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## India

## Sugar

## Annual Report

## 2007

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**Report Highlights:**

Record sugar production of 27.4 million tons in MY 2006/07 and the likelihood of another record production in MY 2007/08 have caused an over supply situation and lower prices, thus eroding the financial viability of the sugar industry. The government has announced various policy measures, including an export subsidy and purchases for buffer stocks, to overcome the crisis facing the industry and to bale out sugarcane farmers. Indian sugar exports are forecast to surge to 2.5 million tons in MY 2007/08.

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Includes PSD Changes: Yes

Includes Trade Matrix: Yes

Annual Report

New Delhi [IN1]

[IN]

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## SECTION I: SITUATION AND OUTLOOK

Note: All sugar data are on raw value basis unless otherwise noted.

**Table 1: Commodity, Centrifugal Sugar (raw value basis), PSD**

| Commodity              | Sugar, Centrifugal |                   |                   |               |                   |                   | (1000 MT)     |                   |                   |
|------------------------|--------------------|-------------------|-------------------|---------------|-------------------|-------------------|---------------|-------------------|-------------------|
|                        | 2006               | Revised           |                   | 2007          | Estimate          |                   | 2008          | Forecast          |                   |
|                        | USDA Official      | Post Estimate Old | Post Estimate New | USDA Official | Post Estimate Old | Post Estimate New | USDA Official | Post Estimate Old | Post Estimate New |
| Market Year Begin      |                    | 10/2005           | 10/2005           |               | 10/2006           | 10/2006           |               | 10/2007           | 10/2007           |
| Beginning Stocks       | 5165               | 5165              | 5165              | 4735          | 4735              | 4775              | 6785          | 6785              | 10105             |
| Beet Sugar Production  | 0                  | 0                 | 0                 | 0             | 0                 | 0                 | 0             | 0                 | 0                 |
| Cane Sugar Production  | 21070              | 21070             | 21140             | 25100         | 25100             | 27430             | 0             | 0                 | 28790             |
| Total Sugar Production | 21070              | 21070             | 21140             | 25100         | 25100             | 27430             | 0             | 0                 | 28790             |
| Raw Imports            | 50                 | 50                | 50                | 0             | 0                 | 0                 | 0             | 0                 | 0                 |
| Refined Imp.(Raw Val)  | 0                  | 0                 | 0                 | 0             | 0                 | 0                 | 0             | 0                 | 0                 |
| Total Imports          | 50                 | 50                | 50                | 0             | 0                 | 0                 | 0             | 0                 | 0                 |
| Total Supply           | 26285              | 26285             | 26355             | 29835         | 29835             | 32205             | 6785          | 6785              | 38895             |
| Raw Exports            | 0                  | 0                 | 0                 | 0             | 0                 | 0                 | 0             | 0                 | 0                 |
| Refined Exp.(Raw Val)  | 1150               | 1150              | 1510              | 2000          | 2000              | 1100              | 0             | 0                 | 2500              |
| Total Exports          | 1150               | 1150              | 1510              | 2000          | 2000              | 1100              | 0             | 0                 | 2500              |
| Human Dom. Consumption | 20400              | 20400             | 20070             | 21050         | 21050             | 21000             | 0             | 0                 | 21850             |
| Other Disappearance    | 0                  | 0                 | 0                 | 0             | 0                 | 0                 | 0             | 0                 | 0                 |
| Total Use              | 20400              | 20400             | 20070             | 21050         | 21050             | 21000             | 0             | 0                 | 21850             |
| Ending Stocks          | 4735               | 4735              | 4775              | 6785          | 6785              | 10105             | 0             | 0                 | 14545             |
| Total Distribution     | 26285              | 26285             | 26355             | 29835         | 29835             | 32205             | 0             | 0                 | 38895             |

Note: Stocks include only milled sugar, as all khandsari sugar produced is consumed within the marketing year. Virtually no centrifugal sugar is utilized for alcohol, feed, or other non-human consumption.

### Production

India's centrifugal sugar production in marketing year (MY) 2007/08 is forecast at a record 28.8 million tons (including 435,000 tons of khandsari sugar<sup>1</sup>), five percent higher than MY 2006/07 record production. Gur<sup>2</sup> production is forecast lower at 3.0 million tons on expectations of low gur prices. High cane prices and favorable weather conditions at planting encouraged increased cane planting for MY 2007/08, forecast at 4.7 million hectares compared with 4.5 million hectares in MY 2006/07 (see table 2). Assuming normal weather conditions, MY 2007/08 sugarcane production is forecast to increase to a new record of 325 million tons.

Post's MY 2006/07 centrifugal sugar production estimate is revised upward to 27.4 million tons on larger than anticipated sugarcane availability due to a record sugarcane crop (officially estimated at 315 million tons) and reduced diversion of cane for production of

<sup>1</sup> *Khandsari* sugar: a low recovery centrifugal sugar prepared by open-pan evaporation method.

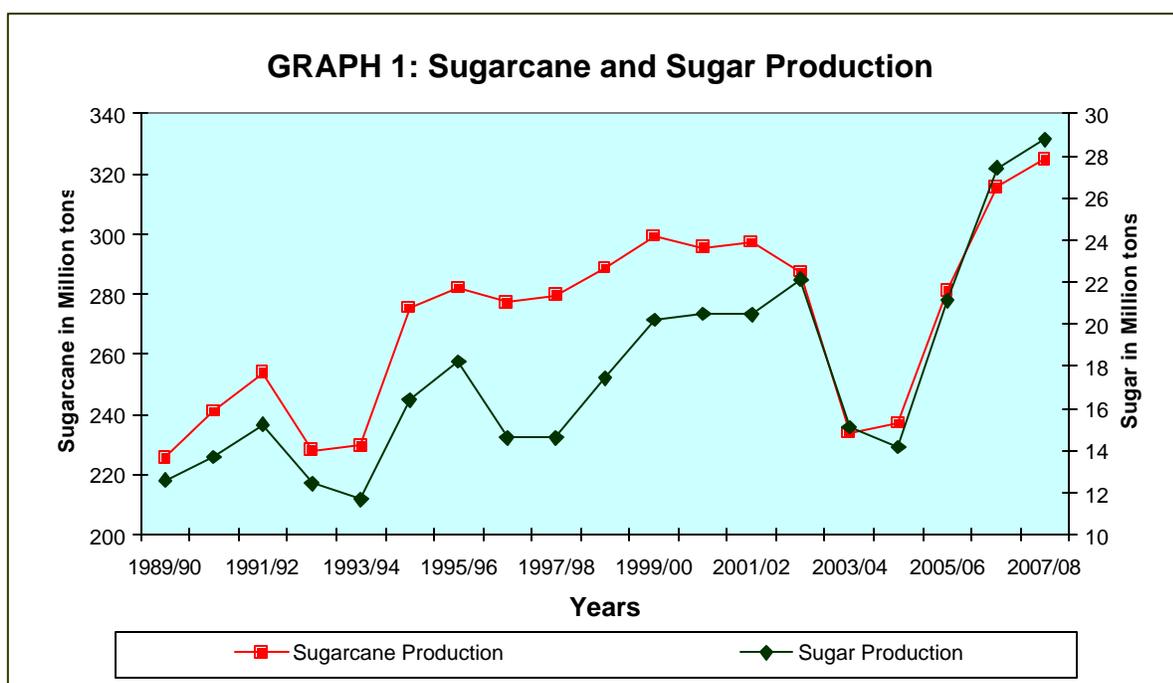
<sup>2</sup> Gur – a crude non-centrifugal sugar in lump form produced by open pan evaporation method.

alternative sweeteners, namely khandsari and gur. Late monsoon rains in 2006 and generally favorable weather conditions in most sugarcane growing areas resulted in higher cane yields.

Mill sugar production through March 2007 is estimated at 22.7 million tons compared to 18.0 million tons for the corresponding period of MY 2005/06. Industry sources expect cane crushing by mills to prolong 3-4 weeks longer than normal, through May 2007 in major sugar producing states. MY 2006/07 sugar production is expected to reach a record 27.4 million tons. Increased sugar production capacities<sup>3</sup> and high MY 2005/06 end-season sugar prices limited early season cane diversion to the gur sector in MY 2006/07. The subsequent strong decline in sugar and gur prices (see Table 5 & 6) further discouraged cane diversion for gur production. As a result, the gur production estimate is revised lower to 3.3 million tons from the earlier estimate of 4.7 million tons.

### Sugar Industry in Crisis

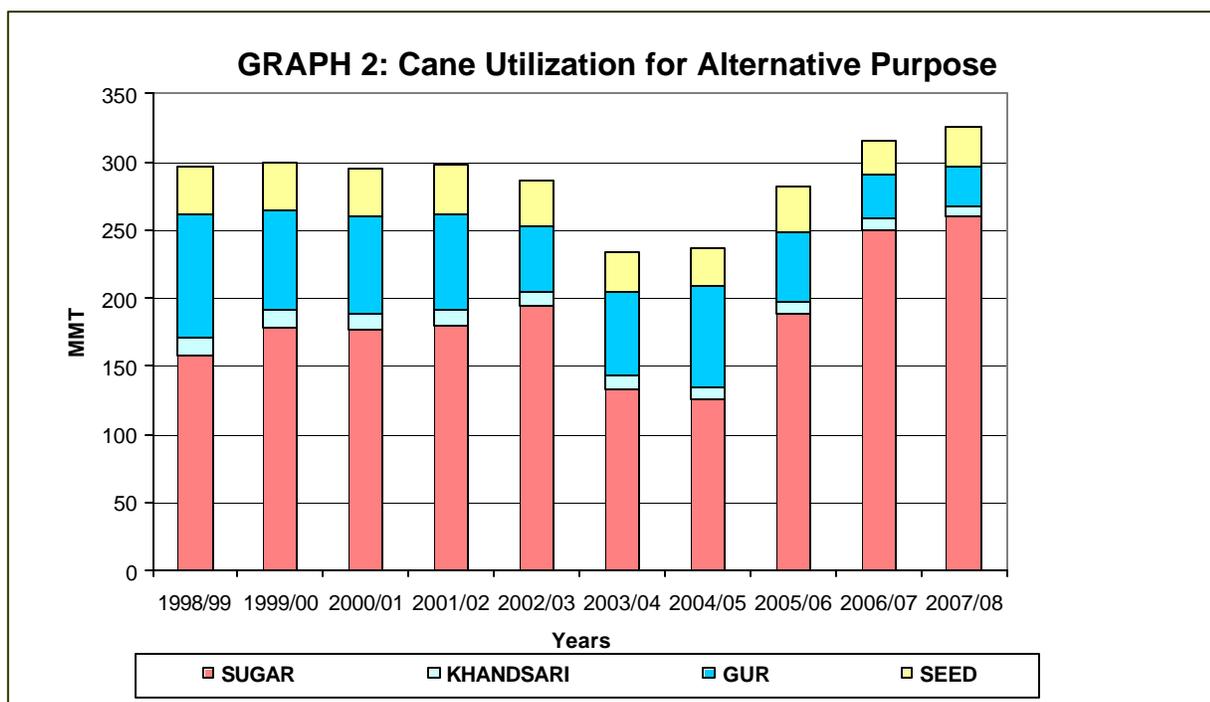
Sugarcane and sugar production in India typically follows a 5 to 6 year cycle, wherein 2 to 3 years of higher production are followed by 2 to 3 years of lower production.



Strong sugar prices from MY 2003/04 to 2005/06 (see Graph 3) and higher central and state government support prices for sugarcane (see Table 7) encouraged increased cane planting in MY 2006/07 and 2007/08 resulting in record production both seasons. Sugarcane prices are also driven by political factors in the major sugarcane growing states of Maharashtra and Uttar Pradesh. Sugar mills are mandated to pay the government established support prices for sugarcane (see Section III) to farmers. The high government administered prices

<sup>3</sup> Sources report a 8-10 percent increase in sugar production capacity during MY 2006/07 due to additional investment in setting up new units and expanding capacities of existing units.

payable by mills in recent years have also discouraged cane diversion to the production of alternative sweeteners such as gur (see graph 2), resulting in increased sugar production<sup>4</sup>.



Record sugar production has resulted in a glut in the market, lowering prices and swelling up stocks, thus eroding the profitability of sugar mills. Mills are under immense pressure from farmers to crush additional cane despite adverse economics. Consequently, the sugar industry is facing a severe financial crisis resulting in delays in payments to the farmers. The industry has been pressuring the government to provide fiscal relief including an export subsidy, to overcome the crisis.

### Recent Policy Changes

Responding to industry demands, the government has decided to build up buffer stocks of two million tons of sugar and provide an export incentive of Rs. 1,350 (\$32) to Rs. 1,450 (\$34) per ton of sugar to mills, both to be paid out of the government's Sugarcane Development Fund (SDF). Due to the ongoing elections in the Uttar Pradesh, one of the leading sugar producing states, the notification of these relief measures has been delayed, but is expected to come out after the elections in late May.

The buffer stock will be allocated to individual mills that will have the responsibility of maintaining them. The mills will use the warehouse receipt for the allocated buffer stock to secure loans from banks to make timely payments to farmers for purchased cane. The government will reimburse mill owner's interest costs, storage, and insurance, associated with the buffer stock maintenance. The government's export incentives will be basically in the form of a transport (both domestic and export) subsidy payment from the SDF for exports up to 3.0 million tons of sugar in MY 2006/07 and 2007/08. The government maintains that the transport subsidy is WTO compatible as it is drawn from the SDF collected

<sup>4</sup> Gur producers procure cane by offering competitive price if the end product (*gur*) prices are remunerative enough to compensate for cost of production.

by the government as a levy on the sugar industry (see Section III). The proposed sugar relief package is expected to cost the government Rs. 8.5 billion (\$200 million).

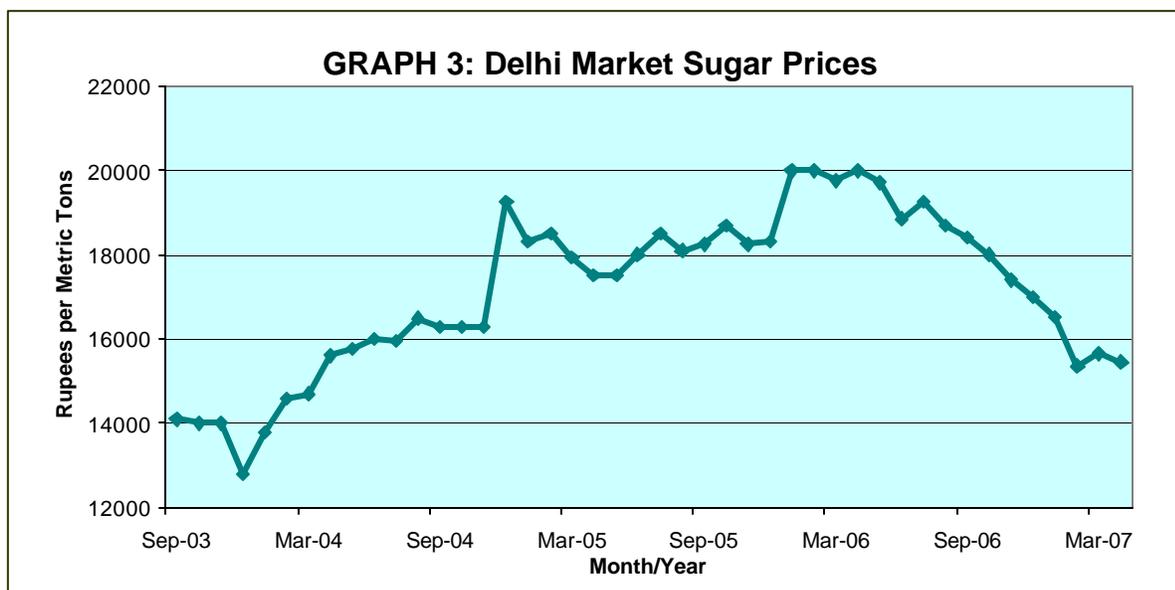
Some state governments have also announced relief measures (tax relief and subsidies) to mills to enable them make timely payments to cane farmers. Several states have announced tax relief for late season crushing. The state of Maharashtra has announced a transport subsidy of Rs. 20 (47 cents) per metric ton for the transportation of sugarcane from fields to sugar mills. It has also announced an export subsidy of Rs. 1000 (\$23.5) per metric tons to sugar mills in the state, on top of the export subsidy announced by the central government. The Maharashtra export subsidy will be paid by the state government and will not come out of any industry funds.

### Consumption

Fueled by strong economic growth (averaging 8 percent per annum in recent years) and steady population growth (1.8 percent per annum), sugar consumption has grown by three to four percent annually in recent years. Consumption in MY 2007/08 is forecast to increase by 4 percent to 21.9 million tons due to ample availability and likely low prices. MY 2005/06 and 2006/07 sugar consumption is revised marginally lower to 20.1 million tons and 21.0 million tons, respectively, based on the latest industry data.

Bulk consumers such as bakeries, candy makers, sweets makers, and soft-drink manufacturers account for 60 to 65 percent of the total milled sugar demand. Local sweets manufacturers typically use khandsari sugar. Gur is mostly consumed in rural areas, with some quantities diverted for the production of country liquor.

### Prices and stocks



Sugar prices during MY 2006/07 declined sharply due to larger supplies (see Table 5). Current sugar prices in major domestic wholesale markets range from \$338 to \$367 per ton, nearly 20 percent lower than last year's level. Prices are expected to remain subdued in the coming months and even during the next marketing year, although international prices could impact domestic prices.

MY 2007/08 ending stocks are forecast to increase to 14.5 million tons from the MY 2006/07 ending stocks of 10.1 million tons, both well above the normal acceptable level of 5.5 million tons (equivalent to three-month consumption).

## Trade

Record production and large carry-over stocks should prompt India to be an aggressive sugar exporter in coming months and during the next marketing year. Although the cost of production of sugar in India is higher than in some other countries, the government export incentives should provide the much-needed impetus for MY 2007/08 exports, currently forecast at 2.5 million tons, to reach a new record. Given the price parity between domestic and international prices, sugar imports are unlikely in MY 2007/08.

Post's MY 2006/07 export estimate is revised lower to 1.1 million tons due to the delay in the government announcement regarding the removal of the export ban on sugar, the appreciation of Indian rupee against the U.S. dollar, and the weakening of international sugar prices. With the government lifting the sugar export ban only in late January 2007, Indian sugar exporters missed the four-month (October-January) export window. Export prospects were also adversely affected by the declining value of the Indian rupee (Rs. 45.45 per U.S. Dollar in September to Rs. 42.6 per U.S. Dollar now). Trade sources estimate India's sugar exports through March 2007 in MY 2006/07 at 300,000 metric tons, mostly to Indonesia, Bangladesh, Sri Lanka, Somalia, and Yemen at prices ranging between \$302 to \$340 per ton FOB. Exports are expected to gain momentum in the coming months when the government export incentives become operational.

## Trade Policy

Concerned by escalating sugar prices in the domestic market during the later part of the last marketing year, the government permitted sugar imports at zero duty for the period June 23 to September 30, 2006 and banned sugar exports effective July 21, 2006. The export ban was lifted on January 23, 2007 following the weakening of domestic prices in the wake of bumper sugar production this marketing year. However, exporting mills have to register and take a release order for exports from the Directorate of Sugar, Ministry of Consumer Affairs, Food and Public Distribution. Although sugar for exports is exempted from local taxes and fees (see Section III) totaling Rs. 850 (\$20) per ton, Indian sugar is still uncompetitive in the international market, without further government export incentives.

Effective October 1, 2006, the import duty on sugar (ITC HS Code 1701) reverted back to normal rate of 60 percent advalorem on the CIF value, plus a countervailing duty (CVD) of Rs. 850 (\$20) per ton. The CVD is in lieu of local taxes and fees imposed on domestic sugar (central excise tax of Rs. 340 (\$8); additional excise duty of Rs. 370 (\$8.7); and a cess of Rs. 140 (\$3.3) per ton). However, mills are allowed to import raw sugar at zero duty against a future export commitment under an advance license scheme (ALS). The mills are permitted to sell the raw sugar imported under ALS after refining in the domestic market, subject to the condition that they will re-export 1.00 ton of refined sugar for every 1.05 tons of raw sugar imported within a specified period (currently two years). Imported sugar both under ALS and otherwise are also subject to various non-tariff barriers such as the levy sugar obligation, the market quota release system as applicable to domestic sugar (see Section III).

## SECTION II: STATISTICAL TABLES

Table 2: Commodity, Sugarcane, Centrifugal, PSD

|                       |                            |                   |                   |               |                   |                   |               |                   |                   |
|-----------------------|----------------------------|-------------------|-------------------|---------------|-------------------|-------------------|---------------|-------------------|-------------------|
| PSD Table             |                            |                   |                   |               |                   |                   |               |                   |                   |
| Country               | India                      |                   |                   |               |                   |                   |               |                   |                   |
| Commodity             | Sugar Cane for Centrifugal |                   |                   |               |                   |                   | (1000 HA)     | (1000 MT)         |                   |
|                       | 2006                       | Revised           |                   | 2007          | Estimate          |                   | 2008          | Forecast          |                   |
|                       | USDA Official              | Post Estimate Old | Post Estimate New | USDA Official | Post Estimate Old | Post Estimate New | USDA Official | Post Estimate Old | Post Estimate New |
| Market Year Begin     |                            | 10/2005           | 10/2005           |               | 10/2006           | 10/2006           |               | 10/2007           | 10/2007           |
| Area Planted          | 4140                       | 4150              | 4200              | 4400          | 4500              | 4500              | 0             | 0                 | 4650              |
| Area Harvested        | 4140                       | 4150              | 4200              | 4400          | 4500              | 4500              | 0             | 0                 | 4650              |
| Production            | 266880                     | 278000            | 281170            | 288000        | 310000            | 315530            | 0             | 0                 | 325000            |
| Total Supply          | 266880                     | 278000            | 281170            | 288000        | 310000            | 315530            | 0             | 0                 | 325000            |
| Utilization for Sugar | 188500                     | 198500            | 197170            | 203000        | 228000            | 257500            | 0             | 0                 | 267000            |
| Utilizatr for Alcohol | 78380                      | 79500             | 84000             | 85000         | 82000             | 58030             | 0             | 0                 | 58000             |
| Total Utilization     | 266880                     | 278000            | 281170            | 288000        | 310000            | 315530            | 0             | 0                 | 325000            |

Note: Virtually no cane is utilized for alcohol production. 'Utilization for alcohol' in the PS&D includes cane used for gur, seed, feed and waste. 'Utilization for sugar' data include cane used to produce mill sugar and khandsari sugar.

Table 3: Sugarcane Area, Production, and Utilization

| YEAR       | AREA/1 | YIELD/1 | PRODUCTION/1 | SUGAR/2 | KHANDSARI/3 | GUR /3 | SEED/3 |
|------------|--------|---------|--------------|---------|-------------|--------|--------|
|            | Mha    | MT/ha   | MMT          | MMT     | MMT         | MMT    | MMT    |
| 1985/86    | 2.86   | 59.99   | 171.68       | 68.98   | 10.48       | 71.62  | 20.60  |
| 1990/91    | 3.69   | 65.39   | 241.05       | 122.32  | 13.18       | 76.63  | 28.93  |
| 1995/96    | 4.15   | 68.02   | 282.09       | 174.76  | 10.00       | 67.27  | 30.06  |
| 2000/01    | 4.32   | 68.49   | 295.60       | 176.65  | 11.00       | 72.48  | 35.47  |
| 2001/02    | 4.41   | 67.38   | 297.21       | 180.32  | 10.50       | 70.73  | 35.67  |
| 2002/03    | 4.52   | 63.58   | 287.38       | 194.33  | 9.50        | 49.07  | 34.49  |
| 2003/04    | 3.94   | 59.39   | 233.86       | 132.51  | 10.00       | 61.35  | 30.00  |
| 2004/05    | 3.66   | 64.74   | 237.09       | 124.77  | 9.50        | 74.37  | 28.45  |
| 2005/06    | 4.20   | 66.93   | 281.17       | 188.67  | 8.50        | 50.26  | 33.74  |
| 2006/07    | 4.50   | 70.12   | 315.53       | 250.00  | 7.50        | 33.03  | 25.00  |
| 2007/08(F) | 4.65   | 69.89   | 325.00       | 260.00  | 7.00        | 30.00  | 28.00  |

Source: /1: Directorate of Economic and Statistics, Ministry of Agriculture  
 /2: Indian Sugar Mills Association  
 /3: FAS/New Delhi estimate

**Table 4: Mill Sugar Production by State**  
(Figures in 100,000 tons crystal weight basis)

| State          | 2005/6       | 2006/7       | 2007/08      |
|----------------|--------------|--------------|--------------|
|                | Final        | Revised      | Forecast     |
| Andhra Pradesh | 12.4         | 16.0         | 16.0         |
| Bihar          | 4.2          | 4.0          | 4.0          |
| Gujarat        | 11.7         | 14.0         | 14.0         |
| Haryana        | 4.1          | 5.0          | 5.0          |
| Karnataka      | 19.4         | 23.0         | 25.0         |
| Maharashtra    | 52.0         | 81.0         | 84.0         |
| Punjab         | 3.4          | 4.5          | 5.0          |
| Tamil Nadu     | 21.4         | 24.0         | 25.0         |
| Uttar Pradesh  | 57.8         | 74.0         | 80.0         |
| Others         | 6.3          | 6.5          | 7.0          |
| <b>Total</b>   | <b>192.6</b> | <b>252.0</b> | <b>265.0</b> |

Note: Excludes khandsari sugar, as state break-up is not available.

Source: /1: MY 2005/06 - Indian Sugar Mills Association  
/2: MY 2006/07 and 2007/08 – FAS/New Delhi Estimate

**Table 5: Commodity, Centrifugal Sugar, Price Table**  
(Price in crystal weight basis)

| Prices in     | Rupees   | per uom              | Metric Tons |
|---------------|----------|----------------------|-------------|
| Year          | 2006     | 2007                 | % Change    |
| Jan           | 20000    | 16520                | -17%        |
| Feb           | 20000    | 15370                | -23%        |
| Mar           | 19750    | 15650                | -21%        |
| Apr           | 20000    |                      |             |
| May           | 19700    |                      |             |
| Jun           | 18850    |                      |             |
| Jul           | 19250    |                      |             |
| Aug           | 18700    |                      |             |
| Sep           | 18400    |                      |             |
| Oct           | 18000    |                      |             |
| Nov           | 17400    |                      |             |
| Dec           | 17000    |                      |             |
| Exchange Rate | 42.6     | Local Currency/US \$ |             |
| Date of Quote | 4/9/2007 | MM/DD/YYYY           |             |

Source & Contract Terms: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market

**Table 6: Commodity, Gur, Price Table**  
(Price in actual weight basis)

| Commodity     | Non-centrifugal Sugar (GUR) |                      |             |
|---------------|-----------------------------|----------------------|-------------|
| Prices in     | Rupees                      | Per uom              | Metric Tons |
| Year          | 2006                        | 2007                 | % Change    |
| Jan           | 16500                       | 12750                | -23%        |
| Feb           | 16000                       | 12250                | -23%        |
| Mar           | 15000                       | 12250                | -18%        |
| Apr           | 16500                       |                      |             |
| May           | 16750                       |                      |             |
| Jun           | 17000                       |                      |             |
| Jul           | 16000                       |                      |             |
| Aug           | 15600                       |                      |             |
| Sep           | 16500                       |                      |             |
| Oct           | 16000                       |                      |             |
| Nov           | 14000                       |                      |             |
| Dec           | 13500                       |                      |             |
|               |                             |                      |             |
| Exchange Rate | 42.6                        | Local Currency/US \$ |             |
| Date of Quote | 4/9/2007                    | MM/DD/YYYY           |             |

Source & Contract Term: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market.

**Table 7: Commodity, Sugarcane, Price Table**  
(Price in Rs. per ton)

| Price Table: Sugarcane Price- MSP and SAP (Rs./MT) |         |           |            |           |
|--|---------|-----------|------------|-----------|
| PRICE  | 2007/08 | 2006/07   | 2005/06    | 2004/05   |
| Minimum Support Price (MSP)*                       | 811.8   | 802.5     | 795        | 745       |
| State Advised Price for                            |         |           |            |           |
| Uttar Pradesh                                      | na      | 1250-1300 | 1150-1200@ | 1120-1170 |
| Haryana/Punjab                                     | na      | 1260-1320 | 1110-1230  | 1100-1200 |
| Southern States                                    | na      | 1025-1160 | 1000-1250  | 745-1106  |

\*The MSP for 2004/05 is linked to a basic recovery rate of 8.5 percent. In addition, for every 0.1 percent increase in the recovery rate over the basic recovery rate, an additional premium of Rs. 8.80 per ton was paid. The MSP for 2005/06, 2006/07 and 2007/08 linked to a basic recovery rate of 9.0 percent. For every 0.1 percent increase in the recovery rate over the basic recovery rate, an additional premium of Rs. 8.80 per ton was paid in 2005/06, and Rs. 9.0 per ton to be paid in 2006/07 and 2007/08.

Exchange Rate:

2004/05 (April/March) 1 US\$ = 44.9 Indian Rs.

2005/06 (April/March) 1 US\$ = 44.3 Indian Rs.

April 9, 2007 1 US\$ = 42.6 Indian Rs.

Source: Indian Sugar Mills Association

**Table 8: Export Trade Matrix: Centrifugal Sugar**

| <b>Commodity</b>         | <b>Sugar,<br/>Centrifugal</b> |               |                    |
|--------------------------|-------------------------------|---------------|--------------------|
| <b>Time Period</b>       | <b>Oct-Sept</b>               | <b>Units:</b> | <b>Metric Tons</b> |
| <b>Exports for:</b>      | <b>2006</b>                   |               | <b>2007</b>        |
| U.S.                     | 11800                         | U.S.          | 0                  |
| Others                   |                               | Others        |                    |
| Pakistan                 | 834850                        | Bangladesh    | 36180              |
| Bangladesh               | 240140                        |               |                    |
| Sri Lanka                | 155850                        |               |                    |
| Indonesia                | 40385                         |               |                    |
| Somalia                  | 32050                         |               |                    |
| Yemen Rep                | 28370                         |               |                    |
| Ethiopia                 | 21400                         |               |                    |
| Malaysia                 | 20110                         |               |                    |
| U.A.E.                   | 20060                         |               |                    |
| Djibouti                 | 19640                         |               |                    |
| <b>Total for Others</b>  | <b>1412855</b>                |               | <b>36180</b>       |
| <b>Others not Listed</b> | <b>85133</b>                  |               | <b>9708</b>        |
| <b>Grand Total</b>       | <b>1509788</b>                |               | <b>45888</b>       |

Note: Export figures for 2007 show exports from October –Nov 2006.

Source: Directorate General of Commercial Intelligence, Ministry of Commerce (GOI).

## SECTION III: NARRATIVE ON PRODUCTION POLICY

### Sugarcane Production and Pricing

The Government of India (GOI) endeavors to raise sugar cane yields through the development and transfer of new varieties and improved production technologies to growers. The Indian Council of Agricultural Research (ICAR) conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies support these efforts at the regional and state levels.

The GOI establishes a minimum support price (MSP) for sugarcane on the basis of recommendations by the Commission for Agricultural Costs and Prices (CACP) and after consulting State Governments and associations of sugar industry and cane growers. Some state governments further augment the MSP, typically by 20-25 percent, due to political compulsions. Sugar mills are required to pay the "state advised price (SAP)" to sugarcane farmers irrespective of the market price of sugar.

### Sugar Production and Marketing

The GOI has been following a policy of partial control and dual pricing for sugar. The local sugar mills are required to supply ten percent of their production to the government as 'levy sugar' at below-market prices, which the government distributes through the Public Distribution System (PDS) to its below-poverty line population at subsidized rates. Mills are allowed to sell the balance of their production as 'free sugar' at market prices. However, the sale of free-sale sugar and levy sugar is also administered by the government through periodic quotas, designed to maintain price stability in the market.

Since the government approved futures trading in sugar in May 2001, three national exchanges have been given permission to engage in sugar futures trading. The GOI has plans to completely deregulate the existing sugar marketing system by buying sugar from the open market for its subsidized PDS program, and by allowing futures trading to stabilize market prices. However, a section of the Indian sugar industry is opposed to this move.

The GOI levies a fee of Rs. 140 (\$3.20) per ton of sugar produced by mills to raise a sugarcane development fund (SDF), which is used to support research, extension, and technological upgradation in the sugar sector. The SDF is also often used to support sugar buffer-stocks operations, provide a transport subsidy for sugar exports, and provide an interest subsidy on loans for the installation of power generation and ethanol production plants.

### Ethanol Program

Despite India being one of the world's leading sugarcane producers, alcohol and ethanol is exclusively produced from molasses, a by-product of the sugar industry, and not directly from sugarcane or corn as in most countries. In January 2003, the government launched a program mandating blending of 5 percent ethanol in gasoline in nine select states and four Union Territories. However, implementation of the program was very low due to inconsistent and inadequate availability of ethanol to oil companies. The program was discontinued in 2004 because of a shortage of molasses due to low sugarcane production. In August 2005, the program was restarted following increased availability of molasses following higher cane production.

In September 2006, the GOI launched the second stage of the ethanol program, mandating five percent blending of petrol with ethanol, if commercially viable, across 20 states and four Union territories effective Nov 2006. Industry sources estimated that the annual ethanol requirement for the proposed program would be about 600 million liters against a production capacity of 1.2 billion liters per annum. However, oil marketing companies are finding it difficult to implement the program due to high prices demanded by mills for their ethanol (Rs. 26 to 28 per liter) and high taxes and levies in several states. Consequently, the ethanol blending program is running only at about 30 to 40 percent of the initial target.

The government offers financial support in the form of subsidized loans of up to 40 percent of the project cost for setting up ethanol production facilities. However, there is no direct financial assistance or tax relief offered by the government for the production and marketing of ethanol and/or ethanol blended petrol.