

COUP DE TÊTE As a surplus agricultural producer, India needs to become a major exporter

A Sweet Little Problem



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On December 16, Prime Minister Narendra Modi announced a day of 'special joy' for the millions who provide Indians food: farmers. Farmers were to celebrate GoI's promise to transfer ₹35 billion in subsidies to them. Modi did not mean farmers who grew food grains, who number more than 250 million, but those numbering 15 million, at most, who sold cane to sugar mills.

They would get another ₹53.61 billion. That is not a new promise. That subsidy was promised a year ago and never delivered. And, finally, they would get ₹180 billion in subsidies. That is what GoI thinks the export of six million tonnes of sugar would bring at ₹30 a kg. It would go straight into their bank accounts, he promised. Sugar mill workers would also benefit, somehow.

Giving Farmers Their Duce

The day the announcement was made, the price of sugar in the Chicago wholesale market was 33 cents, or ₹24.50, a kg. The total export proceeds would be closer to ₹147 billion at the current price. It would go to exporters, not farmers. They would keep their profits and give the rest to sugar producers. Producers would keep their profits and give the rest to farmers, who would be lucky to get ₹100 billion — some day, just like the ₹53.61 billion that was to be paid over a year ago. That is, if the industry manages to export six million tonnes of sugar.

Last week, this year's sugar cane crop was ready. Its cutting has begun, and will continue till April. As it is cut, it will be taken to sugar mills and

turned into sugar over the next five months. 2020 was a bumper year, with sugar production having tripled. Which is why GoI woke up and decided on an export subsidy.

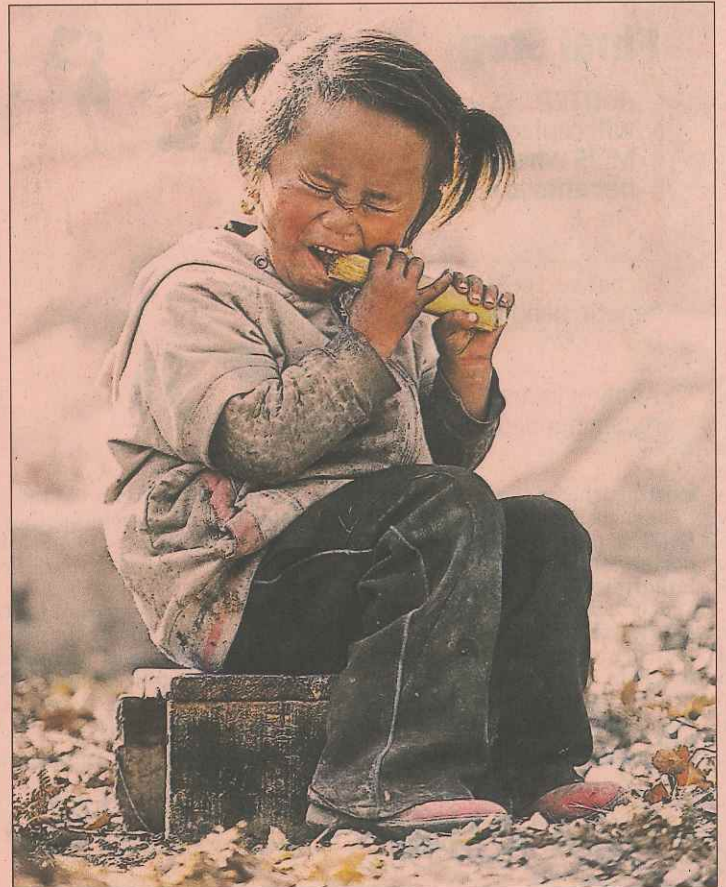
GoI can only hope that the subsidy will not lead farmers to produce another bumper crop. If they do, it will make banks give more loans to sugar mills to buy cane. The mills will produce sugar they cannot sell. And burdened with sugar stocks, they will not be able to repay loans to banks.

That does not matter. Most of them are government banks, so they can accumulate bad debts for decades without going bust. In the meanwhile, however, these banks will not have the money to lend to new and innovative businesses, and the economy will continue to stagnate. That, too, is normal for the Indian economy — at least for the last six years.

Sugar is India's classic sick industry. For decades, sugar was part of public procurement. GoI bought it from sugar mills and sold it cheap to ration card-holders. The NDA government is dismantling the structure of the public distribution system (PDS). It sells some grains cheap to poor people. But otherwise, it wants to create a free market in grains where prices are determined by sales from farmers to traders. But where is a market to be found for sugar? India is producing too much of it. Hence, GoI is looking abroad.

But prices in India are too high. No foreigner would come to buy sugar at such prices. The World Trade Organisation (WTO) has banned export subsidies, and Brazil and Australia have asked WTO to prevent India from giving them. But India will, no doubt, plead that it is a poor, undeveloped country, and should be allowed to subsidise exports for three more years. After that, GoI will go back to WTO and plead that it is forever developing and wants another three years. We are veterans of that dance.

The sugar mills in southern India are closer to ports and manage to export some sugar. In 2019, exports came



We need to satisfy our sugar rush

to 1.38 million tonnes worth \$444 million. But Brazil exported 10 times as much, and little Thailand, four times as much sugar. The US is the biggest importer, but it imports mostly from Brazil and Mexico, which are close.

High Sugar in GoI's DNA

The Chinese are increasing sugar consumption. But they buy mostly from Australia and Indonesia. While India confronts them in Ladakh, they are unlikely to start eating Indian sugar. India will look for markets in Bangladesh, West Asia and Africa, but is unlikely to find a substantial market in a hurry.

India has a sugar surplus now, and needs to become a steady exporter. But it will not become one unless permanent exporters emerge. And no

one will specialise in exports unless GoI frees the sugar market — production, prices, inventories, credit, international trade, all of it — and gives a credible assurance that it will keep out of the market forever.

This is not true of just sugar. India is now a surplus agricultural producer, and needs to become a major agricultural exporter. So, GoI needs to get out of all agricultural markets. It tried to move stealthily out of food grain markets, but has been stopped for now by crowds of demonstrating farmers at the gates of Delhi. Agricultural reform requires effective political persuasion. Confrontation comes more easily to our rulers.

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