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Report Highlights:

Post forecasts MY 2007/08 (October/September) sugar production are raised to 31.8 million tons (raw value basis) on expected higher sugarcane production. If realized, it will be India's second consecutive record production. Consumption is raised to 23.0 million tons, exports to 3.0 million tons and the ending stocks to 17.3 million tons (more than 3 times the normal stock level). The MY 2006/07 sugar production estimate is raised to a record 30.6 million tons on higher than expected cane production.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I: SITUATION AND OUTLOOK

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

Table 1: Commodity, Centrifugal Sugar (Raw Value Basis), PSD

| PSD Table | | | | | | | | | |
|---------------------------|--------------------|---------------|-------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|
| Country | India | | | | | | | | |
| Commodity | Sugar, Centrifugal | | | | | | (1000 MT) | | |
| | 2006 | Revised | | 2007 | Estimate | | 2008 | Forecast | |
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| Market Year Begin | | 10/2005 | 10/2005 | | 10/2006 | 10/2006 | | 10/2007 | 10/2007 |
| Beginning Stocks | 5165 | 5165 | 4280 | 4775 | 4775 | 4175 | 10105 | 10105 | 11515 |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cane Sugar Production | 21140 | 21140 | 21140 | 27430 | 27430 | 30640 | 28790 | 28790 | 31780 |
| Total Sugar Production | 21140 | 21140 | 21140 | 27430 | 27430 | 30640 | 28790 | 28790 | 31780 |
| 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 | 26355 | 26355 | 25470 | 32205 | 32205 | 34815 | 38895 | 38895 | 43295 |
| Raw Exports | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Refined Exp. (Raw Val) | 1510 | 1510 | 1510 | 1100 | 1100 | 1800 | 2500 | 2500 | 3000 |
| Total Exports | 1510 | 1510 | 1510 | 1100 | 1100 | 1800 | 2500 | 2500 | 3000 |
| Human Dom. Consumption | 20070 | 20070 | 19785 | 21000 | 21000 | 21500 | 21850 | 21850 | 23000 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Use | 20070 | 20070 | 19785 | 21000 | 21000 | 21500 | 21850 | 21850 | 23000 |
| Ending Stocks | 4775 | 4775 | 4175 | 10105 | 10105 | 11515 | 14545 | 14545 | 17295 |
| Total Distribution | 26355 | 26355 | 25470 | 32205 | 32205 | 34815 | 38895 | 38895 | 43295 |

Note: Stocks include only milled sugar as all *Khandsari*¹ sugar produced is consumed within the marketing year. Almost no centrifugal sugar is directly utilized for alcohol, feed or other non-human consumption.

Production

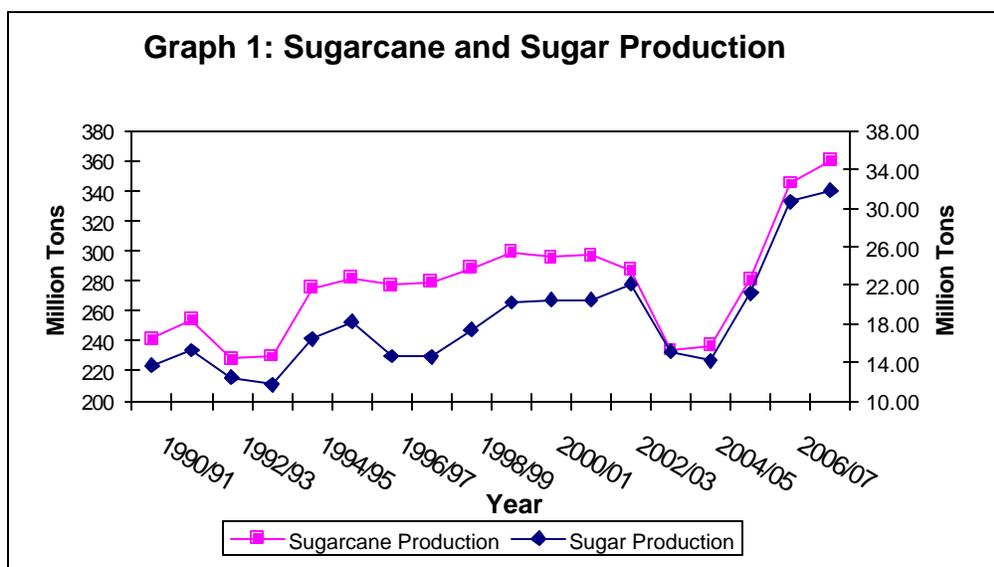
India is set to harvest the second consecutive record sugarcane crop in the upcoming marketing year (October/September) 2007/08. Post's sugar production forecast for MY 2007/08 is raised to a record 31.8 million tons (including 435,000 tons of *Khandsari* sugar) on expected bumper cane production. The sugarcane production forecast is raised to a record 360 million tons on higher cane acreage (5.1 million hectares²) and expected good yields due to generally favorable weather conditions in the major growing areas. Cane availability to sugar mills is expected to be relatively high as expected weak sugar and other

¹Khandsari sugar: a low recovery centrifugal sugar prepared by an open pan evaporation method.

² Reported by the Ministry of Agriculture

sweetener prices during the upcoming season will force farmers to supply cane to the mills instead of producers of the alternative sweetener *gur*³ due to assured cane prices⁴.

Post's MY 2006/07 sugar production estimate has been raised to a record 30.6 million tons (include 465,000 tons of *Khandsari* sugar) due to higher than anticipated sugarcane production and lower diversion of cane for *gur*. Based on the latest estimates⁵ from the Ministry of Agriculture, sugarcane area and production is revised higher to 4.9 million hectares and 345 million tons, respectively. Domestic prices of sugar and alternative sweeteners continued to decline during MY 2006/07 (see Table 5 & 6) discouraging any significant late season movement of sugarcane for production of *gur*. Despite delayed cane price payment by sugar mills, the farmers preferred offloading their cane to sugar mills due to assured higher cane prices vis-à-vis *gur* producers. Cane crushing by mills was extended 4-5 weeks longer than normal through May in major sugar producing states like Maharashtra and Uttar Pradesh. Consequently, *gur* production in MY 2006/07 is revised lower to 2.8 million tons from the earlier estimate of 3.3 million tons.



Industry Crisis Worse

Riding on two consecutive years of bumper growth⁶ (2005/06 and 2006/07), the Indian sugar industry is facing a market glut and severe a financial crisis. Unlike previous years, mills are unable to make cane price payments in a timely manner and cane arrears have mounted to an estimated Rs. 18-20 billion (\$ 454-504 million) by the end of August, 2007. The forecast record sugar production in MY 2007/08 will exacerbate the current sugar market glut by swelling sugar stocks to very high levels, lowering sugar prices, and eroding the financial position of the industry.

³Gur: a crude non-centrifugal sugar in lump form produced by open pan evaporation method.

⁴Sugar mills are mandated to pay government established support prices for sugarcane to farmers (see IN7035 Section III). Gur producers are not under any such obligation and offer cane prices commensurate with their gur price realization. Due to expected low gur prices, producers will not be able offer competitive cane prices vis-à-vis sugar mills.

⁵The Ministry of Agriculture estimated sugarcane production at 283 million tons at the beginning of the season (Sept 06), 315 million tons in March 07, and recently further raised to 345 million tons (September 07), about 22 percent higher than the initial estimate.

⁶Sugar production in MY 2006/07 and MY 2005/06 increased by 45 percent and 49 percent over the previous year, respectively.

Industry sources report that at current sugar prices, sugar mills are barely able to cover the cost of raw material (sugarcane). Consequently, they have been pressuring the government to announce fiscal relief measures and the government of India (GOI) and several state governments have initiated measures to support the sugar industry.

Recent Policy Measures

On April 20, 2007, the central government announced buffer stocks of 2.0 million tons of sugar for the period of May 1, 2007 through April 30, 2008. Subsequently on August 1, 2007, the government announced an additional buffer stock of 3.0 million tons for the period August 1, 2007 through July 31, 2008. Buffer stocks have been allocated to individual mills based on their production and stocks situation. The stocks will be maintained by the mills, and they can take loans from the banks against these stocks. The government will reimburse the mills the cost of interest, storage and insurance for the buffer stocks maintained by the individual mills. This buffer stock operation is estimated to cost Rs. 9.5 billion (\$ 239 million), and will be paid out of the Sugarcane Development Funds (SDF).

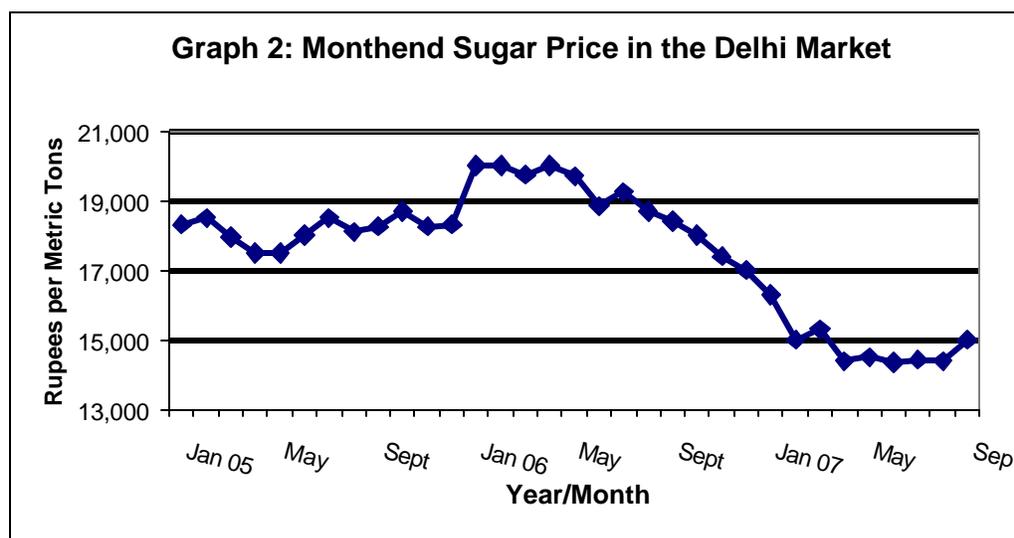
Industry sources report that the central government is also exploring a special financial package for the sugar industry, which may include debt restructuring and soft loans. The central government efforts are also being complemented by several state governments that have announced tax relief measures and financial subsidies to enhance the financial condition of sugar mills and enable them to make cane price payments to the farmers.

For information on the production policy, please refer the Gain report '[Sugar Annual 2007 IN7035](#)'.

Consumption

Post's MY 2007/08 consumption forecast is revised higher to 23.0 million tons on increased demand due to expected low sugar prices. Based on the latest monthly consumption figures from the Indian Sugar Mills Association and industry reports, MY 2006/07 consumption is estimated marginally higher at 21.5 million tons and MY 2005/06 consumption marginally lower at 19.8 million tons.

Prices



Sugar prices during MY 2006/07 were on the downward from the beginning of the season, with the prices reaching a bottom in June. Prices in recent months have somewhat stabilized, with current prices in the major markets ranging between \$332 to \$378 per metric ton, nearly 18 to 20 percent lower than last year's level. Prices are expected to remain under downward pressure during most of the upcoming MY 2007/08 on bumper supplies, both in domestic and international markets.

Stocks

Post's estimate for MY 2006/07 ending stocks is revised higher to a record 11.5 million tons, more than double the normal acceptable level (3-months consumption/5.4 million tons). Forecast MY 2007/08 ending stocks are raised higher to 17.3 million tons, more three times than the normal levels.

Sugar mills hold almost all sugar stocks⁷. The industry is facing a severe challenge in managing these 'abnormally high' sugar stocks as the total storage capacity available with the sugar industry is estimated at about 15.0 million tons. Industry sources report that sugar mills will be short of storage space for sugar produced in the upcoming season from the month of January/February, 2008 onwards. The mills will have to make makeshift arrangements for storing sugar in temporary structures or in the open under canvas covers, which may lead to quality deterioration and other losses.

Trade

Large carryover stocks, forecast record production, and government export incentives should lead India to be an aggressive sugar exporter during MY 2007/08. Consequently, Post's MY 2007/08 export forecast is raised higher to 3.0 million tons, a record. Based on the latest shipping data from market sources, Post's MY 2006/07 export estimate has been revised higher to 1.8 million tons. There are no prospects for any sugar imports during MY 2007/08 due to the current price parity.

Despite large sugar surplus, India's export prospects are tempered by low international sugar prices, high costs of production⁸, strong appreciation in the value of the Indian rupee⁹ and sugar quality issues¹⁰. Market sources report that total sugar contracted for exports as of August 23, 2007, is estimated at 1.77 million tons for shipment through September 2007. Most of the exports are destined for neighboring markets (Afghanistan, Bangladesh, Sri Lanka), the Middle East and African countries, at prices ranging from \$270 to \$290 per metric ton FOB.

Market sources are optimistic about export prospects in the upcoming 2007/08 season on expected stabilization of the value of the India rupee and expected low domestic prices. For the first time, the sugar industry is planning to export raw sugar to neighboring refiners to address the quality concerns of the Indian white sugar. Most of Indian sugar is being exported from Kandla, Mumbai and Chennai, which together can handle about 200,000 tons of sugar every month. Industry sources do not foresee any problems at port as several new

⁷ Sale of free sugar and levy sugar is administered by the government through quarterly (3-month) quotas, based on the expected demand. Stocking of sugar by traders/manufacturers is not allowed.

⁸ India's cost of production sugar is higher than major exporting countries due to high cane prices (government administered).

⁹ The value of India rupee vis-à-vis dollar appreciated from Rs. 45.45 in September 2006 to the current level of Rs. 36.45.

¹⁰ India exports mainly white sugar that face quality problems in several markets (low ICUMSA, cleanliness, use of chemicals, etc).

smaller ports have come up across the country, which can handle sugar exports during the peak season.

Trade Policy

The GOI lifted the export ban on sugar on January 23, 2007. On April 19, 2007, the central government announced an export incentive of Rs. 1,350 (\$34) per ton for sugar mills in the coastal states (Maharashtra, Andhra, Tamil Nadu, Gujarat) and Rs. 1,450 (\$36) per ton for non-coastal states (U.P., Punjab, Haryana, etc). The incentive is a transport subsidy (both internal and ocean freight) for sugar exported during April 19, 2007 to April 18, 2008 to be paid from the Sugar Development Fund (SDF). The government maintains that the transport subsidy is WTO compatible as is paid from the SDF collected as a levy from the sugar industry (see IN7035 Section III).

Sugar for exports is exempted from local taxes and fees imposed on domestic sugar which amounts to Rs. 850 (\$21.4) per ton. Sugar exporters also get a duty drawback benefit¹¹ on the export value (FOB) for imports of goods under an open general license. In addition to the benefits provided by the central government, the Maharashtra state government announced an additional transport subsidy of Rs. 1000 (\$ 25.5) per ton for sugar exported by sugar mills in the state during the MY 2006/07 up to a maximum of 1.0 million tons. Industry sources report that Maharashtra mills have already exported more than 1.0 million tons, and hope that the state government will further extend the transport subsidy for future exports through MY 2007/08.

Ethanol Program

India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry. The government launched the second stage of the ethanol blend program (EBP) targeting five percent blending of petrol with ethanol, if commercially viable, across 20 states and four Union territories with effect from November 2006. However, petrol marketing companies are finding it difficult to implement the program due to high prices demanded by the sugar industry for ethanol (Rs.26-28/liter vs. offer price of Rs.21.50/liter) and the high taxes and levies in several states. Against a target of 560 million liters of ethanol for the program during MY 2006/07, ethanol supply through July 2007 is estimated at a paltry 120 million liters. Nevertheless, industry sources report that the government is planning to make 5 percent blending of ethanol in the petrol mandatory and encourage oil marketing companies to raise the blend ratio from 5 percent to 10 percent beginning in October 1, 2008.

For more on India's ethanol program, please refer Gain report '[India Biofuel Annual IN7047](#)'.

¹¹ 5 percent of export value for white sugar and 4 percent of export value for raw sugar.

SECTION II: OTHER 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 | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | |
| Market Year Begin | | 10/2005 | 10/2005 | | 10/2006 | 10/2006 | | 10/2007 | 10/2007 | |
| Area Planted | 4140 | 4200 | 4200 | 4400 | 4500 | 4850 | 0 | 4650 | 5100 | |
| Area Harvested | 4140 | 4200 | 4200 | 4400 | 4500 | 4850 | 0 | 4650 | 5100 | |
| Production | 266880 | 281170 | 281170 | 288000 | 315530 | 345300 | 0 | 325000 | 360000 | |
| Total Supply | 266880 | 281170 | 281170 | 288000 | 315530 | 345300 | 0 | 325000 | 360000 | |
| Utilization for Sugar | 188500 | 197170 | 197170 | 203000 | 257500 | 285500 | 0 | 267000 | 297000 | |
| Utilizatr for Alcohol | 78380 | 84000 | 84000 | 85000 | 58030 | 59800 | 0 | 58000 | 63000 | |
| Total Utilization | 266880 | 281170 | 281170 | 288000 | 315530 | 345300 | 0 | 325000 | 360000 | |

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 | 4.85 | 71.20 | 345.31 | 278.00 | 7.50 | 27.81 | 32.00 |
| 2007/08(F) | 5.10 | 70.59 | 360.00 | 290.00 | 7.00 | 33.00 | 30.00 |

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

Table 4: Mills Sugar Production By State

(Figures in 100,000 tons, crystal weight basis)

| Mill Sugar Production by State in India | | | |
|--|---------------|----------------|-----------------|
| (in 100,000 MT crystal weight basis) | | | |
| State | 2005/6 | 2006/7 | 2007/08 |
| | Final | Revised | Forecast |
| Andhra Pradesh | 12.4 | 16.8 | 17.0 |
| Bihar | 4.2 | 4.5 | 4.5 |
| Gujarat | 11.7 | 14.2 | 14.0 |
| Haryana | 4.1 | 6.5 | 7.0 |
| Karnataka | 19.4 | 26.5 | 27.0 |
| Maharashtra | 52.0 | 90.8 | 98.0 |
| Punjab | 3.4 | 4.9 | 5.0 |
| Tamil Nadu | 21.4 | 24.5 | 25.0 |
| Uttar Pradesh | 57.8 | 85.3 | 87.0 |
| Others | 6.3 | 8.1 | 8.5 |
| Total | 192.6 | 282.0 | 293.0 |

Note: Khandsari sugar not included as statewise breakup is not available.

Source:

1. 2005/06 and 2006/07; Indian Sugar Mills Association
2. 2007/08; Post Estimates

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

| Prices Table | | | | |
|------------------|--------------------|---------|-------------|----------|
| | | | | |
| Country | India | | | |
| Commodity | Sugar, Centrifugal | | | |
| Prices in | Rupees | per uom | Metric Tons | |
| | | | | |
| Year | 2005 | 2006 | 2007 | % Change |
| Jan | 18300 | 20000 | 16300 | -18.5 |
| Feb | 18500 | 20000 | 15000 | -25.0 |
| Mar | 17950 | 19750 | 15300 | -22.5 |
| Apr | 17500 | 20000 | 14400 | -28.0 |
| May | 17500 | 19700 | 14500 | -26.4 |
| Jun | 18000 | 18850 | 14350 | -23.9 |
| Jul | 18500 | 19250 | 14420 | -25.1 |
| Aug | 18100 | 18700 | 14400 | -23.0 |
| Sep | 18250 | 18400 | 15000 | -18.5 |
| Oct | 18700 | 18000 | | |
| Nov | 18250 | 17400 | | |
| Dec | 18300 | 17000 | | |
| | | | | |
| Exchange Rate | 44.93* | 44.27** | 39.65*** | |

Note: Exchange Rates: * - for Indian Fiscal Year (IFY) 2005/06 (April/March)
 ** - for IFY 2006/07
 *** - As on September 24, 2007.

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

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

| Prices Table | | | | |
|------------------|-----------------------------|---------|-------------|----------|
| | | | | |
| Country | India | | | |
| Commodity | Non-Centrifugal Sugar (Gur) | | | |
| Prices in | Rupees | per uom | Metric Tons | |
| | | | | |
| Year | 2005 | 2006 | 2007 | % Change |
| Jan | 14750 | 16500 | 13000 | -21.2 |
| Feb | 14000 | 16000 | 12500 | -21.9 |
| Mar | 13700 | 15000 | 13500 | -10.0 |
| Apr | 15250 | 16500 | 14000 | -15.2 |
| May | 16500 | 16750 | 15000 | -10.4 |
| Jun | 17000 | 17000 | 16500 | -2.9 |
| Jul | 18250 | 16000 | 15750 | -1.6 |
| Aug | 18250 | 15600 | 15250 | -2.2 |
| Sep | 21000 | 16500 | 13750 | -16.7 |
| Oct | 13000 | 16000 | | |
| Nov | 16000 | 14000 | | |
| Dec | 16000 | 13500 | | |
| | | | | |
| Exchange Rate | 44.93* | 44.27** | 39.65*** | |

Note: Exchange Rates: * - for IFY 2005/06
 ** - for IFY 2006/07
 *** - As on September 24, 2007.

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

Table 7: Commodity, Sugarcane, Price Table

| 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.

September 24, 2007 1 US\$ = 39.65 Indian Rs.

Source: Indian Sugar Mills Association

SECTION III: OTHER RELEVANT REPORTS

[Sugar Annual 2007 \(IN7035\).](#)

[India Biofuel Annual \(IN7047\)](#)