXPORT OF SUGAR (CROP YEAR 2016-17)**

Ministry of Industries & Production (MOI&P) may please refer to its letter No. 1(6)/2019-CA dated 25<sup>th</sup> June, 2019 and our letter of even number dated 5<sup>th</sup> July, 2019 regarding the captioned subject.

1. The Competition Commission of Pakistan (CCP) under the provision of the Competition Act, 2010 requiring all the sugar mills to submit audited financial statements and cost audit reports for the FY 2016-17. Furthermore, the mills were also asked to provide information as per the enclosed proforma (Annexure-A). Responses from 39 sugar Mills of Punjab, 22 of Sindh and 04 of KPK were received.

3. The findings of the Committee, constituted by the Commission are enclosed herewith as Annexure-B. The average cost of production of sugar, using the actual data of sugar mills of Punjab and Sindh amounts to Rs. 51.93 per kg, which is very close to the figure calculated by the Ministry of Industries & Production i.e. Rs. 52.46 per kg.

  
 (Shanzad Hussain)

Encl: As above



429	444
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2. The information submitted by the sugar mills has been used to calculate cost per kg of sugar for each province; i.e. Punjab, Sindh and KPK as shown in Table 1 below.

**Estimated Ex-Mill Price of Sugar from Sugarcane Prices**  
**Season 2016-2017**  
**Consolidated**

3. Since the MOI&P had calculated the average cost of production of sugar using cost information of sugar mills of Punjab and Sindh, therefore, in order to being conformity with the MOI&P's calculations, the average cost per kg of sugar is calculated, using actual data received from sugar mills of Punjab and Sindh, as shown in Table 2 below. The calculation is based on following assumptions:-

- 296

- iii. The purchase price of sugar cane has been taken as the Notified Ex-Mill price of 40kg of sugarcane, i.e. Rs.182 for Sindh and Rs.180 for Punjab with an Average price of Rs. 181.
- iv. Sugar Recovery percentage and Molasses Recovery Percentage are the average of the recovery percentages of Sugar & Molasses respectively for Punjab and Sindh.
- v. The information received from KPK has not been considered for calculating the average cost of production to bring conformity with the calculations of MOI&P.

**Table-2**

**Estimated Ex-Mill Price of Sugar from Sugarcane Prices  
Season 2016-2017  
Consolidated (Punjab and Sindh)**

Factors				
Sugar Recovery %age		10.11%	9.58%	9.85%
Molasses Recovery %age		4.68%	4.46%	4.57%
Sale Price of Molasses Rs./Kg		12.00	12.00	12.00
Manufactring Profit Rs./Kg before Tax		-	-	-
		SINDH	PUNJAB	AVERAGE

1	Price of Sugarcane (Raw Material Cost)	Rs. Per 40Kg	182.00	180.00	181.00
2	Sale of Molasses	Rupees	22.47	21.41	21.94
3	Net Cost of Raw Material	Rupees	159.53	158.59	159.06
4	Development Cess	Rupees	1.50	1.50	1.50
5	Marketing Committee Fee	Rupees	0.30	0.30	0.30
6	Freight	Rupees	2.00	2.00	2.00
7	Total Cost of Raw Material	Rupees	168.53	165.64	167.09
8	Sugar obtained from 40kg of Cane	Kgs	4.04	3.83	3.94
9	Cost of Raw Material per kg of Sugar	Rs./kg	41.68	43.21	42.45
10	Processing cost & other overheads	Rs./kg	10.06	8.91	9.49
11	Total Manufacturing Cost	Rs./Kg	51.74	52.12	51.93

4. The average cost calculated by the committee using actual cost data is Rs. 51.93 per kg, whereas, the average cost calculated by the MOI&P is Rs. 52.46 per kg. The overall average cost is almost the same with a minor difference of Rs. 0.53 per kg. The difference in average cost calculated by the MOI&P and the Committee is due to the different recovery percentages of Sugar and Molasses and the sample taken.

\*\*\*      \*\*\*      \*\*\*\*





No.8(291)S.O.(Ext.)/2015  
GOVERNMENT OF SINDH  
AGRICULTURE, SUPPLY &  
PRICES DEPARTMENT

Karachi, dated 22-11-2017

## SUMMARY FOR CHIEF MINISTER SINDH

**SUBJECT: REQUEST FOR GRANT OF SUBSIDY ON EXPORT OF SUGAR AT RS.20/KG BY THE FEDERAL GOVERNMENT.**

The Chairman, Pakistan Sugar Mills Association (PSMA), Sindh Zone vide letter dated 21<sup>st</sup> November, 2017, addressed to the Honorable Chief Minister Sindh has intimated that during the meeting of PSMA-Centre and Sindh Zone with the Honorable Prime Minister of Pakistan on 21-11-2017, the Prime Minister has agreed to consider allowing subsidy of Rs.15/Kg for export of surplus sugar with a ratio of 60:40 [60% to be paid by Provinces and 40% by Federal Government] (Annex-A).

2. It may kindly be noted that the production cost of sugar has been established by PSMA at Rs.64.19/Kg and a substantial stock of surplus sugar is available with mills. The PSMA has been pursuing the matter for allowing export of sugar and subsidy of Rs.18/Kg on export of sugar in wake of available surplus stock and decreased prices in the International market. The Economic Coordination Committee of the Cabinet has allowed export of 0.5 MMT of sugar (Annex-B) with a cash freight support of Rs.10.7/Kg on the recommendation of the Sugar Advisory Board of Ministry of Industries, Government of Pakistan, so that sugar mills may economically shed off their present accumulated stocks of sugar and stay in a position to crush entire crop available during the coming crushing season 2017-18. The PSMA has apprehended that in case, timely action is not taken, the sugarcane growers and sugar mills along with the government shall be facing a very difficult situation.

3. The crushing season of sugarcane 2017-18 by the Sugar Mills in Sindh has started but the mills are apprehensive to start crushing due to availability of a large quantity of sugar stock, carried over from the last crushing season 2016-17.

(2)

4. It is pertinent to mention here that if the mills do not purchase sugarcane from growers and light up their boilers immediately, it is likely that the situation would get worse and growers may incur heavy losses of their crop.

5. In view of the above position, it is proposed that Federal Government may be approached to consider PSMA's request for subsidy of Rs.20/Kg on 50:50 basis on export of sugar to save the sugar industry and sugarcane growers of Sindh from losses and avert possible shortage of commodity in the next season.

6. Honourable Chief Minister Sindh may kindly pass appropriate orders.

(SAJID JAMAL ABRO)  
SECRETARY TO GOVT. OF SINDH

MINISTER FOR  
AGRICULTURE, SUPPLY & PRICES

SECRETARY, FINANCE

CHIEF SECRETARY SINDH

CHIEF MINISTER SINDH

Para 5 is approved. I have signed the draft letter submitted by Agriculture department to be sent to the Prime Minister. The Agriculture department may submit this case to the cabinet.





## SUMMARY FOR THE CABINET

MINISTER INCHARGE

SOHAIL ANWAR SIYAL

SECRETARY  
GOVERNMENT OF SINDH.

SAJID JAMAL ABRO

DATE OF SUBMISSION.

4<sup>th</sup> December, 2017

SUBJECT: REQUEST OF PSMA FOR GRANT OF SUBSIDY ON EXPORT OF SUGAR.

The Chairman, Pakistan Sugar Mills Association (PSMA), Sindh Zone vide letter dated 21<sup>st</sup> November, 2017, addressed to the Honorable Chief Minister Sindh has intimated that during the meeting of PSMA-Centre and Sindh Zone with the Honorable Prime Minister of Pakistan on 21-11-2017, the Prime Minister had agreed to consider allowing subsidy of Rs.15/Kg for export of surplus sugar with a ratio of 60:40 [60% to be paid by Provinces and 40% by Federal Government] (Annex-A).

2. It may kindly be noted that the production cost of sugar has been established by PSMA at Rs.64.19/Kg. A substantial stock of 0.5 MMT approx. surplus sugar is available with mills at present in Sindh Province. The PSMA has been pursuing the matter for allowing export of sugar and subsidy on export of sugar in wake of available surplus stock and decreased prices in the international market. The Economic Coordination Committee of the Cabinet has allowed export of 1.5 MMT of sugar (all Pakistan) and a cash freight support of Rs.10.7/Kg on 0.5 MMT (Annex-B), on the recommendation of the Sugar Advisory Board of Ministry of Industries, Government of Pakistan, so that sugar mills may economically shed off their present accumulated stocks of sugar and stay in a position to crush entire crop available during the coming crushing season 2017-18.

3. The crushing season of sugarcane 2017-18 by the Sugar Mills in Sindh has started but the mills were apprehensive to start crushing due to availability of a large quantity of sugar stock, carried over from the last crushing season 2016-17. It is pertinent to mention here that if the mills do not purchase sugarcane from growers and light up their boilers in a timely manner, it is likely that the situation would get worse and growers may incur heavy losses of their crop.


4. Meanwhile, the Honorable Chief Minister Sindh on the request of PSMA approved the proposal to approach Federal Government to consider PSMA's request for subsidy of Rs.20/Kg on 50:50 basis on export of sugar to save the sugar industry and sugarcane growers from losses and possible shortage of commodity in the next season and placement of the matter before the Cabinet (**Annex-C**). Accordingly, a D.O. letter addressed to the Honorable Prime Minister of Pakistan has been sent on 23-11-2017 by the Chief Minister Sindh (**Annex-D**). However, the demand of PSMA has not been accepted.

5. It is submitted that the Economic Coordination Committee of the Cabinet has allowed export of 1.5 MMT of sugar and a cash freight support of Rs.10.7/Kg on 0.5 MMT, on the recommendation of the Sugar Advisory Board of Ministry of Industries, Government of Pakistan, however, the PSMA is demanding a subsidy of Rs.20/Kg on export of sugar to avoid losses.

6. The meeting of Sindh Sugarcane Control Board was also held on 29-11-2017 and it was decided to start sugar mills from 1<sup>st</sup> December, 2017 and fix a rate of Rs.182/- per 40Kg/Md as a minimum price of sugarcane. However, the PSMA has accepted this arrangement with serious reservations.

7. In order to resolve the matter of the demand of PSMA for allowing of remaining amount of subsidy i.e. Rs.9.3/Kg on export of sugar, the Cabinet is requested to deliberate upon the issue and devise/ decide a policy / criteria for the support of sugarcane growers as well as sugar mills so that sugarcane sector does not suffer. For the purpose the Cabinet members may deliberate and decide a support policy on appropriate eligibility criteria/ terms and conditions.

8. The matter is placed before the Sindh Cabinet for deliberations and decision as deemed appropriate.

  
SECRETARY TO GOVT. OF SINDH



FIA 244

MINUTES OF THE CABINET MEETING HELD ON 4<sup>th</sup> DEC. 2017 AT 2:00 PM  
UNDER THE CHAIRMANSHIP OF HONORABLE CHIEF MINISTER, SINDH  
AT THE CABINET ROOM, 7<sup>th</sup> FLOOR NEW SECRETARIAT BUILDING  
KARACHI

Chair: Syed Murad Ali Shah, Honorable Chief Minister, Sindh  
 In Attendance: Please refer Annex – A.  
 Agenda Items: Following agenda items were discussed during the meeting:

Agenda Item-1	Confirmation of the Minutes of last Cabinet Meeting held on 28-10-2017
Agenda Item-2	Proposal for grant of Cash Freight Support on export of sugar
Agenda Item-3	Compensation for Project affected persons of Thar Coal Project
Agenda Item-4	Conversion of SSGC loan into Grant
Agenda Item-5	NCPP Subsidy Rules, 2017
Agenda Item-6	Enhancement of Government of Sindh share in Hub Block
Agenda Item-7	Grant of Charter to Government College University, Hyderabad
Agenda Item-8	Grant of Charter to City University, Karachi
Agenda Item-9	Re-composition of SESSI Board
Agenda Item-10	Karachi Water & Sewerage Board Rules on Water Hydrants
Agenda Item-11	Wheat Procurement Target 2017-18 (Additional)
Agenda Item-12	The Sindh Industries Registration Act, 2017 (Additional)

1. Opening:


1.1 The meeting started with the recitation from the Holy Quran. The Honorable Chief Minister, Sindh Syed Murad Ali Shah welcomed participants in the meeting and briefed the Cabinet about purpose of the meeting and asked Chief Secretary, Sindh to introduce agenda items to be discussed in the Cabinet.

2. Agenda Item-1: Confirmation of the Minutes of last Cabinet Meeting held on 28-10-2017

2.1 The Chief Secretary, Sindh requested the respected Cabinet members to confirm and approve the minutes of the last Cabinet Meeting held on 28-10-2017.

2.2 The Honorable Chief Minister, Sindh inquired if minutes of the last Cabinet meeting have been circulated to all members and any respected  
 Deputy Secretary (Cabinet & PM)  
 SGA&C Department  
 Government of Sindh

- 3.5 The Honorable Chief Minister, Sindh asked Minister for Agriculture to apprise the Cabinet about meetings held with growers and PSMA.
- 3.6 The Minister for Agriculture apprised the Cabinet that the Sugar Cane Control Board works under section-3 of Sugar Factories Control (Sindh Amendment) Act, 2009, its function is to recommend sugarcane price in consultation with sugar mills and growers and recommend sugarcane crushing season date in consultation with stakeholders. Two separate meetings were held with growers and PSMA. The issue is of stockpiled sugar stocks which were not allowed for export due to inefficiency of Federal Government. The growers have invested their money in seeds, pesticides and fertilizers to grow sugarcane crop. If mills are not opened on time it will be huge loss to the growers. The PSMA with reservations agreed to light up their boilers but crushing has not started. The request of PSMA is submitted before the Cabinet to consider additional support of Rs.9.3/kg for export of sugar in addition to Rs.10.7 support on co-share ratio 50:50 with Federal Government. If additional support is given to PSMA, it will be in best interest of public and growers.
- 3.7 The Minister for Industries apprised the Cabinet that whenever support is given to PSMA, its effects do not trickle down to growers and growers are least paid for their crop. the additional cash freight support shall be given if it is ensured that growers are paid Rs.182/maund of sugarcane. The Minister for Food endorsed the point and said that our issue should be opening of sugar mills so that crushing season starts on time. The Minister for Agriculture added that sugar cane from Punjab is sold on prices of Rs.110 or Rs.120 per maund in three districts of Sukkur, Ghotki and Kashmore-Kandhkot.
- 3.8 The Honorable Chief Minister, Sindh asked Secretary Finance to give his views on financial impact of the additional support to be given to sugar mill owners for export of sugar.
- 3.9 The Secretary Finance apprised the Cabinet that if additional cash freight support of Rs.9.3/kg is translated into money terms its financial impact would be huge. The budget 2016-17 was presented with deficit of Rs.13 to Rs.14 billion. If additional support is given on the export of sugar it will decrease the development budget's share in coming election year. In case cabinet decide to give this additional cash freight support, the amount for additional support of Rs.9.3/kg will have to be spend from outside of the budget 2016-17.
- 3.10 The Minister for Health apprised the Cabinet that the problem is serious and this is the forum where it should be solved. It is reported that sugar mills do not pay their taxes and dues, which must be ensured by

  
Deputy Secretary (Cabinet & PM)  
SGA&C Department  
Government of Sindh

Page 3 of 16



concerned authorities and simultaneously they pay less to growers compared to support price of Rs.182/maund. Before allowing additional support to the sugar mills an agreement or bond may be signed with PSMA that they will pay actual support price of Rs.182/maund to all growers.

3.11 Minister for Local Government apprised the Cabinet that Sindh's economy is agricultural and it is worldwide global practice that agriculture sector is supported by governments with subsidies, support prices. Fertilizer industry is already given subsidies, the proposal of additional support for export of sugar is good because it will resolve the issue of growers.

3.12 **Decision:** The Cabinet approved the additional cash freight support of Rs.9.3/kg of sugar in addition to its 50% share in the cash freight support of Rs.10.7/Kg allowed by the Federal Government on the following criteria/ terms & conditions.

- a) The mill is regular in discharge of its Road Cess and there are no outstanding dues related to Trading Corporation of Pakistan.
- b) The Agriculture department may reach an agreement with the Sindh Bank Limited and deposit the full amount of cash freight support in SBL.
- c) No mill shall claim a cash freight support of Rs.9.3/Kg for any quantity greater than 20,000 MT.
- d) The mill has got no over dues in the CIB Report issued by the State Bank of Pakistan as of 31.10.2017.
- e) Growers' liability for the season 2016-17 is cleared and the Cane Commissioner has issued a NOC in this regard.
- f) No Government of Sindh affiliated payment is outstanding against the mill.

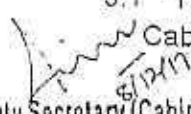
#### 4. Agenda Item-3: Compensation for Project affected persons of Thar Coal Project

4.1 The Honorable Chief Minister, Sindh mentioned that Energy Department has suggested that they need further analysis to improve their proposal; hence this agenda item may be deferred.

4.2 **Decision:** The Cabinet decided to defer agenda item no-3 "Compensation for Project affected persons of Thar Coal Project".

#### 5. Agenda Item-4: Conversion of SSGC loan into Grant

5.1 The Chief Secretary, Sindh asked Secretary Energy to brief the Cabinet about agenda item-4 "Conversion of SSGC loan into Grant".

  
Deputy Secretary (Cabinet & PM)  
SGA&C Department  
Government of Sindh

Page 4 of 16



GOVERNMENT OF SINDH  
AGRICULTURE, SUPPLY &  
PRICES DEPARTMENT

**NOTIFICATION**

No.8(291)SO(Ext:)/2017 As per the decision of the Provincial Cabinet meeting dated 4<sup>th</sup> December 2017, the Agriculture Department, Government of Sindh is pleased to announce an additional cash freight support of Rs.9.3/Kg on export of sugar (in addition to 50% share in the cash freight support of Rs 10.70/Kg allowed by the Government of Pakistan).

2. This additional cash freight support shall be given under the following criteria/ terms & conditions:

- The mill is regular in discharge of its Road Cess and there are no outstanding dues related to Trading Corporation of Pakistan.
- The Agriculture department may reach an agreement with the Sindh Bank Limited and deposit the full amount of cash freight support in SBL.
- No mill shall claim a cash freight support of Rs.9.3/kg for any quantity greater than 20,000 MT.
- The mill has got no over dues in the CIB Report issued by the State Bank of Pakistan as of 31.10.2017.
- Growers liability for the season 2016-17 is cleared and the Cane Commissioner has issued a NOC in this regard.
- No Government of Sindh affiliated payment is outstanding against the mill."

(SAJID JAMAL ABRO)  
Secretary to Govt. of Sindh

No.8(291)SO(Ext:)/2017:

Karachi, dated the 02-01-2018

A copy is forwarded to the following:-

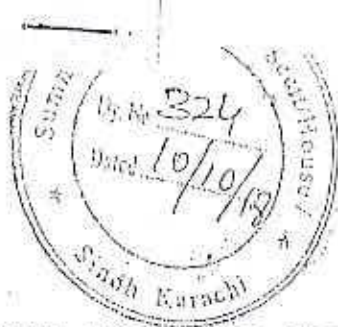
- The Principal Secretary to Governor Sindh, Karachi.
- The Principal Secretary to Chief Minister Sindh, Karachi.
- The Joint Secretary, Ministry of National Food Security & Research, Government of Pakistan, Islamabad.
- The Joint Secretary, Ministry of Industries, Government of Pakistan, Islamabad.
- The Secretary to Government of Sindh, \_\_\_\_\_
- President, Sindh Bank Limited Karachi.
- The Deputy Secretary (Staff) to Chief Secretary Sindh.
- The Deputy Commissioner, \_\_\_\_\_
- The Director Information, Agriculture Extension, Hyderabad.
- The Cane Commissioner Sindh, Hyderabad for strict compliance.
- The Section Officer (Legislation), Law Department, Government of Sindh, Karachi.
- The Chairman, Pakistan Sugar Mills' Association (Sindh Zone), Karachi.
- The General Manager \_\_\_\_\_ Sugar Mills \_\_\_\_\_

C. c. to:-

- P.S. to Minister for Agriculture, Supply & Prices Department, Govt. of Sindh, Karachi.
- P.S. to Secretary Agriculture, Supply & Prices Department, Govt. of Sindh, Karachi.

DEPUTY SECRETARY (TECH:)





NO: 8(291)SO(EXT)  
GOVERNMENT OF SINDH  
AGRICULTURE, SUPPLY & PRICES  
DEPARTMENT

Karachi dated: 04<sup>th</sup> October, 2018

## SUMMARY FOR CHIEF MINISTER SINDH

SUBJECT: GRANT OF ADDITIONAL CASH FREIGHT SUPPORT ON EXPORT OF SUGAR.

The Secretariat of Chief Minister Sindh has forwarded a copy of letter of Pakistan Sugar Mills Association (PSMA) Sindh Zone dated September 15, 2018 wherein the Honourable Chief Minister Sindh has been requested for disbursement of funds to Sindh Bank Limited for onward payment to exporting sugar mills regarding subsidy on export of sugar granted by Government of Sindh. The Honourable Chief Minister Sindh has been pleased to record following minutes on the request of PSMA (Annex-I):

“For necessary action”

Sd/-

Dated 19-09-2018  
Chief Minister Sindh

2. During the crushing season 2016-17, Pakistan Sugar Mills Association (PSMA) approached Federal Government for allowing them to export surplus sugar stocks and demanded grant of cash freight support of Rs.20/- per Kg due to low prices in international market. The sugar mills showed reluctance to purchase sugarcane from growers for the crushing season 2017-18 due to availability of huge sugar stocks which were not exported due to federal ban on export.

3. The Economic Coordination Committee (ECC) of the Cabinet allowed 0.500 million tons and 1.500 million tons exports on 14-09-2017 and 22-12-2017 respectively i.e. 2.00 million tons. Out of this quantity, the State Bank of Pakistan allocated a quota of 1.700 million tons and cash freight support of Rs.10.7/- per kg on export of sugar was granted to be equally shared by federal and provincial governments with, *inter-alia*, following conditions (Annex-II):-

- The start of cane crushing latest by 30th of November 2017 and continuation thereafter.
- Timely payment for all the procurements of sugarcane as provided in the approved conditions contained in the ECC decision of dated 14-09-2017.

4. On the request of PSMA Sindh Region, the Honourable Chief Minister Sindh wrote a letter to Federal Government for grant of cash freight support of Rs.20/- per Kg. However, the demand was not acceded to. Meanwhile the sugar mills showed their inability to start mills otherwise on the pretext that they had huge stocks available which need to be exported. They demanded additional cash freight support of Rs.9.3/- per Kg from Government of Sindh.

5. The provincial cabinet of Sindh deliberated the matter in its meeting held on 04-12-2017 (Annex-III) and approved grant of additional cash freight support of Rs.9.30 per Kg on export of sugar on the following criteria. Resultantly, the Honourable Chief Minister Sindh allowed provision of additional financial support to sugar mills and release of an amount of Rs.2.50 billion for payment to sugar mills through Sindh Bank Limited, in addition to the cash freight support of Rs.10.70 /- per kg allowed by the Federal Government:-

- a) The mill is regular in discharge of its Road Cess and there are no outstanding dues related to Trading Corporation of Pakistan.
- b) The Agriculture department may reach an agreement with the Sindh Bank Limited and deposit the full amount of cash freight support in SBL.
- c) No mill shall claim a cash freight support of Rs.9.3/kg for any quantity greater than 20,000 MT.
- d) The mill has got no over dues in the CIB Report issued by the State Bank of Pakistan as of 31.10.2017.
- e) Growers liability for the season 2016-17 is cleared and the Cane Commissioner has issued a NOC in this regard.
- f) No Government of Sindh affiliated payment is outstanding against the mill.

6. The Government of Sindh also devised a criteria for grant of additional cash freight support to the sugar mills on export of sugar which included payment of dues of growers on account of purchase of sugarcane for the season 2016-17.

7. Finance Department, Government of Sindh had released an amount of Rs.2.500 billion on account of additional cash freight support to the exporting sugar mills which were deposited in the Sindh Bank Limited for payment against the claims through Sindh Bank.

8. The Sindh Bank Limited vide letter dated September 7, 2018 has furnished a list of claims received and paid along with mill wise details of outstanding claims according to which claims of Rs.4,123,857,150/- have been received out of which Rs.2,499,826,050/- have been paid while an amount of Rs.1,624,031,100/- is to be paid against the remaining claims (Annex-IV). Sindh Bank further informed that as per arrangement, public notices for additional cash freight support were published in the leading newspapers by the Sindh Bank Limited. Therefore, the Bank





(3)

seeks clear instructions whether Government of Sindh intends to stop payments on account of additional cash freight support or otherwise, so that they can publish the same in the newspapers to avoid any financial claims/losses to the bank.

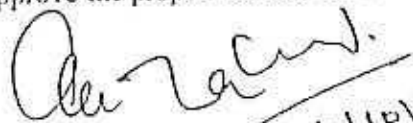
10. In view of the above, it is proposed that the Honourable Chief Minister Sindh may kindly;

a) Allow release of an amount of Rs.1,624,031,100/- from the block allocation for payment of claims as cash freight support against export of sugar

OR

b) Issue necessary orders as deemed appropriate.

11. Honourable Chief Minister may kindly like to approve the proposal contained in para 10(a) OR 10(b), above.

  
(AGIA ZAHEERUDDIN)  
SECRETARY TO GOVT. OF SINDH  
4/10/18

12. MINISTER FOR AGRICULTURE,  
SUPPLY & PRICES

13. SECRETARY FINANCE

CHIEF SECRETARY SINDH

CHIEF MINISTER SINDH

3

SUMMARY FOR CHIEF MINISTER SINDH

SUBJECT:- GRANT OF ADDITIONAL CASH FREIGHT SUPPORT ON EXPORT OF SUGAR

13. As a matter of fact there are two different heads under which Government of Sindh had provided subsidy for sugar exports in the last financial year (FY 2017-18); that is, Rs.9.30 per KG subsidy for the sugar exported by the mills located in Sindh, subject to a maximum of 20,000 tons per mill (to be paid through Sindh Bank Limited) and Rs 10.70 per KG subsidy for the sugar exported by the mills located in Sindh, on the basis of 50:50 ratio between Government of Sindh and Government of Pakistan. It is not clear as to whether there is any upper export limit per sugar mill.

14. It is mentioned that subsidy of Rs 9.30 per KG announced by Government of Sindh has already consumed Rs 2,500 million during the last financial year (2017-18). According to Sindh Bank Limited, this amount has been fully consumed.

15. As said above, Government of Pakistan provides an incentive of Rs 10.70 per KG on export of sugar, to be shared on 50:50 ratio between Government of Pakistan and Government of Sindh. For this purpose, an amount of Rs 1,000 million was released to State Bank of Pakistan by Government of Sindh in the previous financial year (2017-18). According to State Bank of Pakistan, this amount has been fully utilized, further intimating that the claims amounting to Rs 3,226,260,993/- are outstanding against Government of Sindh (Annexure-V).

16. It is relevant to point out that the outstanding amount of Rs 3,226,260,993/- towards State Bank of Pakistan poses a significant obligation to Government of Sindh. It also implies that there shall be substantial outstanding subsidy claims in respect of Rs.9.30 per KG cash freight support given by Government of Sindh, in respect of which Rs 2,500 million has already been consumed. The breakup of total claims in respect of State Bank of Pakistan and Sindh Bank is as under:

Amount claimed by the SBP / GoP:	Rs 3,226,260,993/-
Amount claimed by Sindh Bank Limited:	Rs 1,624,031,100/-
Total amount due:	Rs 4,850,292,093/-

17. The legal obligation of the Government of Sindh in respect of payment of subsidy towards both these schemes is established as the SBP / Government of Pakistan scheme was agreed at ECC level while the provincial scheme was approved by the Sindh Cabinet. The decision of ECC has also been approved / notified by provincial Cabinet (Annexure-VI)

18. Instantly, Agriculture Department has demanded Rs.1,624,031,100/- for payment of claims as Cash Freight Support against export of sugar. If approved, the amount shall have to be given outside budget.

19. Finance Department proposes, in view of financial constraints, that in future:

- Agriculture Department may make a commitment that no other subsidies shall be sought for Agriculture sector under any scheme henceforth.



- 19) Agriculture Department shall provide an undertaking that no unpaid subsidies are outstanding against the Government of Sindh in respect of any provincial or federal schemes.
- 20) Agriculture Department shall not participate in any Government of Pakistan based subsidy schemes / cost-sharing schemes for agriculture sector.
- 21) Agriculture Department shall devise a mechanism so that Government of Sindh may gradually disengage from the process of price determination for procurement of sugarcane by sugar mills. It is felt that the root cause of the problem lies in the twofold interventions by Government of Sindh / Agriculture Department, firstly on behalf of the sugarcane growers and secondly on behalf of sugar mills. It is advisable that sugar cane price may be determined by market forces as in the case of sugar price and other commodities.
- 22) Further, it is observed that sugar cess of Rs.0.50 per maund, (40 KG) is extremely low. Administrative Department may be advised to rationalize it and bring it at least at par with that of other provinces.
- 23) In principle, Government of Sindh may not opt for export subsidies because it merely results in substantially cheaper sugar for the foreign consumers, while the local sugar consumer has to buy the same sugar at a more expensive price. It seems unjustified and illogical that foreign consumer benefits from our scheme at the cost of local consumer. This matter may therefore be placed before provincial Cabinet so that it may be notified as a long-term policy.

20. As regards the outstanding amount of Rs.3,226,260,993/- claimed by State Bank of Pakistan, Administrative Department may be advised to float a separate summary with its specific comments, keeping in view above observations of Finance Department.

21. The Honorable Chief Minister Sindh may like to approve para-18, 19 and 20 above.

(DR. NOOR ALAM)

Additional Chief Secretary (Finance)

22. CHIEF SECRETARY, SINDH

For orders as deemed appropriate.

23. CHIEF MINISTER, SINDH

24. As at para 21. ~~Agreed~~ <sup>should</sup>

25. Agriculture department ~~may~~ <sup>should</sup> ensure that all conditions/criteria approved by cabinet are adhered to. Also the ~~Sug~~ Agriculture department may frame a policy on suggestions given by finance department in para 19 for approval of cabinet.

CS

COPY NO. 66  
SECRET

No.7 (2)/2012-EXP-III  
GOVERNMENT OF PAKISTAN  
MINISTRY OF COMMERCE & TEXTILE  
(COMMERCE DIVISION)  
\*\*\*\*\*

**SUMMARY FOR THE ECC OF THE CABINET**

**Subject: EXPORT OF SUGAR (CROP YEAR 2017-18)**

Export of sugar (except organic brown sugar) is banned under the Export Policy Order 2016 to ensure adequate supply of sugar at reasonable price in the domestic market. However, the last few years have seen production of sugar in Pakistan surpass its consumption, which created surplus in the market. Hence, specified quantities of surplus sugar have been allowed for export during the last few years to provide liquidity to the sugar manufacturers enabling them to make payments to sugarcane growers in a timely manner.

2. In order to ascertain the quantum of sugar stocks available in the country, a meeting of the Sugar Advisory Board (SAB) was held on 11.09.2018. During the meeting it was pointed out that sugar production for 2017-18 was 6.617 MMT with a carryover stock of 0.541 MMT from 2016-17. The consumption of sugar till the end of October 2018 was expected to be 5.196 MMT. Hence, the surplus stock of sugar is expected to 1.962 MMT. In view of the availability of surplus stocks of sugar, SAB recommended that after accounting for two months' consumption and retaining two-month reserve stocks, export of 1 (one) MMT of sugar may be allowed. Minutes of SAB are at Annex-I.

3. In accordance with the directive of the Prime Minister No. 3546/M/SPM/15 dated 25-11-2015 a meeting of the Inter-Ministerial Committee was held on 17-09-2018 in the Ministry of Commerce (Annex-II). The Inter-Ministerial meeting endorsed the proposal of SAB for allowing export of 1 (one) MMT of sugar subject to the following conditions:

- i. No freight or financial support will be provided to millers/exporters by the Federal/Provincial governments;
- ii. The Inter-Ministerial Committee will meet fortnightly to review sugar stock, export and price situation;



- iii. In case of any abnormal increase in the domestic price of sugar, the Committee would recommend to the ECC of the Cabinet for discontinuation of further exports;
  - iv. The export quota will be implemented and monitored by the State Bank of Pakistan (SBP) on first come first served basis;
  - v. Only those mills will be allowed to export who have cleared the outstanding dues of farmers for sugarcane crop 2017-18 and start crushing at full capacity by 30.11.2018 as required under the Sugar Factories Control Act 1950. In case export quota is granted prior to 30<sup>th</sup> November 2018, the exporter/miller shall give an undertaking that it shall commence crushing as required under the Sugar Factories Control Act 1950.
  - vi. Exporters will ship their consignments within 60 days of quota allocation by the SBP. In case of non-shipment within the said period, a non-performance penalty of 15% will be imposed on the respective miller.
4. Since all the relevant Ministries/Divisions were part of the Inter-Ministerial meeting, their views have been made part of the recommendations.
  5. The recommendations of Inter-Ministerial Committee at para-3 of the summary are submitted for consideration/approval of the ECC of the Cabinet
  6. Advisor on Commerce, Textile, Industries & Production and Investment has seen and authorized the submission of the summary to the ECC of the Cabinet.

**(Mohammad Younus Dagha)**  
Secretary

Islamabad, 28 September, 2018

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Government of Pakistan  
Ministry of Industries & Production  
\*\*\*\*\*

No: 1(6)2018-CA

Islamabad, the September 14, 2018

**OFFICE MEMORANDUM**

Subject: **MINUTES OF THE MEETING OF SUGAR ADVISORY BOARD (SAB)  
HELD ON SEPTEMBER 11, 2018**

The undersigned is directed to enclose herewith a copy of minutes of the meeting of Sugar Advisory Board (SAB) held on September 11<sup>th</sup>, 2018 at 14:30 hrs in the committee room of Ministry of Industries and Production for information and necessary action.

**Encl: As Above**

(Muhammad Yasir Iqbal)  
Cost Accounts Officer  
Tele: 051-9204720  
Email: caoministry@gmail.com

**Distribution:**

1. The Secretary, Finance Division, Islamabad.
2. The Secretary, M/o Commerce, Islamabad.
3. The Secretary, M/o National Food Security & Research, Islamabad.
4. The Governor, State Bank of Pakistan, Karachi.
5. The Chairman, Federal Board of Revenue, Islamabad.
6. The Secretaries, Food Department, Government of Punjab.
7. The Secretary, Agriculture Department, Government of Sindh.
8. The Secretaries, Industries Department, Government of the Punjab, KP.
9. The Cane Commissioners, Punjab, Sindh and KP.
10. The Chairman, Pakistan Sugar Mills Association (PSMA), Islamabad.
11. The President, Kissan Board Pakistan, Lahore.

**Cc.**

- I. PSO to Minister for Industries & Production, Islamabad.
- II. PS to Secretary, Mol&P, Islamabad.
- III. PS to Additional Secretary-II, Mol&P, Islamabad.
- IV. APS to Joint Secretary (PSD), Mol&P, Islamabad.



Subject: **MINUTES OF THE SUGAR ADVISORY BOARD (SAB) MEETING HELD ON SEPTEMBER 11, 2017.**

On the request of Commerce Division, a meeting of the Sugar Advisory Board (SAB) was held on September 11, 2018 at 14:30 hrs under the Chairmanship of Secretary, Industries & Production on behalf of the Chairman of the Board, in the Committee Room of MoIP with the agenda proposed by the Commerce Division i.e. to review overall availability and stock position of sugar and to workout exportable surplus, if any. List of participants is at Annex-A.

2. The meeting started with recitation from the Holy Quran. The Chair welcomed the participants and apprised them of the context. The Chair invited chairman, Pakistan Sugar Mills Association (PSMA), to present his point of view. The chairman, PSMA, apprised the Board about the production of 6.617 MMT sugar during the recent crushing season in the country with the net excess of about 2.00 MMT. He further informed that the Federal Board of Revenue (FBR) has fixed Sales Tax on assessable value @ Rs.6/- per kg on registered and Rs.8/- on non-registered companies. After briefly explaining the history, he finally requested to kindly solve the three main issues of the Industry. (i) PSMA requested that sugar may be excluded from Schedule 1 of Export Policy Order. (II) PSMA requested that outstanding rebate must be released to them for smooth payment to the growers. (III) The surplus stocks to be allowed for export as soon as possible.

3. The Chair appreciated and acknowledged the role of the sugar industry in national economy which has contributed significantly in the growth achieved during previous years. The Chair then invited views of Government Representatives.

4. The Representative of Commerce Division explained that they approached the Cabinet for excluding sugar from Schedule 1 of Export Policy Order. Cabinet Division approved the summary however, Ministry of Law and Justice stated that it was the last few days of the Government when this decision took place, therefore, it is better that case may be reconsidered by the new Government, afresh. The Chair directed the representative of commerce to pursue the matter on priority basis.

5. The Secretary, Ministry of National Food Security and Research explained that due to water shortage we see low production of sugarcane in upcoming crushing season.

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6. The Chair enquired about the production data from the provincial representatives. The following figures were calculated with consensus after considering total production of all the Sugar Mills of Punjab, Sindh and Khyber Pukhtunkhawa. The Representative of Sindh did not participate in the meeting and the SAB forum considered the production of Sindh as per their fortnightly report:

**Total Production**

Qty in Million Tons

Total Production (by the end of current crushing season November 2017- April18)	Provinces	
	Punjab	3.865
	Sindh	2.281
	Khyber Pukhtunkhwa (0.429+0.040)*	0.470
	<b>Total Production:</b>	<b>6.617</b>
Carry over stocks (2016-17)		0.541
Total Availability		7.158
Total Consumption	(10 Months @ 0.433)	(4.330)
Present Stocks in hand	Total Availability-Total Consumption	2.828
Expected Consumption for 2 months (September & October 2018) of 2017-18	(2 months @0.433)	0.866
Gross Stocks	Present Stocks in hand-Expected Consumption for 2 months	1.962
Strategic Reserves	(2 Months @0.433)	0.866
Net Excess Difference	(Gross stocks -Strategic Reserves)	1.096

\*Overall production + expected best sugar

6. The Representative of Finance informed that the projections of next year crushing may be analyzed to check the available exportable stocks. The chair again inquired about the future estimated production from provincial representatives. However, Representative of Punjab and Khyber Pakhtunkhwa stated that the estimated production in their provinces is expected the same as last year.

7. After consulting all stakeholders, it was concluded unanimously by the Board that total surplus sugar by the end of season will be 1.962 MMT; therefore, after deducting Strategic reserves of two (02) months i.e 0.866 MMT, we may be left with Net Surplus of 1.096 MMT, therefore it will be safe to recommend export of 1.00 MMT without making it time-bound and it can be reviewed by the Monitoring Committee. The Board also recommended a Monitoring Committee to ensure the availability of sugar in the country on monthly basis. This committee will be headed by Joint Secretary (PSD) and representatives will include from National Food Security and Research, Commerce, Finance, PSMA and Provincial Cane Commissioners.

8. The meeting ended with a vote of thanks to and from the Chair.

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**LIST OF PARTICIPANTS OF THE SUGAR ADVISORY BOARD (SAB) MEETING HELD  
ON SEPTEMBER 11, 2018**

1. Mr. Khalid Masood Chaudhary, Secretary, Mol&P. In Chair.
2. Dr. Muhammad Hashim Popalzai, Secretary, MNFS&R
3. Mr. Iftikhar Ali Shallwani, Additional Secretary-II, Mol&P.
4. Mr. Ghulam Dastgir Baloch, Join Secretary, Mol&P.
5. Mr. Usman Qureshi, Joint Secretary, Commerce Division.
6. Mr. Moeen Afzal Ali, Secretary (Export Policy), F.B.R.
7. Mr. Abdul hameed Baloch, Deputy Secretary (Reg), Mol&P.
8. Mr. Imtiaz Ali Gopang, Food Security Commissioner, M/o NFS&R.
9. Dr. Imran ullah Khan, Deputy Secretary (CR-I), Finance Division.
10. Mr. Shakeel Ahmed, Cost Accountant, Mol&P.
11. Mr. Muhammad Yasir Iqbal, Cost Accounts Officer, MolP.
12. Ms. Naila Mahboob, DD, State Bank of Pakistan.
13. Abdul Ghani, SJD, State Bank of Pakistan
14. Mr. Muhammad Saleem Hussain, D. G, Industries Department, Punjab.
15. Mr. Wajid Ali, Cane Commissioner, Punjab.
16. Mr. Sibte Hassan Sherazi, Asstt Cane Commissioner, Punjab.
17. Mr. Muhammad Shakeel, Cane Commissioner, KP.
18. Mr. Javed Kayani, Chairman, PSMA
19. Mr. Iskander Khan, Sr, Vice Chairman, PSMA
20. Mr. Abdul Qadar Khattak, Chairman, KP, PSMA
21. Ch. Zaka Ashraf, PSMA
22. Mr. Aslam Faruque, PSMA, Sindh Zone.
23. Mr. Ahmed E. Hasham, PSMA, Sindh Zone.
24. Mr. Ahsan Latif, PSMA, Punjab Zone.
25. Mr. Nauman Khan, PSMA, Punjab Zone.
26. Muhammad Waheed Ch. PSMA

**GOVERNMENT OF PAKISTAN  
MINISTRY OF COMMERCE AND TEXTILE  
(COMMERCE DIVISION)**

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**Minutes of the Inter-Ministerial Committee Meeting on export of Sugar**

A meeting of the Inter-Ministerial Committee constituted by the Prime Minister vide directive No. 3546/M/SPM/15 dated 25-11-2015 was held in the Committee Room of Ministry of Commerce on 17-09-2018 at 2:00 P.M. The Advisor to Prime Minister for Commerce, Textile, Industry and Investment chaired the meeting. The list of participants is at Annex-A.

2. The Chair welcomed the participants and after a brief introduction, the deliberations started. Secretary Commerce briefed the participants that export of sugar except organic brown sugar is banned under the Export Policy Order 2016, to ensure reasonable price of sugar in the local market. However, the last few years have seen production of sugar in Pakistan outstrip its consumption, which created surplus in the market. Hence, a specified quantity of surplus sugar has been allowed for export during the last few years to provide liquidity to the sugar manufacturers so that they are able to make payments to sugarcane growers in a timely manner.

3. The Secretary, Ministry of Industries and Production informed the participants that a meeting of Sugar Advisory Board (SAB) was held on 11<sup>th</sup> September 2018 and it was unanimously agreed to recommend export of the 1.00 MMT of sugar keeping in view sufficient availability of sugar in the country. The relevant figures presented to the SAB are as under:

*Qty in Million Tons*

<i>Total Production (by the end of current crushing season November 2017- April 18)</i>	<i>Provinces</i>	
	<i>Punjab</i>	<i>3.865</i>
	<i>Sindh</i>	<i>2.281</i>
	<i>Khyber Pukhtunkhwa (0.429+0.040)*</i>	<i>0.470</i>
	<i>Total Production:</i>	<i>6.617</i>
<i>Carry over stocks (2016-17)</i>		<i>0.541</i>
<i>Total Availability</i>		<i>7.158</i>
<i>Total Consumption</i>	<i>(10 Months @ 0.433)</i>	<i>(4.330)</i>



<i>Present Stocks in hand</i>	<i>Total Availability-Total Consumption</i>	<i>2.828</i>
<i>Expected Consumption for 2 months (September &amp; October 2018) of 2017-18</i>	<i>(2 months @0.433)</i>	<i>0.866</i>
<i>Gross Stocks</i>	<i>Present Stocks in hand-Expected Consumption for 2 months</i>	<i>1.962</i>
<i>Strategic Reserves</i>	<i>(2 Months @0.433)</i>	<i>0.866</i>
<i>Net Excess Difference</i>	<i>(Gross stocks -Strategic Reserves)</i>	<i>1.096</i>

4. The Joint Secretary, Ministry of Industries informed that it has been proposed to keep two-month reserve stocks to ensure that sufficient sugar is available in the market. Previously, the practice was to keep 45 days strategic reserves stock. It was also pointed out that availability of sufficient stock is ensured for domestic consumption during the holy month of Ramzan every year while allowing such export. As the next Ramzan falls in May 2019, which is soon after the end of crushing season, sufficient stocks would be available at that time.

5. The Joint Secretary, Ministry of Commerce informed the participants that prices of sugar in domestic market have been witnessing a declining trend. According to PBS data average sugar price in domestic market was Rs. 55.06/kg as of 6<sup>th</sup> September, 2018. Yearly price average of sugar in FY 2017-18 was Rs. 53.70/kg as opposed to Rs. 64.99/kg in FY 2016-17. All the participants were of the view that in case permission is granted to export sugar, price of sugar needs to be monitored to check any abnormal increase in price in the local market.

6. The representative of the Ministry of Finance said that since no subsidy is being given, therefore, they have no objection to export 1.00 MMT of sugar as per standard terms and conditions. The representative of Ministry of National Food Security and Research said that export be allowed only to those sugar mills who had paid all their outstanding dues to the farmers and start their crushing season as required under the Sugar Factories Control Act 1950.

7. The Secretary Commerce suggested that the IMM under Ministry of Commerce may review/monitor the overall situation about export of sugar fortnightly on the basis of recommendations of monitoring committee of MoIP as proposed in the said meeting of SAB regularly during the crushing season. The committee would also monitor the price of sugar in the

local market and in case of an abnormal increase in price in the local market, it would recommend discontinuation of further export of sugar.

8. All the participants endorsed the proposal to export 1.00 MMT of sugar subject to following conditions:

- i. No freight or financial support will be provided to millers/exporters by the Federal/Provincial governments;
- ii. The Inter-Ministerial Committee will meet fortnightly to review sugar stock, export and price situation;
- iii. In case of any abnormal increase in the domestic price of sugar, the Committee would recommend to the ECC of the Cabinet for discontinuation of further exports;
- iv. The export quota will be implemented and monitored by the State Bank of Pakistan (SBP) on first come first serve basis;
- v. Only those mills will be allowed to export who have cleared the outstanding dues of farmers for sugarcane crop 2017-18 and start crushing at full capacity by 30.11.2018 as required under the Sugar Factories Control Act 1950. In case export is affected prior to 30<sup>th</sup> November 2018, the exporter/miller shall give an undertaking that it shall commence crushing as required under the Sugar Factories Control Act 1950.
- vi. Exporters will ship their consignments within 60 days of quota allocation by the SBP. In case of non-shipment within the said period, a non-performance penalty of 15% will be imposed on the respective miller in line with the ECC's decision in Case No. ECC-96/19/2017 dated 14<sup>th</sup> September, 2017.

7. The meeting ended with a vote of thanks to and from the Chair.

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**Annex-A**

**LIST OF PARTICIPANTS**

**EXPORT OF SUGAR MEETING HELD ON 17.09.2018**

S.No.	Name	Designation	Organization
1.	Mr. Abdul Razak Dawood	Advisor for Commerce, Textile, Industry and Investment <i>In-chair</i>	Ministry of Commerce and Textile
2.	Mr. Mohammad Younus Dagha	Secretary	Commerce Division
3.	Mr. Khalid Masood Chaudhary	Secretary	Ministry of Industries and Production
4.	Mr. Muhammad Usman Qureshi	Joint Secretary/EXIM	Commerce
5.	Mr. Ghulam Dastgir Khan Baloch	Joint Secretary	Ministries of Industries and Production
6.	Mr. Imtiaz Ali Gopang	Food Security Commissioner	Ministry of National Food Security and Research
7.	Dr. Imran Ullah Khan	Deputy Secretary (CF)	Ministry of Finance
8.	Mr. Atif Aziz	Deputy Secretary/EXIM Wing	Ministry of Commerce
9.	Mr. Muhammad Asad	Section Officer/Exports-III	Ministry of Commerce

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**SECRET**

**Case No. ECC-96/19/2018**  
**Dated: 2<sup>nd</sup> October, 2018**

**EXPORT OF SUGAR (CROP YEAR 2017-18)****DECISION**

The Economic Coordination Committee of the Cabinet considered the summary dated 28<sup>th</sup> September, 2018 submitted by the Commerce Division regarding **Export of Sugar (Crop Year 2017-18)** and allowed export of 1 (one) million metric ton of sugar subject to the following conditions:

- i. No freight or financial support will be provided to millers/exporters by the Federal/Provincial Governments,
  - ii. The Inter-Ministerial Committee will meet fortnightly to review sugar stock, export and price situation,
  - iii. In case of any abnormal increase in the domestic price of sugar, the Committee would recommend to the ECC of the Cabinet for discontinuation of further exports,
  - iv. The export quota will be implemented and monitored by the State Bank of Pakistan (SBP) on first come first served basis,
  - v. Only those mills will be allowed to export who have cleared the outstanding dues of farmers for sugarcane crop upto 2017-18 as required under the Sugar Factories Control Act, 1950 and notified by the respective Cane Commissioners.
  - vi. The mills would start crushing at full capacity by 15<sup>th</sup> November 2018. In case export quota is granted prior to the said date, the exporter/miller shall give an undertaking that it will commence crushing from the said date.
  - vii. exporters will ship their consignments within 60 days of quota allocation by the SBP. In case of non-shipment within the said period, a non-performance penalty of 15% will be imposed on the respective miller.
  - viii. Sugar mills/exporters who are defaulters of banks will not be allowed to export sugar.
- II. The ECC directed FBR to submit a report on tax evasion being made by the sugary industry to the ECC in its next meeting.

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SECRET

No.7 (2)/2012-EXP-III  
GOVERNMENT OF PAKISTAN  
MINISTRY OF COMMERCE & TEXTILE  
(COMMERCE DIVISION)  
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SUMMARY FOR THE ECC OF THE CABINET**SUBJECT: RESOLUTION OF ISSUES CONFRONTING THE SUGAR INDUSTRY**

Minister of National Food Security and Research and Advisor to the Prime Minister on Commerce, Industry, Textile and Investment held meetings with the representatives of Pakistan Sugar Mills Association and representative of Kissan Ittehad on 28.11.2018 and 29.11.2018 to resolve the issues facing the sugar industry so that sugar mills start their production at their earliest. During the meeting the representatives of PSMA presented the following demands:

- i. Conditions for export of one million tons of sugar be relaxed. Moreover, exporters may also be allowed to sell additional one million tons of sugar in the local market without payment of sales tax on the pattern previously notified under FBR's SRO 77(I)/2013 dated 7.02.2013. Furthermore, the export quota of sugar may be enhanced by 0.1 MMT;
- ii. TCP may be directed to procure 250,000 tons of sugar from the sugar millers;
- iii. Federal Government to immediately release Rs 2 billion of outstanding subsidy claims to the SBP. The remaining payments may also be released by the end of December;
- iv. FBR may charge sales tax on sugar at the prevailing ex-mill price instead of charging at a price of Rs 60.

2. It may be pointed out that in the previous year freight support on export of sugar was given on sliding scale based on the differential between the domestic cost of production of sugar, which was provided by the Ministry of Industries and Production, and the International price of sugar. The calculations submitted by the Ministry of Industries and Production on the pattern of freight support provided during the last year, when 2 MMT of sugar was exported, show that provision of freight support is not justified. The calculations are at Annex-I. The proposal of the sugar industry to sell additional one million tons of sugar in the local market without payment of sales tax on the pattern previously notified under FBR's SRO 77(I)/2013 dated 7.02.2013 would tantamount to payment of a fixed subsidy of around Rs. 6.60/kg on export of sugar. Moreover, ECC of the Cabinet in its decision dated 28.11.2017 on freight support for export of sugar had inter-alia decided that the Federal Government shall not provide any freight support after crushing season 2017-18 (Annex-II). As regards procurement of sugar by TCP, it may be mentioned that

similar decision was made by ECC/Cabinet last year on the demand of sugar millers, which did not materialize. The requests for payment of outstanding claims and charging of sales tax at prevailing ex-mill price may be considered.

3. In view of the above discussion, the Advisor on Commerce, Industries, Textile and Investment has proposed the following recommendations:

- i. The condition that sugar mills would start crushing at full capacity by 15<sup>th</sup> November, 2018 to be eligible for export of sugar as approved by the Cabinet may be waived;
- ii. In case freight support is decided to be provided on export of sugar, the decision of ECC dated 28.11.2017 ratified by the Cabinet on not providing freight support on export of sugar by the Federal Government will have to be reviewed;
- iii. Freight support in the form of exemption from payment of sales tax on domestic sale of additional one million tons of sugar on export of one million tons of sugar during 2018-19 on the pattern of SRO 77(I)/2013 dated 7.02.2013 may be allowed. Secretary Commerce Division does not agree with the proposal of granting waiver from sales tax on domestic sale of additional one million tons of sugar. Instead the Provinces may be asked to pay freight support as sugar policy is their domain and also as different rates of sugarcane procurement and cost of production prevail in different areas;
- iv. Export quota of sugar may be enhanced by 0.1 MMT, which would not be entitled to any freight support or tax waiver;
- v. Procurement by TCP was a non-starter last year and hence may be avoided;
- vi. Finance Division may be directed to immediately release Rs 2 billion of the outstanding freight support claims, whereas the remaining amount may be released by the end of December 2018. The Provincial Governments of Punjab and Sindh may be asked to release outstanding amounts of freight support on export of sugar during 2017-18 immediately;
- vii. FBR may be directed to charge sales tax on domestic sale of sugar at the prevailing ex-mill price instead of charging at a fixed price of Rs 60/kg. Moreover, the base rate may be reviewed on a monthly basis from January 2019.

4. The recommendations at para-3 of the summary are submitted for consideration/approval of the ECC of the Cabinet.

5. Advisor on Commerce, Textile, Industries and Investment has seen and approved the summary.

6. Prime Minister/Minister in Charge for Commerce has seen and approved submission of summary to the ECC of the Cabinet.

(Mohammad Younus Dagha)  
Secretary

Islamabad 03<sup>rd</sup> December, 2018.



ANNEX-I

No. 1(6)/2018-CA


Islamabad, the November 29, 2018

**OFFICE MEMORANDUM**

**SUBJECT: DETAILS OF THE COST PRODUCTION OF SUGAR**

The undersigned is directed to refer to Commerce Division letter No 7(3)/12-Export-III dated November 29, 2018 and to enclose herewith a cost of production of sugar as desired by Commerce Division.

of As Above.

  
(Muhammad Yasir Iqbal)  
Cost Accounts Officer

Muhammad Asad,  
Ministry of Commerce,  
Division Officer (Export-III)  
Government of Pakistan,  
Islamabad.

# ESTIMATED EX-MILL PRICE OF SUGAR FROM SUGARCANE PRICES

CRUSHING SEASON 2018-19

	Punjab Notified Price of Sugarcane Rs(180)/40kg	Punjab Actual Payment of Sugarcane paid by Mills Rs(150)/40kg (2017-18)	Sindh Price of Sugarcane As Order by Sindh High Court Rs(180)/40kg	Sindh Actual Payment paid by Mills Rs(140)/40kg (2017-18)
Average Sugar Recovery %age	9.96%	9.96%	9.96%	9.96%
Average Molasses Recovery %age	4.36%	4.36%	4.36%	4.36%
Sales price of molasses and Bagasse Rs. / kg (9+1)	10/kg	10/kg	10/kg	10/kg
<b>Factors</b>	<b>Amount (Rs)</b>	<b>Amount (Rs)</b>	<b>Amount (Rs)</b>	<b>Amount (Rs)</b>
Price of Sugar Cane (Raw Material Cost)	180/ 40kg	150/ 40kg	180/ 40kg	140/ 40kg
Sale of Molasses & Bagasse (4.36% * 40kg = 1.74/kg)	(17.44)/40 kg	(17.44)/40 kg	(17.44)/40kg	(17.44)/40kg
Net Cost of raw material	162.56/40kg	132.56/40kg	142.56/ 40 kg	122.56 / 40kg
Freight	Rs. 2.00	Rs. 2.00	Rs. 2.00	Rs. 2.00
Total Cost of Raw material	164.56/40 kg	134.56/40 kg	144.56/ 40kg	124.56/ 40kg
Cost of raw material per kg of sugar (9.96% * 40kg = 3.98/kg)	41.34/kg	33.80/kg	36.32/ kg	31.29/ kg
Processing cost & other overheads	7.7/kg	7.7/kg	7.7/kg	7.7/kg
Total manufacturing cost without Tax	49.04	41.50	44.02	38.99
<b>International Prices of Sugar (London Board)</b>				
Price of International Sugar (As on 28-November 2018) \$ 349/T in PKR 46.76/kg	46.76	46.76	46.76	46.76
Price Differential B/w International Price and Domestic Cost of Production	(2.28)	- 5.25	- 2.73	- 7.76
If added Premium of 20\$ in International Cost then cost is 369\$ / T and PKR Rs48.44/kg	48.44	49.44	49.44	49.44
Price Differential B/w International Price and Domestic Cost of Production after Premium	0.4	7.94	5.42	10.45



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Case No. ECC-143/29/2018

Dated: 4<sup>th</sup> December, 2018

RESOLUTION OF ISSUES CONFRONTING THE SUGAR  
INDUSTRY

DECISION

The Economic Coordination Committee (ECC) of the Cabinet considered the summary dated 3<sup>rd</sup> December, 2018, submitted by the Commerce Division regarding Resolution of issues confronting the Sugar Industry and approved the proposals at para-3 (i) & (iv) of the summary.

II. The ECC underscored the importance of providing relief to the farmers by ensuing start of crushing by sugar mills at the earliest. The ECC decided that since the entire issue of freight support arose due to varying procurement prices of sugarcane fixed by the Provincial Governments, therefore, the freight support may be determined/paid by the respective Provincial Governments, if deemed appropriate.

III. The ECC directed Finance Division to release Rs.2.00 billion for payment of outstanding claims of freight support for sugar export, being federal share.

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C. T. C.  
U. Ibal

MUHAMMAD ASAD  
Section Officer  
Ministry of Commerce  
Islamabad



GOVERNMENT OF THE PUNJAB  
FOOD DEPARTMENT

## NOTE FOR SECRETARY TO CHIEF MINISTER PUNJAB

Subject:- MINUTES OF MEETING TO REVIEW ISSUES OF FARMERS  
AND SUGAR INDUSTRY HELD ON 06.12.2018 UNDER THE  
CHAIRMANSHIP OF CHIEF MINISTER PUNJAB.

A meeting on the subject was held on 6-12-2018 under the  
chairmanship of Chief Minister, Punjab.

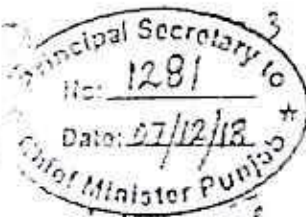
2. Accordingly, draft minutes of the meeting are prepared and  
placed at Annex-A for kind approval.



SECRETARY TO CHIEF MINISTER

7-12-2018  
(SHOUKAT ALI)  
SECRETARY FOOD

Please check up.



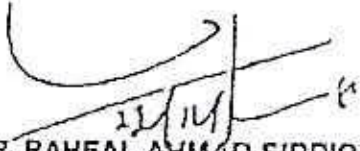
Sp. Sec (Institution)



Subject: MINUTES OF MEETING TO REVIEW ISSUES OF FARMERS AND SUGAR INDUSTRY HELD ON 06-12-2018 UNDER THE CHAIRMANSHIP OF CHIEF MINISTER, PUNJAB

04. Revised draft minutes of the meeting appended at Annex-B are approved.

05. Further necessary action may be taken accordingly.

  
(DR. RAHEAL AHMAD SIDDIQUI)  
Principal Secretary to Chief Minister  
Punjab

SECRETARY FOOD

MINUTES OF MEETING TO REVIEW ISSUES OF FARMERS AND SUGAR INDUSTRY HELD ON 06.12.2018 UNDER THE CHAIRMANSHIP OF CHIEF MINISTER PUNJAB

A meeting to review issues of sugar sector and farmers was held under the Chairmanship of the Chief Minister, Punjab on 6<sup>th</sup> December 2018 at 10:00 am in the committee room of Chief Minister's Office.

2. The meeting started with a recitation from the Holy Quran.
3. Minister for Food apprised the chair of the situation. He further apprised that Government is all set to ensure smooth conduct of cane crushing. To this end, all stakeholders i.e., farmers and PSMA were timely engaged and are on board. He further apprised that PSMA had placed their demands before the Cabinet Committee which including payment of provincial share of pending export rebates that the Chief Minister was pleased to approve. Chief Minister was also pleased to seek intervention of the Federal Government on relevant issues by writing a demt official letter addressed to the Federal Finance Minister. He apprise that ECC while considering demands of PSMA allowed export of 1.1 MMT sugar while reportedly burden of subsidy, as demanded by PSMA, has been passed on to the Provincial Governments.
4. Minister for Agriculture apprised that cane crushing must commence early as it would benefit both growers and mills and to address growing concerns of the farmers. He also apprised that during negotiations with a group of farmers association staging protest at Thokar Niaz Beg, few demands of cancelation of FIRs, overbilling by DISCOs and highhandedness by over tenure officials of energy distribution companies may kindly be considered. He urged the Chair to implement decision of ECC for the time being to resolve issue of start of crushing and the matter may subsequently be taken up with the Federal Government at appropriate time.
5. Additional Chief Secretary (Home), on a query from the Chair, apprised that criminal cases against representatives of farmers association can be revisited.
6. Secretary Food apprised that already Chief Minister has very kindly approved payment of arrears of export subsidy on sugar to the tune of Rs.



2.96 billion to facilitate growers' payment and immediate start of new crushing season. Now the recent ECC decision (5-12-2018) allowing export of sugar on a subsidy of Rs. 6.6/kg creates a cost of Rs. 7.26 billion on export of 1.1 MMt or Rs. 6.6 billion on export of 1.0 MMt. Since Punjab usually gets a share of 60% in total sugar exports, the estimated cost comes to Rs. 4.356 billion (1.1 MMt) that is a huge cost. Reportedly, the ECC has passed on this entire subsidy cost to the Provinces which is against general practice on export of sugar. Previously, Federal Government shares the subsidy with Provinces on 50:50 basis but this time not to be. There is a need to take up this matter with the Federal Government.

7. Secretary Finance apprised that additional burden would tentatively amount to Rs. 4 to 5 billion and that it would cost development budget.

8. After detailed deliberations, the following decisions were made:

- i.) Payment of subsidy to the sugar mills of the Punjab at the rate of Rs. 5.35 per kg. as was approved previously (2017-18) by the ECC as provincial share for export of sugar, was approved in principle. The quantity for which the subsidy from Punjab would be applicable shall not exceed 52% of the total exports (1.1 million ton) as allowed by the ECC. Further, the matter shall be placed before cabinet committee on Finance and Development for its consideration and final decision. This approval, however, will be linked with immediate start of crushing by the sugar mills in Punjab. The Provincial Government shall also take up the matter of subsidy sharing with the Federal Government once the decision is received in writing.
- ii.) Additional Chief Secretary (Energy) shall act as Focal Office, on behalf of Punjab Government, for resolution of issues, related to DISCOs, highlighted by farmers associations.
- iii.) Additional Chief Secretary (Home) shall take necessary steps for revisiting FIRs against representatives of growers association.
- iv.) Food Department, Divisional and District administrations shall ensure observance of notified prices, correct weight and action against illegal weigh scales/ kandas.

9. The Chair desired to have a follow up meeting with both stakeholders particularly sugar mills to apprise and reiterate to them resolve of the Government to protect rights of farmers.

The meeting ended with a vote of thanks to and from the Chair.



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**CABINET BUSINESS/TOP PRIORITY  
THROUGH SPL. MESSENGER**



No.SO(CAB-II)1-8/2018  
**GOVERNMENT OF THE PUNJAB**  
**SERVICES & GENERAL ADMINISTRATION**  
**DEPARTMENT**  
(Cabinet Wing)

Dated Lahore, the 4<sup>th</sup> January, 2019

To

1. The Additional Chief Secretary, Punjab.
2. The Additional Chief Secretary (Energy), Punjab.
3. The Secretary, Govt. of the Punjab, Irrigation Department.
4. The Secretary, Govt. of the Punjab, Finance Department.
5. The Secretary, Govt. of the Punjab, Industries Department.
6. The Secretary, Govt. of the Punjab, L&DD Department.
7. The Secretary, Govt. of the Punjab, FW&F Department.
8. The Secretary, Govt. of the Punjab, SH&ME Department.
9. The Secretary, Govt. of the Punjab, Social Welfare Department.
10. The Secretary, Govt. of the Punjab, LG&CD Department.
11. The Secretary, Govt. of the Punjab, School Education Department.
12. The Secretary, Govt. of the Punjab, Food Department.
13. The Additional Chief Secretary (Home), Home Department.

Subject:

**MINUTES / DECISIONS OF THE 6<sup>th</sup> PROVINCIAL CABINET  
MEETING HELD ON 29<sup>th</sup> DECEMBER, 2018 AT 10:30 A.M.  
IN THE CONFERENCE HALL, ISLAMIA UNIVERSITY  
BAHAWALPUR (OLD CAMPUS), BAHAWALPUR**

I am directed to refer to the subject noted above and to enclose a copy of the minutes / decisions of the 6<sup>th</sup> Provincial Cabinet Meeting held on 29<sup>th</sup> December, 2018 at 10:30 A.M. in the Conference Hall, Islamia University Bahawalpur (Old Campus), Bahawalpur relating to your department for information and necessary action in terms of Rules 28(15) & 30 of the Punjab Government Rules of Business, 2011:

Sr. No	Agenda	Department/ Officers
1.	i. Confirmation of Minutes of 5 <sup>th</sup> Provincial Cabinet Meeting held on 23.11.2018 ii. Ratification of Decisions of 2 <sup>nd</sup> and 3 <sup>rd</sup> Meetings of the Standing Committee of Cabinet on Finance & Development held on 15.11.2018 & 12.12.2018 Respectively	(Chief Secretary, Secretary to the Cabinet), S&GAD
2.	Allocation of Vehicles to the Provincial Cabinet and Rationalization of Official Vehicles	ACS Punjab



3.	Annual Performance Report 2017 of Punjab Power Development Board (PPDB), Energy Department	ACS (Energy)
4.	Draft Punjab Water Policy	Irrigation
5.	Unsolicited Proposal by (I) Defense Housing Authority, Rwp, DHA, Isb, Bahria Town, Ltd, Habib Rafique (JV Partner) for grant of Concession for the Construction Operation and Maintenance of Dadhocha Dam in Rawalpindi on Build Operate Transfer (BoT) basis Public Private Partnership Arrangement	
6.	Handing Over of Control of Lower Portion of CRBC and Supply of Full Share of Water From CRDC to Punjab	
7.	i. Report of the Auditor General of Pakistan on the Accounts of Disaster Management Organization Punjab, For the Audit Year 2017-18 ii. Audit Reports by the Auditor General of Pakistan on the Accounts of District Health and Education Authorities Punjab for the Audit Year 2017-2018 (Northern Districts)	Finance
8.	Formulation of Labour Deletion Policy Punjab	Industries
9.	Eligibility Criteria for selection/ Appointment of Vice Chancellor, Cholistan University of Veterinary & Animal Science, Bahawalpur and Constitution of Search Committee	L&DD
10.	Constitution Petition No.17 & 19 of 2018- Establishment of South Punjab Forest Company (SPFC)	FW&F
11.	Human Right Case No. 505 of 2018 Regarding Enhancement of Salary of Doctors Working in SH&ME & P&SH Department	SH&ME
12.	Implementation of User Charges in Tertiary Care Hospitals of Punjab	
13.	ADP Scheme # 1396 "Purchase of Ventilators and ICU Beds with Basic ICU Equipment (PHASE-I)" - Relaxation of Rule 28 of Punjab Procurement Rules 2014 under Section 20 of General Clauses Act, 1956	
14.	Regularization of contract appointment of Assistant professors of different specialties at newly established medical colleges	Social Welfare
15.	Request for Relaxation of Ban on Recruitment of Posts in Non-Development Schemes	
16.	Relaxation of Ban for Implementation of 3% Quota for the recruitment of the disabled persons	LG&CD
17.	Approval of Funds Lapsed During Financial Year 2017-18 in respect of Rawalpindi Waste Management Company (RWMC)	
18.	Demand of Funds for Chamalang Balochistan Education Program (CBEP) from Nov & Dec, 2017 to April, 2018 During the Current Financial Year 2018-19	School Education
19.	Subsidy on Export of Sugar	Food
20.	Amendment in the Punjab Government Rules of Business, 2011	Industries
21. Ex- Agenda	Approval of Mir Chakar Khan Rind University of Technology, Dera Ghazi Khan Draft Bill 2018	Industries
22. Ex- Agenda	Police Order 2002	ACS (Home)

2. The enclosed certificate acknowledging receipt of the decision(s), duly filled in and signed, may please be returned to the Cabinet Wing, S&GAD.

*W. Mehmood*  
04-01-19  
(TARIQ MEHMOOD, PMS)  
SECTION OFFICER (CABINET-II)

PC

1. The Secretary to Chief Minister, Punjab.
2. The Secretary (I&C), S&GAD.
3. The Addl. Secretary (Gen.)/Staff Officer to Chief Secretary, Punjab.



AGENDA  
ITEM  
NO.19

SUBSIDY ON EXPORT OF SUGAR

19.1 Secretary Food briefed the Cabinet that provision of subsidy on export of sugar was discussed in a meeting held under the Chairmanship of Chief Minister on 6<sup>th</sup> December 2018 in the light of verbal information on decisions of ECC dated 04.12.2018. It was resolved that rate of freight support/export subsidy on export of sugar may be maintained at the level of share of subsidy (Rs.5.35/Kg) shouldered by Government of the Punjab during the year 2017-18. It was also resolved that total volume of export freight/subsidy shall not exceed Rs.3.0 billion.

19.2 He further informed that decision of the ECC held on 04.12.2018 pertaining of freight support on export of sugar, which was reproduced as under:

'The ECC underscored the importance of providing relief to the framers by ensuring start of crushing by sugar mills at the earliest. It was also decided that since the entire issue of freight support arose due to varying procurement prices of sugarcane fixed by Provincial Government, therefore, the freight support may be determined/paid by the respective Provincial Government, if deemed appropriate.'

19.3 He expressed that the decisions of the ECC with regards to provision of export rebate/freight subsidy was placed before the Cabinet Committee on sugar sector in its meeting held on 17.12.2018. The Cabinet Committee deliberated upon the proposal of the department restricted the export limit from Punjab to 52% of total exports (in the light of Punjab's share in export in 2017-18) and total subsidy outlay's limit to Rs. 3.0 billion. After thorough discussion, the committee resolved that export limit from Punjab Province may be restricted to 0.572 MMT. The committee also approved provision of subsidy on a sliding scale \$ 343.80/MT (as on 06.12.2018) up to \$ 435/MT (which matches the cost of production as per PSMA) on fixed exchange rate of Rs.138.89 per US\$ (as on 06.12.2018).

19.4 Accordingly, the Cabinet was requested to consider and approve to export of sugar upto maximum of 52% (0.572 MMT) of the total exports allowed by the ECC on 5.12.2018 with freight support/export

subsidy @ Rs.5.35/kg on a sliding scale from \$ 343.80/MT up to \$ 435/MT and subject to condition that financial outlay on freight support shall not exceed Rs.3.0 billion.

19.5 Secretary Finance informed the Provincial Cabinet that the issue of excess production of sugar was a national issue and the Federal Government used to share subsidy on export with the Provincial Governments on 50:50 basis. The latest decision of the ECC would have detrimental impact on Punjab's finances as now there would be no sharing and it would become a precedent for all times. He further informed that the subsidies were considered economic distortions and should not be encouraged especially where the impact on eventual beneficiaries, i.e. farmers, was not clearly established. He advised that the Provincial Cabinet should order formulation of a policy and plan for gradual elimination of subsidy on sugar since it was not a staple diet like wheat.

**DECISION No. 19:**

The Cabinet considered and approved the supplementary grant of Rs.3.0 billion, during CPY 2018-19, for freight support/ export subsidy of sugar.





(TO BE RETURNED TO THE CABINET WING, S&GAD, AFTER SIGNATURE)

### CERTIFICATE

Certified that Cabinet decision (s) on agenda items No.(s) 19 discussed in 6<sup>th</sup> Meeting of Provincial Cabinet held on 29.12.2018 has / have been received by me for information and necessary action as required under Rules 28(15) & 30 of the Punjab Government Rules of Business, 2011.

(NAME & SIGNATURE OF THE SECRETARY  
CONCERNED)

Date. \_\_\_\_\_

To

The Section Officer (Cabinet-II),  
Government of the Punjab,  
S&GAD.

SUMMARY FOR THE CHIEF MINISTERSubject: SUBSIDY ON EXPORT OF SUGAR

Provision of subsidy on export of sugar was discussed in a meeting held under the Chairmanship of Chief Minister on 6<sup>th</sup> December 2018 at 10:00 am in the Committee Room 8-Club Road in the light of verbal information on decisions of ECC dated 04.12.2018. Minutes attached (Annex-I). It was resolved that rate of freight support/ export subsidy on export of sugar may be maintained at the level of share of subsidy (Rs. 5.35/ Kg) shouldered by Government of the Punjab during the year 2017-18. It was also resolved that total volume of export freight/ subsidy shall not exceed Rs. 3.0 billion.

2. Meanwhile, decisions of the ECC held on 04.12.2018 (Annex-II) were received. The relevant decision pertaining to freight support on export of sugar is reproduced below:

"The ECC underscored the importance of providing relief to the farmers by ensuring start of crushing by sugar mills at the earliest. It was also decided that since the entire issue of freight support arose due to varying procurement prices of sugarcane fixed by Provincial Governments, therefore, the freight support may be determined/ paid by the respective Provincial Governments, if deemed appropriate."

3. Decisions of the ECC with regards to provision of export rebate/ freight subsidy was placed before the Cabinet Committee on sugar sector in its meeting held on 17.12.2018. Minutes are attached (Annex-III). The Cabinet Committee deliberated upon the proposal of the Department restricting the export limit from Punjab to 52% of total exports (in the light of Punjab's share in total exports in 2017-18) and total subsidy outlay's limit to Rs. 3.0 billion. After thorough discussion, the Committee resolved that export limit from Punjab Province may be restricted to 0.572 MMT. The Committee also approved provision of subsidy on a sliding scale from \$ 343.80/ MT

*I am not here - asking approval of 7 new  
proposed and getting formalised decision from  
C&F and then by Cabinet Committee.*



(as on 06.12.2018) up to \$ 435/ MT (which matches the cost of production as per PSMA) on fixed exchange rate of Rs.138.89 per US\$ (as on 06.12.2018).

4. It is, therefore, requested to approve export of sugar up to maximum of 52% (0.572 MMT) of the total exports allowed by the ECC on 05.12.2018 with freight support/ export subsidy @ Rs. 5.35/ Kg on a sliding scale from \$ 343.80/ MT to \$ 435/ MT and subject to the condition that financial outlay on freight support shall not exceed Rs. 3.0 billion. Other terms & conditions of exports, as decided by ECC on 05.12.2018 will remain the same.

5. Chief Minister may like to approve proposal contained at Para no. 4/ N



Minister Food

*[Signature]*  
23/12/2018.

*[Signature]*  
22-12-2018  
(SHOUKAT ALI)

Secretary, Food



Secretary Finance

Chief Secretary

Chief Minister

(From Pre-page)

**SUBJECT: SUBSIDY ON EXPORT OF SUGAR**

07. Summary has been examined. Finance Department has already released funds to the tune of Rs. 2.961 billion as Punjab's share for discharge of pending rebate liabilities for export subsidy on sugar on 19.12.2018, through supplementary grant, in light of the approval/decisions of the 3<sup>rd</sup> meeting of Standing Committee of Cabinet on Finance & Development held on 12.12.2018 (Annex-IV).

08. It is further highlighted that the matter of export of sugar is as much the liability of Federal Government as it is of the federating units. However, Punjab was not taken on board regarding the decision taken by ECC and the Federal Govt. unilaterally decided to pass this burden on the provinces. Moreover, it is added that no separate budgetary allocation for subsidy on sugar export was made in the budget of current financial year. In case, proposal at Para 4/ante is approved, it would entail release of requisite funds as supplementary grant in current financial year, which would in turn require approval of the Standing Committee of Cabinet on Finance & Development. Further, Finance Department is of the view that in future the Administrative Department should get the required funds allocated through budgetary provision as export of sugar is a regular annual practice so that provision of funds through supplementary grants is avoided.

(SHOAIB IQBAL SYED)  
SPECIAL SECRETARY FINANCE

December 27, 2018

No.F&amp;C(Food)1-2/2015

CHIEF SECRETARY

CHIEF MINISTER

9. Finance Dept. may give specific views with regard to the proposal at para 4.

27/12

F/S





(From Pre-page)

**SUBJECT: SUBSIDY ON EXPORT OF SUGAR**

10. The summary has been re-examined. Subsidies are never a preferred option and are instead considered distortion for sound economic management especially when the impact or concrete translation of such subsidies into welfare of the intended beneficiaries is not clear. Therefore, such economic distortions need to be discouraged in principle. Food Department should have provided analysis of actual impact of subsidies given in the past years for fair assessment of the initiative. Further, for future, Food Department should present policy options focusing welfare of farmers and agriculture sector of the province.

11. Furthermore, if such liability is entertained in the mid of the financial year without any prior budgetary allocation, it may require cuts in planned expenditure in other sectors, including the Annual Development Program.

12. In light of the above, Finance Department reiterates its advice at Paras - 7 & 8/ante.

13. The above advice, as earlier advice, has been tendered on guidance of Finance Secretary, who is on way to Bahawalpur to attend Provincial Cabinet meeting.



No.F&C(Food)1-2/2015

(SHOAIB IQBAL SYED)  
SPECIAL SECRETARY FINANCE

December 28, 2018

CHIEF SECRETARY

14. FS may record his views before the matter is put up to CM.

CHIEF MINISTER

F/S

*[Signature]*  
28/12



(From pre-page)

**Subject: SUBSIDY ON EXPORT OF SUGAR**

15. The views at para 7, 8 & 10-13/ante are owned/endorsed.

16. The issue was taken up by the Provincial Cabinet as ex-Agenda item in its meeting held on 29 December 2018 at Bahawalpur and decided. Chief Minister Punjab may like to approve ex-post facto placement of case for consideration of the Provincial Cabinet.



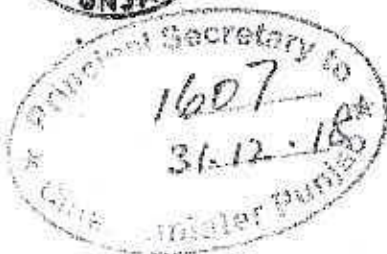
(HAMED YAQOOB SHEIKH)  
FINANCE SECRETARY

Lahore, 31<sup>st</sup> December, 2018

CHIEF SECRETARY

*Handwritten signature*  
31/12

CHIEF MINISTER





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Subject: SUBSIDY ON EXPERT OF SUGAR.

18. Chief Minister has seen and is pleased to approve the proposal contained at para 16 read with para 17/ante.



*11/12/19.*  
(DR. RAHEAL AHMAD SIDDIQUI)  
Principal Secretary to Chief Minister,  
Punjab

Chief Secretary

Secretary Food Department

*Pl. put up along with minutes of the Cabinet.  
Meeting of 27-12-2018.*

*2/1/19.*

ASCA

cc - PS

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K No 72/2012-Exp-III  
Government of Pakistan  
Ministry of Commerce and Textile  
(Commerce Division)  
\*\*\*\*\*



PA (SI) 015204  
PA (SI) 015204

SUBJECT: - EXPORT OF SUGAR

Islamabad, the 10<sup>th</sup> December, 2018

The undersigned is directed to refer to Commerce Division's letter of even number dated 18.10.2018 on the above subject and to state that ECC of the Cabinet in its meeting held on 4.12.2018, has taken the following decisions regarding export of sugar:

- i. The condition that sugar mills would start crushing at full capacity by 15<sup>th</sup> November, 2018 to be eligible for export of sugar has been waived;
- ii. Export quota of sugar for 2018-19 has been enhanced by 0.1 MMT;
- iii. The ECC underscored the importance of providing relief to the farmers by ensuring start of crushing by sugar mills at the earliest. It was also decided that since the entire issue of freight support arose due to varying procurement prices of sugarcane fixed by the Provincial Governments, therefore, the freight support may be determined/paid by the respective Provincial Governments, if deemed appropriate; and
- iv. Finance Division to release Rs 2 billion for payment of outstanding claims of freight support for sugar export, being federal share.

2. It is requested that actions to implement the said decision of the ECC may kindly be initiated forthwith under intimation to the Ministry of Commerce. A copy of the decision of ECC is also enclosed, which has also been ratified by the Federal Cabinet. Moreover, State Bank of Pakistan (SBP) is requested to revise its circular regarding procedure of allocation of quota for export of sugar in accordance with the above mentioned decisions of ECC of the Cabinet.

(Muhammad Asad)  
Section Officer (Export-III)

1. The Secretary,  
Ministry of Finance, Islamabad.

2. The Governor,  
State Bank of Pakistan, Karachi.

Chaudhary  
9/12/18

May kindly see  
for info 13

S/copy

10/12



## MINUTES OF 7<sup>TH</sup> MEETING OF CABINET COMMITTEE ON SUGAR SECTOR HELD ON 17<sup>TH</sup> DECEMBER 2018

A meeting of the Cabinet Committee on sugar sector was held on 17.12.2018 at 3:00 pm in the Committee Room of Minister's Block under the Chairmanship of Minister for Food, Sardar Mohsin Khan Leghari, Minister for Irrigation and Mian Aslam Iqbal, Minister for Industries also participated.

### 2. List of other participants also attended.

3. The meeting started with a recitation from the Holy Quran. The Chair welcoming the participants apprised that Government of the Punjab was committed to synergetic growth of sugarcane growers and sugar industry and that the Government did its best to address concerns of growers and that of sugar industry. He expressed his satisfaction that cane crushing has finally set in underscoring importance of observing legal provisions with regards to weight and rate of sugarcane.

4. The Cane Commissioner apprised that 35 mills have started crushing while 6 sugar mills may start from 20<sup>th</sup> December 2018. It was apprised that legal provisions of the Punjab Sugar Factories (Control) Act, 1950 have been observed witnessing delay in start of crushing by 6 defaulting sugar mills. It was apprised that necessary arrangements have been put in place by District administrations and Industries Department to monitor the procurement process and that on-site monitoring by the Hon'ble Ministers/ Provincial Secretaries has also commenced. Following deliberations on draft amendments in the Punjab Sugar Factories (Control) Act, 1950, it was apprised that ECC of the Federal Govt in its meeting on 05.12.2018 decided that Provincial Government, if deem appropriate, may determine/ pay freight support since the issue of freight support had cropped up because of varying prices of sugarcane fixed by the Provincial Governments. It was further apprised that albeit rationale cited as reason for demand of freight support by PSMA is not well founded yet decisions taken in the meeting of the Chief Minister dated 06.12.2018 were in the light of reports that Federal Govt having fixed rate of freight support @ Rs. 6.6/ kg passed the burden of its payments to Provincial Governments. It was also apprised that in wake of uncertainty in grant of freight support by Provincial Governments of Sindh and Khyber Pakhtunkhaw, it would be imperative to place limits on financial outlays to around Rs.3.0 billion. Director Special Branch apprised that data on sugar mills committing lesser than notified payments, non-issuance of CPRs and illegal weigh bridges had already been shared Home Department which, in turn, had been shared with district administrations.

5. After detailed deliberations, the following decisions were taken:

- i.) It was resolved to keep the situation under constant review by the Cabinet Committee.
- ii.) There shall be no letup in action against undue delay in start of crushing, non-issuance of CPRs, undue deductions in weights by sugar mills and action against illegal weigh scales/ kandas. It was further resolved that Deputy Commissioners must ensure sealing the premise of illegal weigh bridges while registering FIRs and ensuring arrest of the accused at the same time.
- iii.) It was reiterated that staff detailed in weighing areas of sugar mills must monitor the weighing practices of the mills and independently documenting the weight of cane brought to sugar mills on daily basis.
- iv.) The Committee allowed deduction in weight on account of top & trash up to 3% and up to max. 5% in case of banned/ unapproved varieties.
- v.) The proposed amendments in the Punjab Sugar Factories Control Act, 1950 were discussed at length and were principally approved with some modifications.
- vi.) The option of limiting the exports from Punjab and financial outlays to Rs. 3.0 billion was discussed at length. It was resolved that financial outlay may be maintained at Rs. 4.35 billion in wake of commitment made by the Chief Minister in meeting on 06.12.2018. It was also resolved that Federal Government shall, however, be approached for sharing freight support on 50:50 basis as per historical pattern. Food Department to initiate the summary in the said terms with rebate on a sliding scale from international market rate of \$ 343.80/ MT to \$ 435/ MT and may consider reducing export quota from Punjab to 0.52% (as per exports of the last year) of the total permission granted by ECC

The meeting ended with a vote of thanks to and from the Chair.

— Cabinet Committee discussed for 3 hours  
 Why Summary issued: ?  
Summary made on 22-12-18 for CM.

1) Regulations made to the Cabinet Committee  
 Gu Secy -



List of Participants

- |       |   |          |
|-------|---|----------|
| i)    | Mr. Sami Ullah Chaudary, Minister for Food                      | In Chair |
| ii)   | Mr. Mohsin Laghari, Minister for Irrigation                     |          |
| iii)  | Mian Aslam Iqbal, Minister for Industries                       |          |
| iv)   | Mr. Nadeem ur Rehman, Secretary Industries                      |          |
| v)    | Mr. Wajid Ali Shah, Cane Commissioner                           |          |
| vi)   | Mr. Shahid Mehmood, Director Special Branch                     |          |
| vii)  | Mr. Zaffar Yab Haider, Director General (Extension) Agriculture |          |
| viii) | Mr. Irshad Ahmad, Representative of Home Department             |          |
| ix)   | Mr. Anwar Zahoor Qazi, Director Industries                      |          |