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Report Highlights:
India's MY 2008/09 (October/September) sugar production is forecast to decline by 16 percent to 24.8 million tons (raw value basis) on forecast low sugarcane production. Despite large carryover stocks and strong international prices, exports are forecast at only 1.3 million tons due to the forecast tight supplies and expected withdrawal of export subsidies.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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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

PSD Table									
Country	India								
Commodity	Sugar, Centrifugal						(1000 MT)		
	2007	Revised		2008	Estimate		2009	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		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Beginning Stocks	4175	4175	4175	11515	11515	10162	17295	17295	12192
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	30640	30640	30780	31780	31780	28930	0	0	24830
Total Sugar Production	30640	30640	30780	31780	31780	28930	0	0	24830
Raw Imports	0	0	0	0	0	0	0	0	0
Refined Imp. (Raw Val)	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	34815	34815	34955	43295	43295	39092	17295	17295	37022
Raw Exports	0	0	0	0	0	2000	0	0	700
Refined Exp. (Raw Val)	1800	1800	2680	3000	3000	1700	0	0	600
Total Exports	1800	1800	2680	3000	3000	3700	0	0	1300
Human Dom. Consumption	21500	21500	22113	23000	23000	23200	0	0	24300
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	21500	21500	22113	23000	23000	23200	0	0	24300
Ending Stocks	11515	11515	10162	17295	17295	12192	0	0	11422
Total Distribution	34815	34815	34955	43295	43295	39092	0	0	37022

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 total centrifugal sugar production in marketing year (MY) 2008/09 is forecast at 24.8 million tons (including 435,000 tons of *khandsari* sugar[1]); down 16 percent from MY 2007/08 estimate on expected tight sugarcane supplies. *Gur*[2] production is forecast lower at 3.3 million tons compared to 4.3 million tons last year. Delayed cane payments to farmers, relatively lower cane prices vis-à-vis last year, and the relatively strong price of competing food crops (rice, wheat, maize, pulses) are expected to lower the cane planting for MY 2008/09 by 10 percent to 4.6 million hectares. Yields are expected to be lower than last

[1] *Khandsari* sugar: a low recovery centrifugal sugar prepared by open-pan evaporation method.
[2] *Gur:* a crude non-centrifugal sugar in lump form produced by open pan evaporation method.

year due to a higher share of return crop[3]. Assuming normal weather conditions, MY 2008/09 sugar production is forecast lower at 290 million tons (vs. 340 million tons in 2007/08).

Post's MY 2007/08 centrifugal sugar production estimate is revised lower to 28.9 million tons on the lower than anticipated sugarcane crop and increased diversion of cane for production of alternative sweeteners, namely *khandsari and gur*. Inadequate monsoon rains in northern states and a lack of winter rains (December/January) in major cane producing states adversely affected crop yields resulting in the lower than anticipated cane production. Due to disputes on cane payment arrears from the previous season and cane pricing for the current season in several states, cane crushing by sugar mills was delayed by 25-30 days starting in late November. During this period, farmers diverted a significant portion of their cane crop to alternative sweeteners to meet their cash requirements and clear their fields for planting wheat (Nov/Dec) due to strong wheat prices.

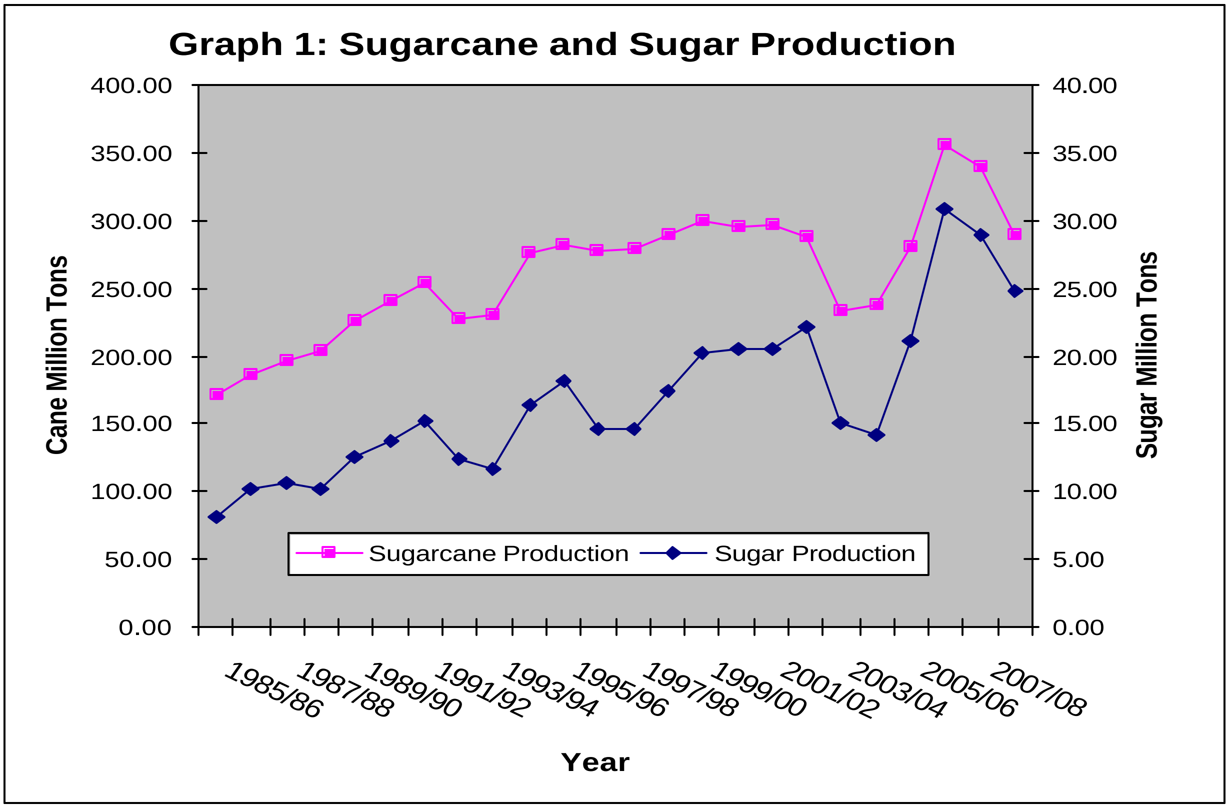
Mill sugar production for MY 2007/08 through February 2008 is estimated at 16.98 million tons compared to 16.97 million tons for the corresponding period of MY 2006/07. Industry sources expect cane crushing by mills to decline sharply from April onwards due to lack of availability of cane. Due to the poor financial conditions of mills, cane price payments to farmers have been delayed by 2-3 months against the normal lag period of 2-3 weeks of the cane payment schedule. Mill crushing is expected to end by end of April, 2-3 weeks earlier than normal, in major sugar producing states. Consequently, MY 2007/08 sugar production is revised lower to 28.9 million tons against the earlier estimate of 31.8 million tons.

Post's estimates for MY 2006/07 sugar and sugarcane production have been revised marginally higher based on final estimates from the Indian Sugar Mills Association and the Ministry of Agriculture, respectively.

[3] The sugarcane crop is normally taken for 2-3 year in India. Newly planted crop yields are 10-15 percent higher than the subsequent return crops. During MY 2008/09, the share of newly planted crop is expected to decline to 40 percent compared to the normal share of 50 percent.

Production Cycle on The Decline

Sugarcane and sugar production in India typically follows a 6 to 8 year cycle, wherein 3 to 4 years of higher production are followed by 2 to 3 years of lower production.



Two consecutive years of record sugar production (MY 2005/06 and 2006/07) resulted in abnormally high stocks and low sugar prices, leading to a financial crisis in the sugar industry. This crisis has manifested itself in delays in cane price payments to farmers with the cane arrears ballooning to Rs. 25.5 billion ($ 638 million) by the end of MY 2006/07. Although the government has initiated a series of fiscal relief measures (see Section III), they have been inadequate in mitigating the current situation as mills continue to be under pressure to clear the cane price arrears.

Market sources report that farmers were forced to sell their cane to *Gur* producers at very low prices (Rs. 600-700 per ton vs. Rs. 900-1100 ton last year) during the early part of the season (Oct-Nov). With most of the mills only making partial payment to the farmers, cane price realizations during the current season has been considerably lower than previous years (MY 2005/06 and 2006/07). With the prices of food grains (wheat, rice, maize, pulses) being relatively strong, planting intentions are not favorable for sugarcane planting vis-à-vis alterative crop rotations of food grains. Therefore, sugarcane area in MY 2008/09 is expected to decline to 4.6 million hectare resulting in tight cane supplies in the upcoming season. Consequently, MY 2008/09 centrifugal sugar production will decline further from 28.9 million tons in MY 2007/08 to 24.8 million tons in MY 2008/09 from a record 30.6 million tons in MY 2006/07.

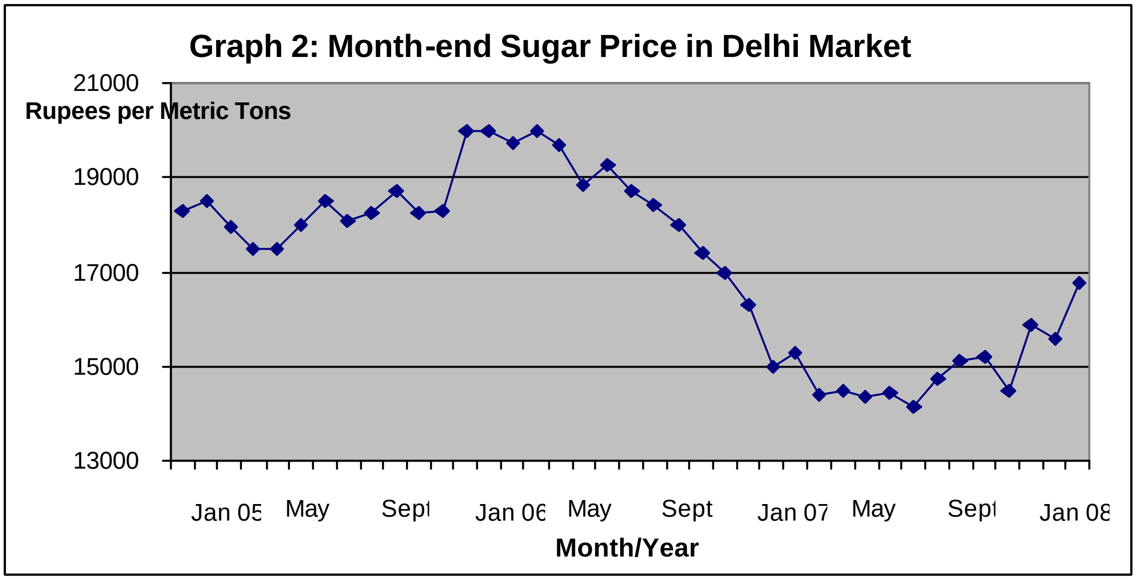
Consumption

Sugar consumption in recent years has grown steadily, fueled by strong economic growth (8-9 percent per annum in recent years), steady population growth (1.8 percent per annum), sufficient domestic supplies and low sugar prices. Consumption in MY 2008/09 is forecast to increase to 24.3 million tons on sufficient availability and continued strong demand. MY 2006/07 and 2007/08 consumption is revised marginally higher to 22.1 and 23.2 million tons, respectively, based on the latest figures compiled by the Indian Sugar Mills Association.

Bulk consumers such as bakeries, makers of candy and local sweets, and soft-drink manufacturers account for about 60 percent of the milled sugar demand. Most of the *khandsari* sugar is consumed by local sweets manufacturers. *Gur* is mostly consumed in rural areas for household consumption.

Prices and stocks

Sugar prices have recovered since the beginning of the MY 2007/08 after a steady decline for most of MY 2006/07 (see Table 5),



Current sugar prices in major domestic wholesale markets range from $387 to $425 per ton, nearly 10 percent higher than last year's level. Prices are expected to gain in the coming months, and are expected to remain firm during MY 2008/09, although international prices and government policy measures could impact domestic price movements. The government is under tremendous pressure to contain inflation, and any significant increase in sugar prices may force the government to initiate price control measures[4].

Despite the slowdown in domestic production, MY 2008/09 ending stocks are forecast at 11.4 million tons compared to 12.2 million tons for MY 2007/08 ending stocks, both well above the normal acceptable stock levels of the three-month consumption requirement.

[4] In other food commodities, government has taken some price control measures like imposing export bans, duty free imports, anti-hoarding measures, etc.

Trade

Large carry-over stocks and expected strong international sugar prices should allow India to be in the export market in the early months of the upcoming 2008/09 marketing year. However, the high cost of production of sugar and expected withdrawal of the transport subsidy (in October 2008) will limit Indian sugar export opportunities to neighboring markets. Sugar exports in MY 2008/09 are forecast at 1.3 million tons, about 2.4 tons lower compared to last year. The current price parity between domestic and international prices and high import duties precludes any possibility of sugar imports in the near future.

Post's MY 2007/08 export estimate is revised higher to 3.7 million tons on strong export demand, and successful moves by the industry to export raw sugar whereas in the past exports were primarily crystal sugar that faced quality problems in the international market. Post's MY 2006/07 sugar exports have been revised higher to 2.7 million tons based on the official trade figures (See Table 8).

Trade sources estimate India's sugar exports during the first half of MY 2007/08 (Oct 2007-March 2008) at 2.0 million metric tons, mostly to U.A.E (492,000 tons), Sri Lanka (198,000 tons), Malaysia (184,000 tons), Bangladesh (172,000 tons), Indonesia (154,000 tons), China (142,000 tons), Iran (115,000 tons), Somalia (112,000 tons) and Yemen (103,000 tons). Industry sources report that of the 2.0 million tons sugar exported, raw sugar accounted for 55-60 percent. Export prices during the marketing year ranged from $250 to $355 per ton FOB, and the current prices are around $340 per ton FOB. Exports are expected to remain steady in the coming months and will start tapering off from the beginning of the next marketing year when the government's transport subsidy is no longer operational.

Trade Policy

On April 19, 2007, the central government announced an export incentive of Rs. 1,350 ($34.20) per ton for sugar mills in the coastal states (Maharashtra, Andhra, Tamil Nadu, Gujarat) and Rs. 1,450 ($36.70) 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). Recently, the GOI further extended the transport subsidy to sugar exported till September 30, 2008.

Additionally, the sugar for exports is exempted from local taxes and fees imposed on domestic sugar which amounts to Rs. 950 ($24) per ton. Sugar exporters also receive a duty drawback benefit[5] 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 ($25.50) per ton for sugar exported by sugar mills in the state in 2006/07 MY which was further extended to the ongoing MY 2007/08. Industry sources report that the transport subsidies are not likely to be further extended in MY 2008/09 due to an expected shortfall in domestic production.

The import duty on sugar (ITC HS Code 1701) is 60 percent advalorem on the CIF value, plus a countervailing duty (CVD) of Rs. 950 ($24) per ton. The CVD is in lieu of local taxes and fees imposed on domestic sugar (excise duty of Rs. 710 ($17.95) and a cess of Rs. 240 ($6.05) 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

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

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. Imported sugar both under ALS and otherwise is also subject to various non-tariff barriers such as the levy sugar obligation and the market quota release system, 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)		
	2007	Revised		2008	Estimate		2009	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		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Planted	4850	4850	4850	5100	5100	5100	0	0	4600
Area Harvested	4850	4850	4850	5100	5100	5100	0	0	4600
Production	345300	345300	355500	360000	360000	340000	0	0	290000
Total Supply	345300	345300	355500	360000	360000	340000	0	0	290000
Utilization for Sugar	285500	285500	278880	297000	297000	262000	0	0	220000
Utilizatn for Alcohol	59800	59800	76620	63000	63000	78000	0	0	70000
Total Utilization	345300	345300	355500	360000	360000	340000	0	0	290000

Note: Virtually no cane is utilized directly 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

Cane	AREA/1	YIELD/1	PRODUCTION/1	SUGAR/2	*KHANDSARI*/3	*GUR* /3	SEED/FEED/Etc/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	4.86	73.15	355.62	278.87	7.50	37.15	32.00
2007/08 (E)	5.10	66.68	340.00	262.00	7.50	42.50	28.00
2008/09 (F)	4.60	63.04	290.00	220.00	7.00	33.00	30.00

Note: Figures for 2007/08 and 2008/09 are FAS estimates.
Source: /1: Directorate of Economic and Statistics, Ministry of Agriculture
/2: Indian Sugar Mills Association except 2007/08 & 2008/09
/3: FAS/New Delhi estimate

Table 4: Mill Sugar Production by State

(Figures in 100,000 tons crystal weight basis)

State	2005/06	2006/07	2007/08	2008/09
	Final	Final	Estimate	Forecast
Andhra Pradesh	12.4	16.8	15.5	13.0
Bihar	4.2	4.5	4.0	3.5
Gujarat	11.7	14.2	15.0	14.0
Haryana	4.1	6.5	6.0	5.0
Karnataka	19.4	26.6	28.0	22.0
Maharashtra	52.0	91.0	87.0	70.0
Punjab	3.4	4.9	4.0	3.5
Tamil Nadu	21.4	25.4	24.0	21.0
Uttar Pradesh	57.8	84.8	75.0	68.0
Others	6.3	8.7	7.5	8.0
Total	192.64	283.28	266.00	228.00

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

Source: /1: MY 2005/06 and 2006/07- Indian Sugar Mills Association
/2: MY 2007/08 and 2008/09– FAS/New Delhi Estimate

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

Prices Table				
Country	**India**			
Commodity	**Centrifugal Sugar (crystal weight basis)**			
Prices in	**Rupees**		**per uom**	**Metric Tons**
Year	**2006**	**2007**	**2008**	**% Change**
Jan	20000	16300	15870	-3%
Feb	20000	15000	15570	4%
Mar	19750	15300	16750	9%
Apr	20000	14400		
May	19700	14500		
Jun	18850	14350		
Jul	19250	14420		
Aug	18700	14150		
Sep	18400	14750		
Oct	18000	15100		
Nov	17400	15200		
Dec	17000	14500		
Exchange Rate	42.25	40.00	39.80	
Local Currency/US $				

Note: Exchange rate for 2006 and 2007 refers to Indian Fiscal Years 2006/07 (April/March) and IFY 2007/08 respectively. Exchange rate of 2008 is as on April 7, 2008.

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)

Prices Table				
Country	**India**			
Commodity	**Non-centrifugal Sugar *(Gur)***			
Prices in	**Rupees**		**per uom**	**Metric Tons**
Year	**2006**	**2007**	**2008**	**% Change**
Jan	16500	13000	11250	-13%
Feb	16000	12500	12750	2%
Mar	15000	13500	12400	-8%
Apr	16500	14000		
May	16750	15000		
Jun	17000	16500		
Jul	16000	16000		
Aug	15600	15500		
Sep	16500	14250		
Oct	16000	12500		
Nov	14000	11000		
Dec	13500	10750		
Exchange Rate	42.25	40.00	39.80	
Local Currency/US $				

Note: Exchange rate for 2006 and 2007 refers to Indian Fiscal Years 2006/07 (April/March) and IFY 2007/08 respectively. Exchange rate of 2008 is as on April 7, 2008.

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	2007/08	2006/07	2005/06
Minimum Support Price (MSP)[a]	811.8	802.5	795
State Advised Price for			
Uttar Pradesh	1150-1220[c]	1250-1300	1150-1200[b]
Haryana/Punjab	1100-1300	1260-1320	1110-1230
Southern States	850-1050	1025-1160	1000-1250

Notes:
a): The MSP for 2005/06, 2006/07 and 2007/08 linked to a basic recovery rate of 9.0 percent. For every 0.1 % increase in recovery over the 9.0% basic recovery rate, an additional premium of Rs. 8.8, Rs. 9.0/mt and Rs. 9.0/mt, respectively.
b): Private sugar mills offered an incentive payment of Rs. 130/mt to the growers January to May 2006.
c): The state advised price was unchanged at last year's level, but the private sugar mills challenged the state government in court. The court issued an interim order that the sugar mills pay Rs. 1150-1220 per ton untill a final decision on the state advised price is reached.

Exchange Rate:
Indian Fiscal Year (IFY) 2005/06 (April/March) 1 US$= 44.27 Indian Rs.
IFY 2006/07 (April/March) 1 US$= 42.25 Indian Rs.
IFY 2007/08 (April/March) 1 US$= 40.00 Indian Rs.

Source: Indian Sugar Mills Association

Table 8: Export Trade matrix: Centrifugal Sugar
(Quantities in actual weight basis)

Country	India		
Commodity	Sugar, Centrifugal		
Time Period	Oct-Sept	Units:	Metric Tons
Exports for:	**2007**		**2008**
U.S.	**19371**	U.S.	**160**
Others		Others	
YEMEN REP	**347591**	SRI LANKA	102867
BANGLADESH PR	**306102**	YEMEN REP	73961
SRI LANKA	**296848**	UAE	51959
PAKISTAN	**245394**	BANGLADESH PR	51010
INDONESIA	**174764**	CHINA P RP	50686
SOMALIA	**146337**	MALAYSIA	42220
CHINA P RP	**108879**	SOMALIA	41168
UAE	**93670**	PAKISTAN	32716
DJIBOUTI	**93136**	INDONESIA	20798
SYRIA	**80342**	SINGAPORE	10882
Total for Others	**1893063**		**478267**
Others not Listed	**592566**		**127772**
Grand Total	**2505000**		**606199**

Note: Export figures for 2008 refer to exports in October-November 2007.

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

SECTION III: NARRATIVE ON PRODUCTION POLICY

Government Relief Measures for the Sugar Industry

With the sugar industry facing a severe financial crisis resulting in delays in cane price payments to farmers from MY 2006/07 onwards, the GOI initiated several fiscal relief measures to enable the mills to pay farmers. The central government efforts are 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.

On April 20, 2007, the central government announced a buffer stock level of 2.0 million tons of sugar to be maintained for the period of May 1, 2007 through April 30, 2008. Subsequently, on August 1, 2007, the government announced an additional buffer stock level of 3.0 million tons to be held 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).

The GOI levies a fee of Rs. 240[6] ($6.08) per ton of sugar produced by mills to raise a Sugarcane Development Fund (SDF), which is used to support research, extension, and technological improvement 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. In March 2008, the GOI enacted the Sugar Development Fund (Amendment) Bill, 2008 that will enable the government to implement a financial package that will include debt restructuring and soft loans to the sugar mills facing difficulties in paying sugarcane farmers. 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 (50 cents) per metric ton for the transportation of sugarcane from fields to sugar mills. The state has also announced an export subsidy of Rs. 1000 ($25.0) 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. Earlier in MY 2006/07, Maharashtra had also provided a late season cane crushing subsidy to sugar mills varying from Rs. 65 - 195 ($1.65 to $4.90) per ton cane to encourage mills to crush cane after April 16. The Maharashtra government also paid a compensation of Rs. 25,000 ($631) per hectare to farmers for about 52,000 hectares of cane that remained uncrushed. Reports suggest that the Maharashtra government will extend the late season crushing incentive and the crop compensation subsidy for the ongoing MY 2007/08 season.

Sugarcane Production and Pricing

The Government of India (GOI) supports research, development and transfer of new varieties and improved production technologies to growers in its endeavor to raise cane yields and sugar recovery rates. The Indian Council of Agricultural Research (ICAR) conducts

[6] On February 25, 2008, the GOI raised the levy for the SDF from Rs. 150 per ton to Rs. 240 per ton effective March 1, 2008.

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 the sugar industry and cane growers. Several state governments further augment the MSP, typically by 20-25 percent, due to political compulsions rather than rational market pricing. Sugar mills are required to pay the "state advised price (SAP)" to sugarcane farmers irrespective of the market price of sugar.

In the later half of MY 2006/07, sugar prices declined to a level wherein the sugar mills were barely able to cover the cost of sugarcane at the SAP in Uttar Pradesh. When the state government declined to lower the SAP for the MY 2007/08 season, the sugar mills petitioned the Court against the SAP. In an interim order, the Court ordered the mills to pay cane prices linked to the MSP (see table 7) until a final decision on the validity of SAP is taken.

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 administered by the government through periodic quotas[7], 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.

Ethanol Program

India's ethanol program is based on producing ethanol from sugar 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 limited 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 resulting from higher cane production.

In September 2006, the GOI 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 faced difficulties in implementing the program due to higher prices demand by local ethanol suppliers and issues of high taxes and levies in several states. The oil marketing companies floated tenders and have agreed to purchase ethanol from the sugar industry at prices at Rs. 21.5 per liter.

The slowdown in MY 2007/08 sugar production and consequent low molasses production has raised the molasses prices to levels at which the sugar industry can not supply ethanol at the

[7] Currently, the central government announces a three month quota allocation for free sale and levy sugar with specific allocation to each sugar mill.

pre-negotiated prices (Rs. 21.5 per liter). Consequently, the ethanol blending program is running only at about 30 to 35 percent of the target. Nevertheless, 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.

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.

For more on India's ethanol program, please refer Gain report 'India Biofuel Annual IN7047'.