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Sugar

Semi-Annual

2008

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Report Highlights:
Post's MY 2008/09 (October/September) sugar production forecast has been lowered to 22.9 million tons (raw value basis) on expected lower sugarcane production due to lower planting and adverse weather during the growth stage. Imports have been raised to 1.0 million tons and exports lowered to 300,000 due to tight domestic supplies and an expected change in the import policy for raw sugar.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
New Delhi [IN1]
[IN]

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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
(Quantity in Thousand Metric Tons)

Sugar, Centrifugal India	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Sep Data
Beginning Stocks	4175	4175	4175	10162	10162	9850	12192	12192	9030
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	30780	30780	30780	28930	28930	28580	24830	24830	22870
Total Sugar Production	30780	30780	30780	28930	28930	28580	24830	24830	22870
Raw Imports	0	0	0	0	0	0	0	0	1000
Refined Imp.(Raw Val)	0	0	0	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0	0	0	1000
Total Supply	34955	34955	34955	39092	39092	38430	37022	37022	32900
Raw Exports	0	0	0	2000	2000	2700	700	700	100
Refined Exp.(Raw Val)	2680	2680	2680	1700	1700	2200	600	600	200
Total Exports	2680	2680	2680	3700	3700	4900	1300	1300	300
Human Dom. Consumption	22113	22113	22425	23200	23200	24500	24300	24300	25000
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	22113	22113	22425	23200	23200	24500	24300	24300	25000
Ending Stocks	10162	10162	9850	12192	12192	9030	11422	11422	7600
Total Distribution	34955	34955	34955	39092	39092	38430	37022	37022	32900

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.

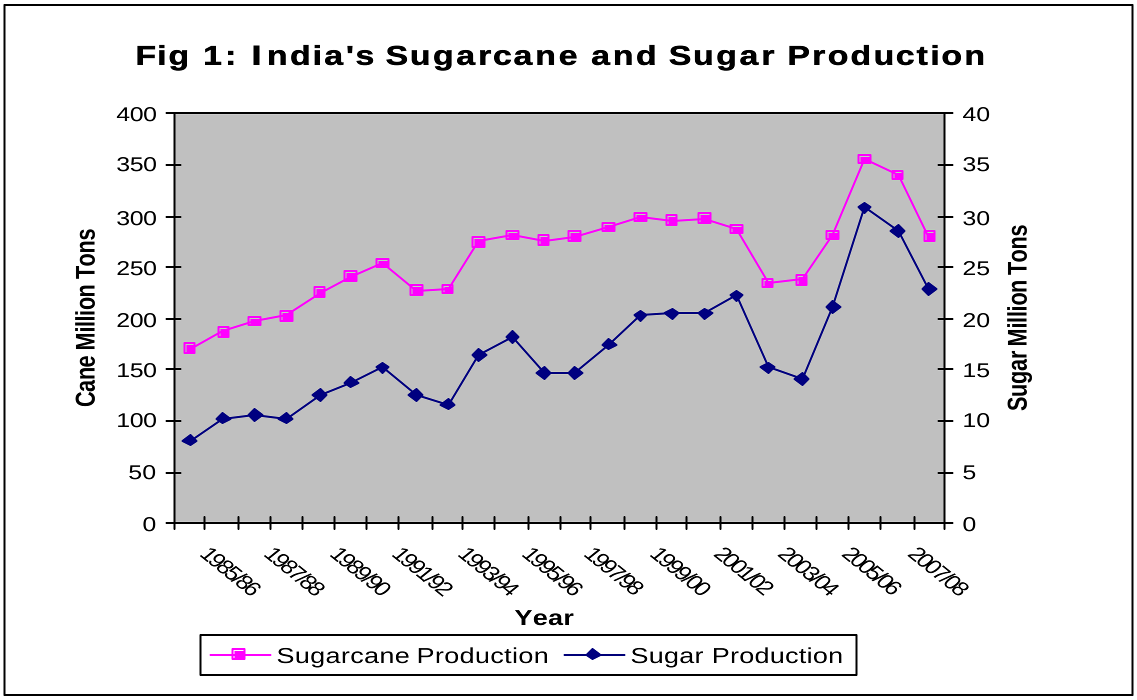
Production

Post has lowered India's sugar production forecast for marketing year (MY) 2008/09 (October/September) to 22.9 million tons (including 400,000 tons of *Khandsari* sugar) due forecast lower sugarcane production. The sugarcane production forecast is lowered to 280 million tons on lower-than-anticipated cane acreage (4.4 million hectares[2]) and expected yield loss due to heavy rains and flooding in some of the cane growing areas in north during the crop growth stage.

Post's MY 2007/08 sugar production estimate has been revised marginally lower to 28.6 million tons (include 435,000 tons of *Khandsari* sugar) due to higher than anticipated late season diversion of cane for g*ur.* Due to the delayed cane payment by the mills and cane

[1] Khandsari sugar: a low recovery centrifugal sugar prepared by an open pan evaporation method.
[2] Latest sugarcane planted area reported by the Ministry of Agriculture

pricing dispute in the major sugar producing state of Uttar Pradesh[3], farmers preferred selling their cane to producers of alternative sweeteners (*gur/khandsari*) to enable them to clear their fields for planting of summer crops (vegetables/fodder/etc). Consequently, mill crushing in the major sugar producing states ended by mid-April, about three weeks earlier than normal. Based on the latest official data, MY 2006/07 and MY 2007/08 sugarcane area have been revised higher to 5.2 million hectares and 5.3 million hectares, respectively.



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 large stocks and low prices, setting in motion the downtrend in sugar cycle in MY 2007/08, which is expected to continue downward in the upcoming MY 2008/09. Delayed cane price payment to farmers, coupled with relatively higher prices of food grains (wheat, rice, maize, and pulses) vis-à-vis sugarcane , resulted in farmers shifting acreage from sugarcane to food grain crop rotations (e.g.: rice-wheat). Consequently, sugarcane area in MY 2008/09 has declined sharply by 16 percent over last year's record cane planted area to 4.4 million hectares. Late cane price payments also resulted in lower input (fertilizer/pesticide/irrigation) use by the farmers, which will adversely affect the yields. Heavy rains and floods during July-August in the northern states have also adversely impacted cane yield prospects. Consequently, MY 2008/09 centrifugal sugar production is forecast to decline to 22.9 million tons, nearly 25 percent lower than last year.

The Government of India (GOI) allowed liquidation of the MY 2006/07 buffer sugar stocks to contain escalating sugar prices. On July 15, 2008, the government allowed sale of the first tranche of 2.0 million tons of buffer stocks[4] in the domestic market during May 1 through September 30, 2008. Twenty five percent of the second tranche of the 3.0 million tons of

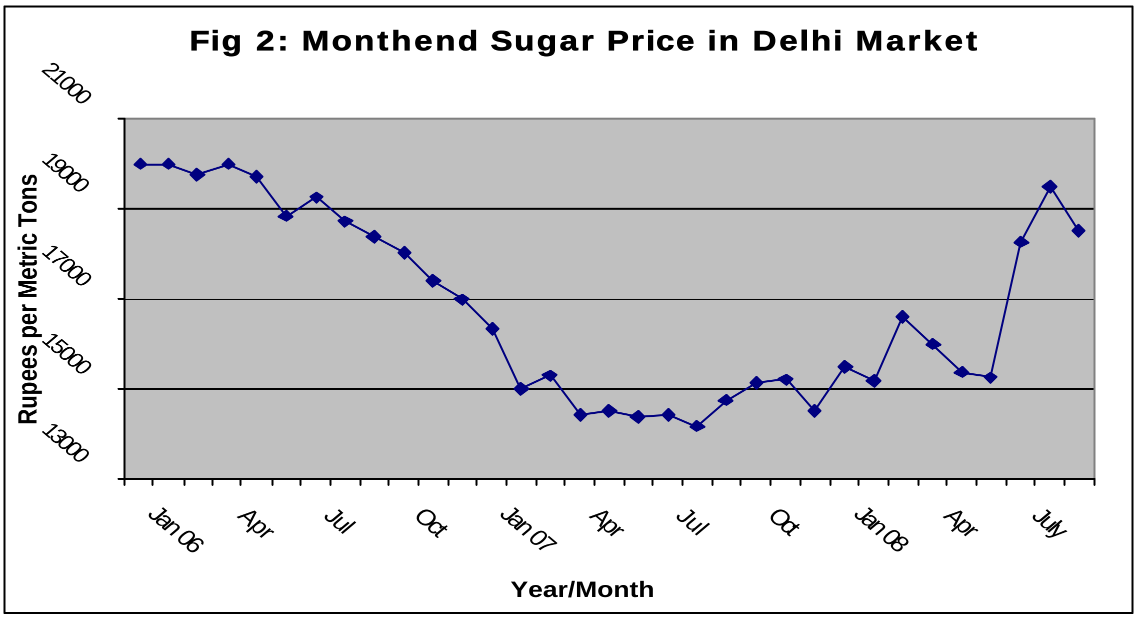
[3] The private sugar mills challenged the state government in court against the arbitrary fixation of a state-advised price. The court issued an interim order that the sugar mills must pay Rs. 1150-1220 per ton until a final decision on the state advised price is reached.
[4] On April 20, 2007, the 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.

buffer stock[5] was allowed for sale in the domestic market from August 1 to September 30, 2008, and the remaining 75% at any point of time during MY 2008/09. For information on the production policy, please refer to Gain report 'Sugar Annual 2008 IN8034'.

Consumption

Sugar consumption in recent years has grown, fueled by strong economic growth (8-9 percent per annum), steady population growth (1.8 percent per annum) and adequate availability. Despite tight domestic supplies in MY 2008/09, consumption has been revised higher to 25.0 million tons on continued growth in the population and economy. Based on the latest monthly consumption figures from the Indian Sugar Mills Association, the MY 2007/08 consumption estimate is revised higher to 24.5 million tons, and the MY 2006/07 is estimated marginally higher at 22.4 million tons.

Prices



Source: Indian Sugar Mills Association.

MY 2007/08 started with firm prices, which showed a strong increase in July/August. Current prices in major markets range from $400 to $425 per metric ton, nearly 22 to 25 percent higher than last year's level. Prices are expected to remain strong during most of MY 2008/09 on tight domestic supplies. However, international price movements may temper the domestic prices.

Stocks

Due to lower production and higher consumption and exports, MY 2007/08 ending stocks are revised lower to 9.0 million tons, more than four months consumption requirement. MY 2008/09 ending stocks are forecast to decline further to 7.5 million tons, barely three months consumption requirement.

[5] 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.

Trade

After a gap of 3 years, India is set to emerge as a net sugar importer in MY 2008/09 due to the expected shortfall in domestic sugarcane and sugar production. Due to the tight domestic supplies and expected relaxation in government's policy for imports of raw sugar, Post's MY 2008/09 forecast imports have been raised to 1.0 million tons and exports lowered to 300,000 tons.

Although the existing high import duty does not offer any significant import opportunities at the current parity between domestic and global sugar prices, industry sources expect the government to relax conditions for imports of raw sugar under the advance licensing scheme (see Trade Policy Section). With domestic sugar prices well above international prices, Indian sugar mills will find it advantageous to import raw sugar, refine[6], and sell the refined sugar in the domestic market during the upcoming season against future (2-3 years) refined sugar exports commitments. The government may assess the cane supply situation to the local sugar mills during the beginning of the crushing season before taking a decision. Assuming the policy change will be announced in December, 2008, Post forecast's MY 2008/09 imports at 1.0 million metric tons.

The GOI and Maharashtra state government did not extend the transport subsidy for the MY 2008/09 season (see Trade Policy Section). Without the subsidy, Indian sugar is not competitive in the international market. Consequently, India's sugar exports in MY 2008/09 will be limited to 300,000 tons, mostly spillover of MY 2007/08 export contracts, exports to quota countries and small exports to neighboring markets.

Post's MY 2007/08 export estimate is revised higher to 4.9 million tons based on the sugar export figures compiled from trade sources. Trade sources estimate sugar exports during October 2007 through early August, 2008 at 4.3 million tons, with raw sugar accounting for about 60 percent. The major export destinations are: U.A.E (1.1 million tons), Bangladesh (628,000 tons), Malaysia (407,700 tons), Sri Lanka (331,000 tons), China (245,700 tons), Somalia (205,000 tons), Indonesia (198,500 tons), Iran (170,000 tons), Yemen (162,000 tons), Saudi Arabia (136,000 tons), and other African, Middle East and South East Asian countries. Export prices ranged from $248 to $380 per ton FOB for raw sugar, $260 to $ 380 per ton for refined/crystal sugar.

Trade Policy

Due to a forecast decline in domestic sugar production, and pressure from other sugar exporting countries at World Trade Organization forum, the GOI and the Maharashtra state government did not extend the transport subsidy[7] deadline beyond the September 30, 2008. Nevertheless, sugar exports will continue to enjoy the benefits of: (i) exemption from local taxes and fees imposed on domestic sugar which amounts to Rs. 950 ($22) per ton, and (ii) a duty drawback benefit[8] on the export value (FOB) for imports of goods under an open general license.

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[6] Imported raw sugar will also improve their refining capacity utilization.
[7] In April 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) as a transport subsidy (both internal and ocean freight) for sugar exported during April 19, 2007 to September 30, 2008. 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 and MY 2007/08.
[8] 5 percent of export value for white sugar and 4 percent of export value for raw sugar.

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 ($22) per ton. The CVD is in lieu of local taxes and fees imposed on domestic sugar (excise duty of Rs. 710 ($16) and a cess of Rs. 240 ($6) per ton).

Under an advance license scheme (ALS), local sugar mills are allowed to import raw sugar at zero duty against an export commitment. Currently, 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 on grain-to-grain basis[9]. With the next parliamentary elections scheduled for 2009, the government would like to contain sugar prices by facilitating imports to enhance domestic supplies. Consequently, the government may allow duty free import of raw sugar against a future export commitment under an advance license scheme (ALS) on ton-to-ton basis[10], as was done earlier in MY 2004/05.

Imported refined sugar and refined sugar produced from imported raw sugar under ALS are subject to various non-tariff barriers such as the levy sugar obligation and the market quota release system, applicable to domestic sugar (see Sugar Annual 2008 IN8063 Section III).

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 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, there have been difficulties in implementing the program due to higher prices demand by ethanol suppliers (local sugar mills) and issues of high taxes and levies in several states. While the petroleum product marketing companies floated tenders and agreed to purchase ethanol from domestic supplies at Rs. 21.50 in late 2006, the slowdown in sugar production since MY 2007/08 and consequent decline in molasses production has raised the molasses prices to levels at which the sugar industry can not supply ethanol at the pre-negotiated prices. Consequently, the ethanol blending program is running only at about 30 to 35 percent of the overall target.

In September 2007, the government planned to launch the third stage of the EBP beginning October 1, 2008 by making 5 percent blending of ethanol in the petrol mandatory and to encourage oil marketing companies to raise the blend ratio from 5 percent to 10 percent. However, due to forecast short supplies of molasses for ethanol production, government will have to defer the plan. On September 11, 2008, the government approved a National Policy on Biofuels, which aims to raise the blending of biofuels with fossil fuels (ethanol in petrol and bio-diesel in petro-diesel) to 20 percent by 2011. Given India's cyclical sugarcane and sugar production and limited scope for an increase in area under sugarcane, industry sources are skeptical about achieving the target.

For more on India's ethanol program, please refer Gain report 'India Biofuel Annual 2008 IN8063'.

[9] The refined/crystal sugar for exports is produced from the same imported raw sugar.
[10] IN MY 2004/05 the GOI allowed mills 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 (2-3 years).

SECTION II: OTHER STATISTICAL TABLES

Table 2: Commodity, Sugarcane, Centrifugal, PSD
(Area in Thousand Hectares, and Quantity in Thousand Metric Tons)

Sugar Cane for Centrifugal India	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Sep
			Data			Data			Data
Area Planted	4850	4850	5150	5100	5100	5290		4600	4410
Area Harvested	4850	4850	5150	5100	5100	5290		4600	4410
Production	345300	355500	355500	360000	340000	340000		290000	280000
Total Supply	345300	355500	355500	360000	340000	340000		290000	280000
Utilization for Sugar	285500	278880	286370	297000	262000	267000		220000	211500
Utilization for Alcohol	59800	76620	69130	63000	78000	73000		70000	68500
Total Utilization	345300	355500	355500	360000	340000	340000		290000	280000

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

	Area/1 (Mha)	Yield /1 MT/ha	Production /1 MMT	Sugar /2 MMT	Khandsari/3 MMT	Gur /3 MMT	Seed/etc /3 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	5.15	69.03	355.52	278.87	7.50	37.15	32.00
2007/08	5.29	64.28	340.06	260.00	7.00	40.06	33.00
2008/09	4.41	63.49	280.00	205.00	6.50	38.50	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)

State	2005/6	2006/7	2007/08	2008/09
	Final	Final	Estimate	Forecast
Andhra Pradesh	12.4	16.8	14.0	10.0
Bihar	4.2	4.5	3.4	3.5
Gujarat	11.7	14.2	13.7	12.0
Haryana	4.1	6.5	6.0	5.0
Karnataka	19.4	26.6	28.7	24.0
Maharashtra	52.0	91.0	90.7	65.0
Punjab	3.4	4.9	5.3	3.5
Tamil Nadu	21.4	25.4	20.6	18.0
Uttar Pradesh	57.8	84.8	73.2	62.0
Others	6.3	8.7	7.4	7.0
Total	192.64	283.28	263.00	210.00

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

Source: 1. 2006/07 and 2007/08; Indian Sugar Mills Association
2. 2008/09; Post Estimates

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

Prices in	Rupees		per uom	Metric Tons
Year	2006	2007	2008	% Change
Jan	20000	16300	15500	-5%
Feb	20000	15000	15150	1%
Mar	19750	15300	16600	8%
Apr	20000	14400	16000	11%
May	19700	14500	15350	6%
Jun	18850	14350	15250	6%
Jul	19250	14420	18250	27%
Aug	18700	14150	19500	38%
Sep	18400	14750	18500	25%
Oct	18000	15100		
Nov	17400	15200		
Dec	17000	14500		
Exchange Rate	42.25	41.00	47.10	
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 October 6, 2008.

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

Table 6: Commodity, Non-centrifugal Sugar (Gur), Price Table
(Price in actual weight basis)

Prices in	Rupees		per uom	Metric Tons
Year	2006	2007	2008	% Change
Jan	16500	13000	12000	-8%
Feb	16000	12500	13250	6%
Mar	15000	13500	13000	-4%
Apr	16500	14000	14000	0%
May	16750	15000	15750	5%
Jun	17000	16500	16500	0%
Jul	16000	16000	19250	20%
Aug	15600	15500	19250	24%
Sep	16500	14250	19250	35%
Oct	16000	12500		
Nov	14000	11000		
Dec	13500	12000		
Exchange Rate	42.25	41.00	47.10	
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 October 6, 2008.

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

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

PRICE	2008/09	2007/08	2006/07
Minimum Support Price (MSP)[a]	811.8	811.8	802.5
State Advised Price for			
Uttar Pradesh	n.a.	1150-1220[b]	1250-1300
Haryana/Punjab	n.a.	1100-1300	1260-1320
Southern States	n.a.	850-1050	1025-1160

Notes:
a): The MSP for 2006/07, 2007/08 and 2008/09 linked to a basic recovery rate of 9.0 percent; and for every 0.1 % increase in recovery over the 9.0% basic recovery rate, an additional premium of Rs. 9.0/mt.
b): 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 until 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$= 41.00 Indian Rs.

Source: Indian Sugar Mills Association and market sources

SECTION III: OTHER RELEVANT REPORTS

Sugar Annual 2008 (IN8034)

India Biofuel Annual 2008 (IN8063)