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INDIA'S POLICY FLIP-FLOPS ON IMPORTING SUGAR TO BRING DOWN DOMESTIC PRICES HAVE LED TO A SITUATION WHERE RETAIL PRICES HAVE REMAINED STICKY AT ₹40-45/KG

High sugar prices the new normal?

A BROAD ANALYSIS of the sugar market from 2009 onwards till July 2017 reveals that a trend of sugar prices remaining bullish. Retail sugar prices rose from ₹29/kg in 2009 to ₹32-35/kg in 2014—climbing by 20%. In the recent past, sugar climbed up from ₹31/kg in 2015 to ₹39/kg in 2016—an uptick of 24%—and then to ₹43/kg in 2017, up by 10%. Sugar is now commanding a retail price of ₹50/kg in Srinagar.

On a pan-India basis, the sweetener's price moved north by 34% in the last two years. This is when international market has fallen by about 40% in a year—from 22cents/lb to 13.50 cents/lb (raw values). If an import is made now, refined sugar will cost ₹27/kg without any duty.

After provisioning for the margins of wholesale and retail, the consumer need not pay more than ₹32/kg for imported sugar (at zero duty). India is, thus, reeling under a strange reality, one where sugar is sold at ₹42-43/kg when sugarcane costs ₹230/quintal. (According to the Commission for Agricultural Costs and Prices, net return on sugarcane, at 52%, is the highest on an all-India basis with a crop duration of 12 months.)

An Union government press release, dated July 14, 2017, states that "The annual rate of inflation, based on monthly "wholesale" price index (WPI), stood at 0.90% (provisional) for the month of June, 2017 (over June, 2016) as compared to 2.17% (provisional) for the previous month".

Thus, wholesale inflation in India is less than 1%. But sugar has bucked the trend, with WPI at 30% for 2016-17 and at 11% for 2017-18. Retail inflation and wholesale inflation are thus well synchronised.

Sensing the current scenario, the stocks/shares of sugar-mills are also reigning high. Most of the major mills'

share-prices have risen 50%, and some others have breached 140% in a year, indicating bumper profits.

Mills in Uttar Pradesh have done exceptionally well as compared to those in West and South India. This is a good time for the mills to have an in-house stabilisation fund to act as buffer for adverse market conditions.

In 2009-14, whenever retail values exceeded ₹40/kg, counter-measures were initiated to drag down price to ₹35/kg or so. Recently, too, the government initiated a three-step intervention to manage sugar prices—first, by authorising a quota of duty-free import of 0.5 million tons (mt) between April-June 2017; second, in early July 2017, it hiked import duty from 40% to 50% to keep prices firmer and stable, and prevent cheap imports.

This second step contradicted the first step of allowing 0.5 mt imports to soften local prices.

Now, in August 2017, the government is reportedly contemplating the third step, of allowing another import tranche of about 0.25-0.3 mt (originally thought to be 0.5 mt). The third step negates the action of raising the duty in the second step.

Thus, the authorities seem to lack clarity on policy. Should prices be allowed to remain at the level they are at, or should they be pulled down?

The result of these flip-flop and pull-push policies is that sugar prices are bound to remain in the region of ₹43-45/kg at the retail level at major centres like Delhi, Mumbai, Kolkata,

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Chennai and Guwahati, among others.

During the festive season (September-October 2017), demand pressure will ensure that sugar touches a new high. The sugar balance-sheet indicates an opening stock of 4 mt as on October 1, 2017—which is tight in any case.

Had the government desisted from hiking duty to 50% in July 2017, some imports with lower global prices would have landed to keep local values in check.

The operational procedure for registering imports via the directorate general of foreign trade, and subse-

quently, ensuring timely shipments is very challenging.

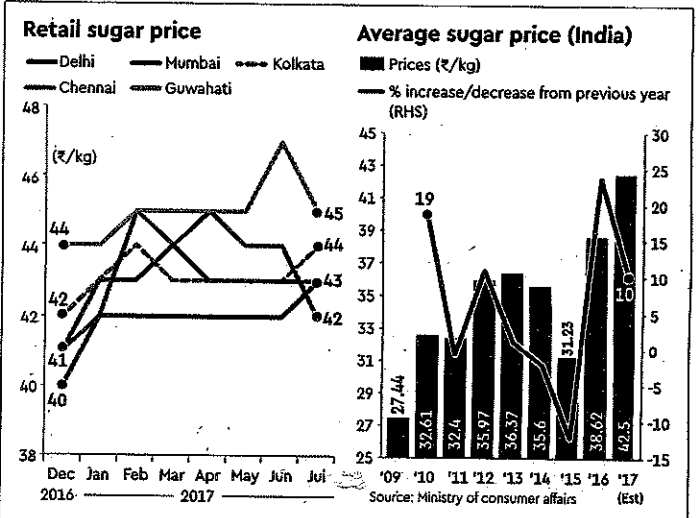
Raw sugar imports from Brazil, even if allowed under the Advance Licensing Scheme, can't land at Indian ports before October 2017.

Refined sugar shipments from Thailand could have been thought of as a possibility, provided the total tonnage and conditions of imports, including custom duty if any, had been notified earlier.

Sugar availability in the North East and South India is a cause of concern, and any shortage on an immediate basis has to be made good through UP millers.

Next year, unless imports of 1 mt are made, we may see even higher sugar prices—may be ₹50/kg.

It will be, thus, expedient to effect more imports and restrain further spike in prices. The time has come to protect the consumer and narrow the gap between sugar inflation and general inflation.



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