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Report Highlights:
After two consecutive low-production years, India's 2005/06 sugar production is forecast to recover to 18.3 million tons (raw value basis) on forecast higher sugarcane production. Sugar imports are forecast lower at 1.0 million tons, on improved domestic supplies.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I – SITUATION AND OUTLOOK

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

Production

After two consecutive low-production years, Indian sugar production is set to recover in marketing year (MY) 2005/06. Total centrifugal sugar production in MY 2005/06 is forecast at 18.3 million tons, including 683,000 tons of khandsari sugar[1], with total production jumping 33 percent over the 2004/05 estimate due to forecast higher cane supplies. Gur[2] production is forecast at 7.5 million tons (not included in production figure above).

Strong sugar prices during MY 2004/05, the resultant higher cane prices (see table 7), and timely payment by the mills encouraged farmers to plant more cane in the MY 2005/06 season. Planting in the states of Maharashtra, Gujarat, and Karnataka, all of which had been reeling under drought-like conditions during the previous two years, is expected to recover on good 2004 monsoon rains. Consequently, MY 2005/06 cane area is forecast to increase to 4.2 million hectares, from 3.8 million hectares in MY 2004/05. Due to sufficient irrigation availability in the 2004 monsoon-augmented reservoirs, the cane yields are also expected to be higher than last year. Assuming a normal 2005 monsoon and normal weather conditions during the season, MY 2005/06 sugarcane production is forecast at 280 million tons, an increase of 19 percent over last year.

Post's 2004/05 sugar production estimate has been raised marginally to 13.8 million tons on higher than anticipated cane supply in Maharashtra. While Maharashtra and the adjoining states of Karnataka and Gujarat suffered under the wooly aphid (sucking pest) for the second consecutive year, the losses were less severe than last year, as various control measures were successfully adopted. Mills started crushing 2-3 weeks earlier than normal in the second week of October, and major crushing is expected to be over by end-April (vs. mid-May last year). Producers of the alternative sweeteners gur and khandsari competed with the mills for cane on strong sugar/gur prices (see tables 5 & 6).

The two consecutive years of low sugar production, and the consequent increase in sugar prices, have helped the Indian sugar industry to ameliorate the financial crisis brought on by four consecutive years (1999/2000 to 2002/03) of record production. Market sources believe that the recent financial relief measures extended by the government of India (GOI), and the expected firm sugar prices during MY 2005/06, will further support the recovery of the Indian sugar industry.

Consumption

Owing to improved domestic supplies, consumption in MY 2005/06 is forecast at 19.3 million tons, nearly 3 percent over last year. Based on the figures provided by the Indian Sugar Mills Association (ISMA), MY 2003/04 consumption has been revised lower to 18.8 million tons. Due to the significant increase in sugar prices (see Table 5), and the resultant depressed demand, consumption in MY 2004/05 was also revised lower to 18.8 million tons. The existing prices of sugar in major markets range between $395 to $430 per ton. Despite improved domestic supplies, market prices are expected to remain firm during MY 2005/06.

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

Trade

Due to improved domestic supplies, imports of sugar in MY 2005/06 are forecast lower at 1.0 million tons; all of it is raw sugar imported by the mills for processing into refined sugar under the 'Advanced Licensing Scheme (ALS)' (see Trade Policy section). The high import duties and other non-tariff barriers preclude imports of refined sugar by traders. With the domestic prices forecast to remain firm and well above international prices, MY 2005/06 exports are forecast at 20,000 tons (quota exports to the United States and the European Union).

Indian mills found it advantageous to import raw sugar to process and sell in the domestic market, as domestic sugar prices are well above the international prices, even after accounting for processing, transportation, and distribution costs. Trade sources report that about 1.35 million tons of raw sugar was imported from October 2004 through March 2005, at prices ranging from $200 to $255 per ton CIF at Indian port, mostly from Brazil and South Africa. With the recent strengthening of international prices, imports are expected to slow as compared to the first half of the marketing year, and MY 2004/05 imports are expected to reach 2.0 million tons.

Trade Policy

India imposes an ad valorem duty of 60 percent on the CIF value, plus a countervailing duty (CVD) of rs. 850 ($19.50) per ton, on 'general' imports of raw and refined sugar (tariff code 1701). The CVD is in lieu of the local taxes and fees on the domestic sugar (central excise tax of rs. 340 ($7.80) per ton, additional excise duty of rs. 370 ($8.50) per ton and cess of rs. 140 ($3.22) per ton. The imported sugar is also subject to non-tariff barriers like the 'levy sugar obligation', the market quota release system, and other local regulations applicable to domestic sugar (see Section III). Under the ALS, mills are allowed to import raw sugar at zero duty against a future export commitment. The mills can refine the imported raw sugar and sell it in the domestic market, but must re-export 1.00 ton of refined sugar for every 1.05 ton of raw sugar within a specified period.

To remedy the current sugar shortage, the GOI initiated measures to support imports of raw sugar by the mills against future export commitments. In September 2004, the GOI extended the period within which to export from one to two years. There are reports that the GOI plans to further increase the export commitment period to three years. With Indian domestic prices normally well above the international prices, market sources are not optimistic about the chances that Indian mills will meet their export commitments. Although the GOI insists that the export commitments will not be waived, industry sources expect some relief measures for mills with export commitments in MY 2005/06, as the supply situation is expected to remain comparatively tight. With improved domestic supplies, the GOI may also tighten norms for imports of raw sugar under the ALS.

SECTION II – STATISTICAL TABLES

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

PSD Table							
Country:	**India**						
Commodity:			**Sugar**				
		2004		**2005**		**2006**	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		**Oct-03**		**Oct-04**		**Oct-05**	(MONTH/YEAR)
Beginning Stocks	12430	12430	8500	9100	0	6050	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	15450	15180	13590	13770	0	18340	(1000 MT)
TOTAL Sugar Production	15450	15180	13590	13770	0	18340	(1000 MT)
Raw Imports	500	550	1800	2000	0	1000	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	500	550	1800	2000	0	1000	(1000 MT)
TOTAL SUPPLY	**28380**	**28160**	**23890**	**24870**	**0**	**25390**	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	300	250	20	20	0	20	(1000 MT)
TOTAL EXPORTS	300	250	20	20	0	20	(1000 MT)
Human Dom. Consumption	19580	18810	19170	18800	0	19300	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	19580	18810	19170	18800	0	19300	(1000 MT)
Ending Stocks	8500	9100	4700	6050	0	6070	(1000 MT)
TOTAL DISTRIBUTION	**28380**	**28160**	**23890**	**24870**	**0**	**25390**	(1000 MT)

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.

Table 2: Commodity, Sugarcane, Centrifugal, PSD

PSD Table							
Country:	India						
Commodity:	Sugar Cane Centrifugal						
		2004		**2005**		**2006**	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		**Oct-03**		**Oct-04**		**Oct-05**	(MONTH/YEAR)
Area Planted	4100	4000	3800	3800	0	4200	(1000 HA)
Area Harvested	4100	4000	3800	3800	0	4200	(1000 HA)
Production	236000	237300	230000	234700	0	280000	(1000 MT)
TOTAL SUPPLY	**236000**	**237300**	**230000**	**234700**	**0**	**280000**	(1000 MT)
Utilization for Sugar	145000	143500	127000	130500	0	171000	(1000 MT)
Utilizatn for Alcohol	91000	93800	103000	104200	0	109000	(1000 MT)
TOTAL UTILIZATION	**236000**	**237300**	**230000**	**234700**	**0**	**280000**	(1000 MT)

Note: Virtually no cane is utilized for alcohol. “Utilization for alcohol” data include 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	68.977	10.481	71.621	20.602
1990/91	3.69	65.39	241.05	122.319	13.175	76.626	28.925
1995/96	4.15	68.02	282.09	174.761	10.000	67.268	30.060
2000/01	4.32	68.49	295.60	176.650	11.000	72.474	35.472
2001/02	4.43	67.74	300.10	180.320	10.500	73.264	36.012
2002/03	4.36	64.58	281.58	194.325	9.500	43.961	33.789
2003/04	4.00	59.40	237.31	132.511	11.000	65.322	28.477
2004/05	3.80	61.76	234.67	119.000	11.500	74.170	30.000
2005/06(3)	4.20	66.67	280.00	160.000	11.000	75.400	33.600

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

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

Mill Sugar Production by State in India				
	(in 100,000 MT crystal weight basis)			
State	2002/03	2003/04	2004/05	2005/06
	Final	Final	Revised Estimate	Forecast
Andhra Pradesh	12.1	8.9	9.0	11.0
Bihar	4.1	2.7	2.8	3.0
Gujarat	12.5	10.7	10.0	11.0
Haryana	6.4	5.8	4.5	5.0
Karnataka	18.7	11.2	9.5	16.0
Maharashtra	62.2	31.8	22.2	44.0
Punjab	5.9	3.9	4.0	5.0
Tamil Nadu	16.4	9.2	9.0	15.0
Uttar Pradesh	56.5	45.5	46.0	49.0
Others	6.7	5.9	5.0	6.0
Total	201.4	135.5	122.0	165.0

Note: Excludes khandsari sugar, as state-breakdown is not available.
Source: /1: MY 2002/03 and 2003/04 – Indian Sugar Mills Association.
/2: MY 2004/05 and 2005/06 – FAS/New Delhi estimates.

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

Prices Table			
Country:	**India**		
Commodity:	**Sugar**		
Year:	2005		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2004	2005	% Change
Jan	13800	18300	32.6%
Feb	14600	18500	26.7%
Mar	14700	18000	22.4%
Apr	15600		
May	15600		
Jun	15750		
Jul	16000		
Aug	15950		
Sep	16500		
Oct	16300		
Nov	16300		
Dec	19250		
Exchange Rate	43.60	(Local currency/US $)	
Date of Quote	3/31/2005	(MM/DD/YY)	

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

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

Commodity:	**Gur**		
Year:	2005		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2004	2005	% Change
Jan	10000	14000	40.0%
Feb	11000	14000	27.3%
Mar	10750	11900	10.7%
Apr	13000		
May	14000		
Jun	157500		
Jul	155000		
Aug	17000		
Sep	16000		
Oct	13750		
Nov	12500		
Dec	13500		
Exchange Rate	43.60	(Local currency/US $)	
Date of Quote	3/31/2005	(MM/DD/YY)	

Source & Contract Terms: Indian Sugar Mills Association, Month-end prices in the wholesale market, Delhi.

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

Price Table: Sugarcane Price- MSP and SAP (Rs./MT)				
PRICE	2004/05	2003/04	2002/03	2001/02
Minimum Support Price (MSP)*	745	730	695	621
State Advised Price for				
Uttar Pradesh	1120-1170	1000-1050	695-950	925-1000
Haryana/Punjab	1100-1200	960-1100	960-1100	960-1100
Southern States	745-1106	730-950	695-957	642-861

Note: Minimum Support Price is linked to a basic recovery rate of 8.5 percent. For every 0.1 percent increase in recovery over the basic rate, an additional premium of rs. 8.8 per ton, rs 8.5 per ton, and rs. 8.3 per ton, and rs. 7.3 per ton were paid in the Market Years 2004/05, 2003/04, 2002/03 and 2001/02, respectively.

Exchange Rate: MY 2001/02 (Oct/Sept) 1 US $ = 48.0 Indian Rs.
MY 2002/03 (Oct/Sept) 1 US $ = 48.5 Indian Rs.
MY 2003/04 (Oct/Sept) 1 US $ = 45.9 Indian Rs.
March 31, 2005 1 US$ = 43.6 Indian Rs.

Source: Industry sources.

Table 8: Commodity, Centrifugal Sugar, Import Trade Matrix

Import Trade Matrix			
Country:	**India**	Units:	Metric Tons
Commodity:	**Sugar**		
Time period:	**Oct-Sep**		
Imports for	**2004**		**2005**
U.S.		U.S.	0
Others		Others	
Brazil	293,000	Brazil	1,299,000
Australia	119,000	South Africa	50,000
South Africa	97,000		
Zimbabwe	23,000		
Mozambique	18,000		
Total for Others	550,000		1,349,000
Others not listed	0		0
Grand Total	550,000		1,349,000

Note: Import figures for 2005 show imports from October 2004 through March 2005.
Source: Industry sources.

SECTION III – NARRATIVE ON PRODUCTION POLICY & DEVELOPMENTS

Sugarcane Production Policy

The GOI works to raise sugar cane yields through the development and the transfer of new varieties and improved production technologies to sugarcane growers. The Indian Council of Agricultural Research conducts research and development at the national level. The state agricultural universities, regional research institutions, and various state agricultural extension departments further support these efforts at the regional and state levels. The state governments also support the sugarcane growers' efforts by providing inputs, particularly irrigation water, at affordable prices.

Cane Pricing

The GOI annually establishes a minimum support price (MSP) for sugarcane. Some of the state governments further augment the MSP, typically by 20-25 percent. The sugar mills have to pay the effective state-advised price (SAP) for the sugarcane. The state governments tend to increase sugarcane prices largely due to the political muscle of the farmers' lobby. The sugar industry has been strongly advocating the rationalization of the cane pricing policy (by linking it with sugar prices in the domestic and world market). In August 2004, the Supreme Court of India ruled against the sugar industry's petition against the state governments' policy of determining the SAP.

Sugar Market Release

Indian sugar mills are required to supply ten percent of their production to the government as 'levy sugar' at below market prices, which is then sold through the government's public distribution system (PDS) to consumers who are below the poverty line. Mills are allowed to sell the balance of their production as 'free sugar' at market prices. However, the sales of free-sale sugar and levy sugar are subject to periodic quotas, so as to maintain price stability in the market. The GOI has been following a policy of liberalization of the sugar marketing system. From January 2000 onward, the proportion of levy sugar was progressively brought down from 40 percent to 10 percent today. Furthermore, in January 2002, the quota-release period was relaxed from a monthly to a quarterly basis, and permission was granted for futures trading in sugar. The GOI plans to completely deregulate the existing sugar marketing system in the near future. At that time, the GOI will procure sugar from the market for subsidized sales through the PDS, and allow any futures trading to take care of stabilizing market prices.

Sugarcane Development Fund (SDF)

The GOI levies a fee of rs. 140 ($3.20) per ton of sugar produced by the domestic mills to fund the SDF. The SDF is used to conduct various research, extension, and technological improvement activities in support of sugarcane and sugar production in India. In recent years, these funds have also been used to support buffer stocks, provide a transport subsidy for exports of sugar, and offer low interest loans for the installation of power generation and ethanol production facilities.

Ethanol Program

In January 2003, the GOI launched a program in nine states for the production of ethanol from molasses and sugarcane juice for fuel purposes, with an annual production target of 320-350 million liters. The ethanol supplied by the domestic mills will be procured by petroleum companies (which are all government parastatals), and mixed with gasoline to include five percent ethanol. Most of the ethanol in India is currently produced from molasses, as production of ethanol from cane juice/syrup requires an additional technological modification. However, market sources report very little production of ethanol during the current marketing year, due to high prices of molasses.

New Policy Developments

Four consecutive years (1999/2000 to 2002/03) of record sugar production, and the consequent market glut, contributed to a severe financial crisis in the Indian sugar industry. Despite the various relief packages announced by previous governments (see GAIN report IN4034), and the improvement in the sugar prices since MY 2003/04, many mills continue to face financial difficulties. In its recent Union Budget, the GOI announced a special financial relief package for the sugar industry. The National Bank for Agriculture and Rural Development will provide a two-year financial package to the "sick" sugar units at subsidized interest rates. The factories will also be allowed to renegotiate their old high-interest loans. Industry sources expect a general improvement in the fiscal condition of the Indian sugar industry, mainly on account of the improved sugar prices that are expected to remain firm through the MY 2005/06.