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A sweeter deal for sugar exports

Although the industry was unable to meet its export quota last year, the forecast of global shortage this year offers fresh hope

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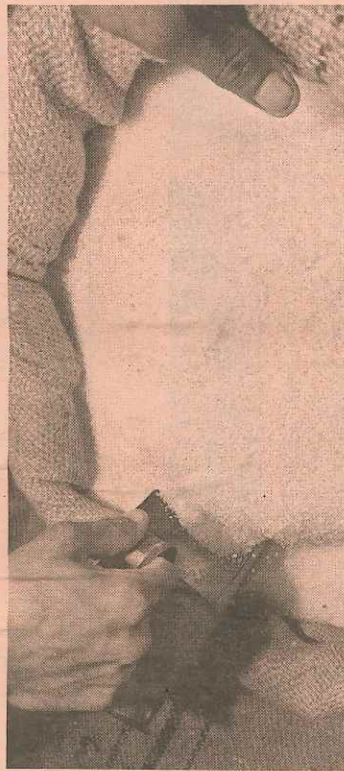
Production and consumption forecasts and the resultant global surplus or deficit are the principal movers of raw sugar futures (raws) prices on the Intercontinental Exchange (ICE) in the US. With Brent crude holding well above \$65 a barrel and seemingly on track for monthly gains in the new year, Brazil, the world's largest producer and exporter of sugar, will be using a still higher percentage of its sugarcane output to make ethanol. Expert body reports suggesting a global shortfall of up to 8 million tonnes (mt) between sugar production and use in the current season that began in October 2019, a fall in global exports to 50 mt and Brazilian stocks likely to drop 1 mt to 18.6 mt will do good to raw futures to India's advantage.

This is because the Indian industry contending with brimming inventories has been given a mandate by the government to sell 6 mt in the world market. Even while the country is a now-on, now-off kind of exporter of the commodity, depending on production cyclicity and stocks, mills with support of what is claimed to be World Trade Organization (WTO)-compliant government subsidy have not done badly in the competitive world market. Besides Brazil, producing countries such as Thailand, Australia, Mexico and Guatemala, with limited domestic markets, must in all circumstances be able to sell large quantities in the world market for industry survival. No wonder, some rival exporting nations have complained to WTO that Indian sugar exports are aided by "illegal" subsidies. The fact is WTO rules allow subsidies for defraying transportation cost and mar-

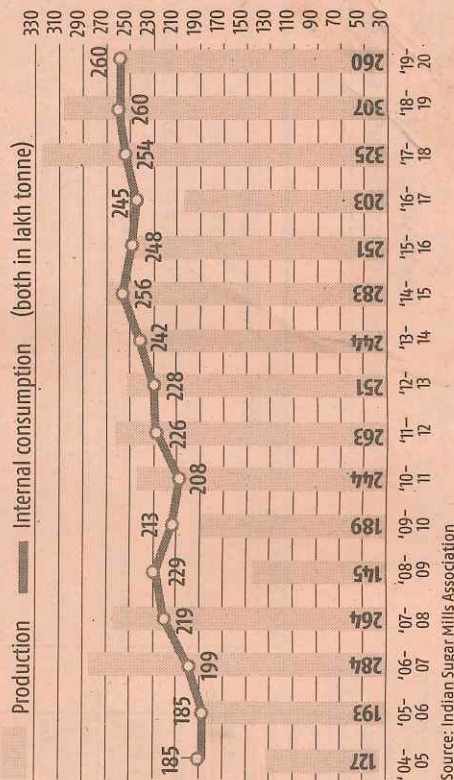
keting of agricultural products till 2023. Last season, the Indian industry had the authorisation to export 5 mt and it ended up selling 3.8 mt. Considering the improvement in the sugar market scene since, how much of the 6 mt will get shipped overseas during the season ending September 2020? Balrampur Chini Managing Director Vivek Saraogi is on record saying: "Hopefully, we are able to export 5 mt this season and that will pare our sugar inventory to below 10 mt." Two consecutive years of Indian bumper production left an unmanageably large October 2019 opening stock of 14.6 mt, equalling over six months of domestic consumption.

To counter the negative fallout of this on local sugar prices that finally compromises mill capacity to settle cane bills in time, New Delhi is keen on large exports. A WTO-compliant subsidy of ₹10,448 a tonne that will cost the exchequer ₹6,268 crore in case the entire 6 mt is exported is, therefore, sanctioned. That the Centre concedes the industry needs more success is confirmed by its expanding the buffer stock by 1 mt to 4 mt and freezing the fair and remunerative price (FRP) of sugarcane at ₹275 a quintal, leaving growers somewhat disappointed. The upshot is the government support is linked to the industry doing well with exports.

Trade officials believe that the achievement of 6 mt overseas sales target is possible because of government support and improving raw futures quotes on ICE. March delivery raw futures are traded at around 13.50 cents a pound. In the past 52 weeks, raws moved from a low of 10.68 cents to a high of 13.67 cents



SUGAR RUSH



a pound. The more recent positive disposition of Indian mills to export has got as much to do with ICE price improvement as with production shrinkages in other producer-exporter nations.

The US Department of Agriculture (USDA) recently projected that 2019-20 global sugar production is likely to be down 6 mt to 174 mt with "overall exports estimated to be flat." Sugar output in Brazil is restrained due to a higher

rate of diversion of sugarcane for ethanol production. The Brazilian sugarcane industry association UNICA has indicated that sugar factories will be using 35 per cent of the crop to make sugar against 35.9 per cent in the previous season. Lower production will automatically result in a smaller export surplus. In any case, the Brazilian industry has found domestic sales and ethanol production rewarding enough not to be

obsessed about exports. The South American nation's sugar exports will be at a decadal low, says USDA.

The European Union is likely to see its beet-based sugar production up 119,000 tonnes to 17.9 mt. Even then, the region will need to import at least 500,000 tonnes for internal consumption. USDA says lower rainfall leading to compression in sugarcane productivity and juice recovery rate on cane crushing will be responsible for Thailand's 1 mt fall in sugar production to 13.5 mt. Among other ICE price boosters will be the forecast of a 5 per cent fall in Australian production to 4.5 mt, owing to lower cane juice recovery due to dry weather. Australia exports approximately 80 per cent of its sugar production. Indonesia is one major importing nation where India will be in competition with Australia.

Driven by population growth and the expansion of food and beverage industry, the Indonesian sugar requirement for the new season will likely be 6.8 mt against 6.6 mt in 2018-19 and imports will meet part of that demand. An importer of close to 5 mt, Indonesia needs to be in constant focus of Indian industry. Till December, Indian mills have signed export contracts for 2.5 mt against their maximum admissible export quantity (MAEQ).

The MAEQ has been structured in a way as to allocate the unused quota by mills unable to export for whatever reasons. This is to ensure that failures of some industry constituents do not hamper India achieving the 6 mt export target. Earlier in better times, non-coastal single factory groups would sell their quotas at a premium to exporting groups. In the present market scene, there are no buyers of export quotas. Om Dhanuka, a former president of Indian Sugar Mills Association, says about 140 of the 530 are in no position to use their MAEQ quotas.