India's sugar rush ends in global pain

The prospects of India emerging as a major exporter that will cut into Brazil's share of trade have enraged the Global Sugar Alliance

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For the sins of Pakistan and the European Union, which are found selling sugar in the world market with official subsidy, India, where exports of 2 million tonnes in the season ending September have been mandated, has become a suspect in the eyes of some foreign agencies. They complain that New Delhi is lacing such sales with trade distorting subsidies. Attempts by Global Sugar Alliance (GSA), of which Brazil, Thailand and Australia are members but not India, to put this country in the dock for promoting subsidised exports are wholly unwarranted since the Indian Sugar Mills Association (ISMA) is all for selling a portion of surplus production abroad without putting any subsidy burden on the government.

Finding no other stick to beat India with, the GSA has taken exception to New Delhi agreeing in May to give growers directly ₹5.5 for every tonne of cane to be sold to sugar factories during the current season. Growers as a result will be raising cane bills on factories after deducting the amount received from the government. Yes, there is scope for hair splitting as to whether this amounts to a subsidy that will come to the industry's aid to export sugar.

The fact remains that sugar's ex-factory realisation would not even pay for the cost of cane, whose fair and remunerative price (FRP) is fixed by New Delhi and over and above which some states, most significantly the largest sugar producer Uttar Pradesh, will put a hefty premium. Unpaid cane bills exceeded ₹220 billion at one stage this season. The phenomenon was adding to the groundswell of discontent among 50 million-odd cane growers, forcing the government to take steps to ameliorate their hardships. It could not be lost on the government that only if the industry returns to health, the crisis on the farm front will end.

SUGAR SHARE
Sugar exports by country in 2017

	Exports $ Mn	Global share (%)
Brazil	11,400	41.3
Thailand	2,600	9.4
France	1,300	4.9
Guatemala	826	3.0
Germany	743	2.7
Mexico	665	2.4
India	662	2.4

Compiled by BS Research Bureau
Source: worldstopexports

Therefore, for the first time in this agro-based industry's history, the government tells factories not to sell sugar at below a given minimum price. The enormity of the crisis resulting from sugar output in the current season exceeding 32 mt, an unanticipated jump from 20.30 mt in 2016-17, has also led New Delhi to tell the industry to freeze stocks totalling 3 mt at mill godowns for one year starting July 1. The government will reimburse the mills the interest, insurance and storage charges of sugar to be kept in buffer with the objective of the industry using the funds to settle cane bills.

Expectedly, the market greeted the government moves by posting better and better ex-mill sugar prices. The other positives for the industry are New Delhi sanctioning a nearly ₹3 a litre hike in ethanol procurement price to ₹43.70, doubling of sugar import duty to 100 per cent, removing the 20 per cent export duty and reintroducing the monthly sugar quota release mechanism that was dispensed with in 2013 as part of progressive reforms.

"The Union government once again telling the states how much sugar they could sell in a month could be seen as a step back on reforms. But these are extraordinarily difficult times for factories and farmers requiring extraordinary steps," says industry official Om Prakash Dhanuka. Even if exceptions are not to be taken for revival of sugar release system, one fails to understand the rationale behind UP, which is having the highest share of unpaid cane bills given a lower release quota than Maharashtra. How will UP-based factories speed up the process of paying farmers their dues with a total June and July sale quota of 1.26 mt?

The industry will face a bigger challenge next season when sugar production could be anything between 33.83 mt and 35 mt. The forecast of a good monsoon, cane offering better returns to growers vis-a-vis competing crops and productivity improvements resulting from rising planting of early season varieties of cane, particularly in UP and Maharashtra, have combined to likely bring an additional 250,000 hectares to 5.2 m hectares under cane cultivation. Growing condition remaining ideal, the country will have a bumper cane crop of 415 mt in the next season, according to a USDA foreign agricultural service report.

It is in expectation of a record sugar production, much in excess of domestic use and carry forward stocks needed to keep normal supply in the new season's first two months, that ISMA has tossed the idea with the government of 6 mt sugar exports during 2018-19. ISMA President Gaurav Goel says in the event of ex-factory sugar prices for units in western and southern states are fixed at ₹33 a kg and for the ones in the north at ₹35 a kg, then the industry will not need any subsidy for exports. Ex-factory prices at the suggested levels are seen as enablers for mills to absorb the losses involved in exports.

It will be argued that since the government has taken upon itself the task of fixing FRP annually to protect the interest of growers, it has to see that sugar at all times is sold at prices that allow factories to breezily clear cane bills. Nearly six years after the Ragarajan committee recommended a firm linkage between cane and sugar prices that New Delhi has made its first tentative policy move in that direction. Only the industrial consumers such as confectioners and ice cream makers who will use at least two-thirds of the sweetener sold in the country are benefiting from the miseries of sugar industry.

ISMA seems to have done its homework well before proposing exports of 6 mt in 2018-19. China is a major importer of sugar. An ISMA delegation, which was recently in Beijing, believes India can annually export 1.5 mt to China. The question is whether India will be allowed to export sugar to China under the 50 per cent tariff category and not the regular 80 per cent import duty. Bangladesh should be seen as a natural export destination for Indian sugar. But to make meaningful exports there happen, Goel wants the government to sanction a line of credit of appropriate size. Why not New Delhi persuade Jakarta to let India sell sugar in Indonesia by paying the same import duty as Thailand and Australia? No wonder, then, the prospects of India emerging as a major exporter that will cut into Brazil's over 50 per cent share of global seaborne trade have enraged GSA.

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