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MSM clarifies pricing mechanism

It reiterates call to tighten enforcement on smuggling and to stop issuance of APs

By SHARIDAN M ALI and SANTHA OORJITHAM

MSM Malaysia Holdings Bhd, in clearing the air on the difference in the pricing of refined sugar to consumers and large companies, says that the large industries buy in bulk and adopt a hedging mechanism to enjoy a competitive advantage.

Currently, 13 large companies in the food industry get a portion of their supply of refined sugar from local refiners at a cheaper price compared to the consumer retail price of RM2.85 per kilogramme.

These 13 manufacturers, despite having their own approved permits (APs) to import refined sugar, do procure a certain portion of the product from domestic refiners and a wholesaler. They consume about 33%, or around 300,000 tonnes, of the country's total sugar consumption, which stands at 1.3 million tonnes annually.

The domestic selling price of sugar in Malaysia is at RM2.85 per kg. This is after the Government withdrew the sugar subsidy last year that resulted in the sugar price increasing to RM2,680 per tonne from RM2,340 per tonne.

Sugar trader Moresugar Sdn Bhd says it sells refined sugar to four of these 13 manufacturers at less than RM2 per kg. The company claims that it has an AP to exclusively supply sugar to these 13 companies only. Moresugar says that these 13 companies were given their own APs to import sugar when the Government decided to do away with this kind of subsidy back in 2011.

Some of these companies include Able Dairies, Etika Dairies, Barkath Food, Permanis, F&B Nutrition and Malaysia Milk, among others.

MSM president and group chief executive officer Datuk Sheikh Awab Sheikh Abod, in declining to disclose the price at which it sells to the 13 large consumers, says that industries buy sugar in bulk quantities.

"They practise hedging with sugar refiners to procure their sugar requirement," he says in replies to *StarBizWeek*.

Sheikh Awab also contends that some of the local sugar exported to Singapore is smuggled back into the country and sold.

"This export sugar is sold at a different pricing mechanism, which is usually cheaper than the domestic sector, as we have to be more competitive in the international market.

"Some irresponsible groups take advantage of this opportunity and smuggle back the sugar to our country. This situation also contributes to the price distortion in the domestic market.

"We strongly urge the authorities to look into this and take appropriate action," says Sheikh Awab.

MSM, which is controlled by Felda Global Ventures Holdings Bhd (FGV), is the largest sugar refinery in Malaysia and currently supplies 60% of the refined sugar in the country.

Sugar is a controlled item and the Government decides on its ceiling price in view of the price volatility in the global raw sugar market.

"And raw sugar is one of the most volatile items in the commodities market. It is always reflective of the fundamental base; supply and demand," explains Sheikh Awab.

Sugar prices have been falling for months now, dropping from the most recent peak of 18.75 US cents per pound in June to the recent 15.89 US cents per pound. It was reported that this is due to bumper crops from major producers and anti-sugar-consumption campaigns, which have led to four years of more sugar than the world can handle.

MSM is against the Government issuing APs to allow sugar imports because it has invested in a refinery and contends that the imports do not create a level playing field for the country's sugar industry.

Sheikh Awab had said previously that sugar smuggling from neighbouring countries and dumping activities would minimise if the APs are not issued.

LTCs a sweetener no more

Due to the volatility of raw sugar prices, MSM still prefers for the long-term contract (LTC) agreement to remain, although the International Trade and Industry Ministry (Miti) has decided to discontinue the LTC arrangement by year-end.

About 50% of MSM's raw sugar supply is procured through LTCs.

"The price of the raw sugar commodity is very volatile in the world market. MSM supports LTCs to ensure that there is no disruption of supply in the domestic market," he says.

But as the decision has been firmed up at this point of time, Sheikh Awab says starting next year, MSM will continue buying raw sugar from the free market as usual since the LTC covers only a portion of its total raw sugar requirement for the domestic market.

To further illustrate the mechanism of the LTC, the contract price is usually locked for a period of three years, and this has been the practice since 1975 in ensuring that the prices of raw sugar procured are somewhat protected from the volatility of the free market, as well as the sustainability of the supply to the country, according to a Miti statement regarding the matter in May last year.

Miti further explains that the price negotiated and confirmed in the LTC must be agreed upon by all domestic sugar refiners, as well as the international raw sugar suppliers.

Although the LTC, with its price-locking mechanism, could be above the average price of the free

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market, it is not necessarily always the case.

For LTCs in the years 2012 to 2014, the price has been locked in at 26 US cents per pound, although the free-market price at this time might be at 27 US cents to 29 US cents per pound. Miti says for the previous LTCs in the years 2009 to 2011, the country had saved approximately RM2bil, as the LTC price was lower than the average three-year, free-market prices.

According to FGV in July, it aims to grow its revenue to RM100bil in six years to become one of the top-ten agribusiness companies globally.

Through MSM, FGV is already touted as the world's largest sugar producer, but in an effort to continue strengthening its position, the sugar cluster is set on strategic priorities to increase raw sugar production to complement its downstream business.

The cluster aims to be one of the top global companies in the refined sugar business, with a production volume of four million tonnes by 2020.

In a previous interview with *StarBizWeek*, MSM revealed that it was planning a series of mergers and acquisitions across the whole industry value-chain.

For its core business, the company recently inked a memorandum of understanding with United Arab Emirates-based Al-Khaleej International Ltd to jointly build a new sugar refinery with a production capacity of two million tonnes in Johor, costing between US$250mil (RM816mil) and US$270mil (RM881mil).

MSM also wants to set up its own trading company in Dubai in a bid to be ranked among the top-three global players in the sugar business within the next six years.

> See also The Alternative View on P12

Key points

- Industries buy in bulk and engage in hedging activities to enjoy competitive pricing of refined sugar

- MSM claims sugar exported at competitive prices is smuggled back into the domestic market

Sheikh Awab: 'They practise hedging with sugar refiners to procure their sugar requirement.'