



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/8/2002

GAIN Report #IN2019

India

Sugar

Annual

2002

Approved by:

Weyland Beeghly

U.S. Embassy

Prepared by:

Santosh Kr. Singh

Report Highlights:

India's 2002/03 sugar production is forecast to decline four percent to 18.6 million tons. Despite a large carryover of 12.1 million and government incentives to liquidate stocks, uncompetitive prices will likely limit exports to one million tons, mainly to neighboring markets.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
New Delhi [IN1], IN

Table of Contents

SECTION I-SITUATION AND OUTLOOK	Page 2 of 11
Production	Page 2 of 11
Consumption	Page 2 of 11
Trade	Page 3 of 11
SECTION II-STATISTICAL SECTION	Page 4 of 11
Table 1-Commodity: Centrifugal Sugar	Page 4 of 11
Table 2-Commodity: Sugarcane	Page 5 of 11
Table 3- Sugar Cane Area, Production, and Utilization	Page 6 of 11
Table 4- Price Table: Centrifugal Sugar	Page 7 of 11
Table 5- Price Table: Gur	Page 8 of 11
Table 6- Price Table: Sugarcane Prices - MSP and SAP	Page 9 of 11
Table 7-Export Trade Matrix: Centrifugal Sugar	Page 10 of 11
SECTION III-Narrative on Production Policy & Developments	Page 11 of 11

SECTION I-SITUATION AND OUTLOOK

Note : All figures are raw-value basis unless otherwise noted.

Production

Total centrifugal sugar production in marketing year (MY) 2002/03 is forecast at 18.6 million tons, 4 percent down from the 2001/02 estimate. The MY 2002/03 figure includes 683,000 tons of khandsari, a low recovery centrifugal sugar. Gur (crude non-centrifugal sugar) production is forecast to climb slightly to 6.6 million tons (MT) from 6.5 MT in 2001/02. Despite large sugar stocks and delayed cane payments to farmers during the 2001/02 season, 2002/03 cane planting intentions remained favorable due to comparatively firm cane prices vis-a-vis competing crops. However, as winter plantings in Maharashtra, Gujarat and Karnataka were adversely affected by dry/warm conditions, 2002/03 sugarcane area and production are expected to be marginally lower at 4.0 million hectares and 272 MT, respectively.

Due to a lower-than-anticipated diversion of cane for production of alternative sweeteners (gur and khandsari), estimated 2001/02 centrifugal sugar production has been raised to 19.4 MT. The diversion of cane to alternative sweeteners was largely limited by depressed gur prices (table 5). High cane prices and a stagnant market for molasses further squeezed the profit margins of other sweeteners. Recent communal violence in the state of Gujarat, a major market for gur, further depressed the demand for gur, adversely affecting the prospects for late-season (March onwards) diversion of cane toward these sweeteners.

Mills began crushing on schedule (early November), and are expected to finish by early May in most states. Sugar recovery has been adversely affected by abnormally high winter temperatures. Due to excessive sugar stocks, mills are currently 6-8 weeks behind on payments to farmers (against the normal waiting period of 2-3 weeks). Arrears have reached more than \$200 million.

Consumption

Sugar consumption has been growing at about 3-4 percent annually in recent years, fueled by population growth (2.1%) and economic expansion (more than 5% per annum). Consumption is forecast to grow 3 percent in MY 2002/03 to 19.0 MT. Data provided by the Indian Sugar Mills Association shows MY 2000/01 and 2001/02 consumption to have been raised marginally to 17.8 and 18.4 MT, respectively. Domestic sugar prices in MY 2001/02 were quite weak due to abundant supplies (Table 4). Prices are expected to remain soft during the balance of MY 2001/02 and in MY 2002/03.

Stocks held by mills at the end of February 2002 are estimated at 17.2 MT, 11 percent above the burdensome stocks of a year ago. Ending 2001/02 stocks, estimated at 12.1 MT, are forecast to decline to 10.7 MT by the end of 2002/03, sufficient for 6-7 months of consumption and double the 3-4 month 'normal/economical' supply desired by the mills.

Trade

Fueled by strong domestic production in recent years, the ballooning of sugar stocks has forced India to look toward the export market. However, low international prices and high costs of production limit Indian sugar export opportunities to neighboring countries such as Bangladesh and Sri Lanka, along with Indonesia, Middle East, Africa, and quota exports (EU and US). Exports in 2002/03 are forecast at 1.0 MT, although actual performance will depend largely on international prices. A tariff of 60 percent, plus a countervailing duty of rs. 850/ton, coupled with the government's policy of subjecting imported sugar to a levy requirement and market release quotas, precludes any possibility of sugar imports in the near future.

In an effort to liquidate huge stocks, the GOI removed quota restrictions on sugar exports from May 2001. Additional incentives such as exemption from levy sugar requirements, periodic sales quota restrictions, domestic excise taxes (rs. 850/ton), and the benefits from other export promotion schemes (\$10-12/ton) have been extended to promote sugar exports. Even without these incentives, some mills seek to liquidate excess stocks through exports to minimize storage costs, bank interest on credit against stocks, physical losses, etc. (\$10-12/ton). Consequently, despite local prices (\$295-315/ton) being well above the world market, some mills will try to at least cover variable costs at \$220-240/ton, FOB. India produces/exports white crystal sugar, which is discounted for its lower quality (lower ICUMSA) compared with that of other origins.

MY 2001/02 sugar exports are estimated to have reached 450,000 tons of sugar through March 2002 at prices ranging from \$215-240/ton, FOB. Most exports have been by southern mills due to their internal transportation advantage of rs. 600-800/ton (\$12-16) over the north India mills (proximity to ports). In the new Ex-Im policy announced on April 1, 2001, the government has declared that it will provide internal transport subsidies (mill to port) for exports of agricultural products, including sugar. This subsidy is paid out of the Sugar Development Fund created from the market cess of rs. 140/ton levied on domestic sugar. Despite the subsidy, trade sources do not expect a significant off take during the remainder of MY 2001/02 due to the impending arrival of cheap Brazilian sugar, expected to lower world prices to \$180-210/ton. Consequently, the MY 2001/02 export estimate has been lowered to 850,000 tons. Based on revised estimates from Indian Sugar Mills Association, MY 2000/01 exports are put at 1.4 MT (Table 7).

SECTION II-STATISTICAL SECTION

Table1-Commodity: Centrifugal Sugar (000 metric tons on raw value basis)

PSD Table							
Country:	India						
Commodity:			Sugar				
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2000		10/2001		10/2002	(MONTH/ YEAR)
Beginning Stocks	10710	10710	12400	11985	0	12115	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	20370	20480	18350	19380	0	18550	(1000 MT)
TOTAL Sugar Production	20370	20480	18350	19380	0	18550	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	31080	31190	30750	31365	0	30665	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	1200	1360	1000	850	0	1000	(1000 MT)
TOTAL EXPORTS	1200	1360	1000	850	0	1000	(1000 MT)
Human Dom. Consumption	17480	17845	18000	18400	0	19000	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	17480	17845	18000	18400	0	19000	(1000 MT)
Ending Stocks	12400	11985	11750	12115	0	10665	(1000 MT)
TOTAL DISTRIBUTION	31080	31190	30750	31365	0	30665	(1000 MT)

Note: Stocks in PS&D include only milled sugar as all khandsari sugar is assumed to be consumed within the production year.

Table 2-Commodity: Sugarcane (area in 000 hectares; quantity in 000 metric tons)

PSD Table							
Country:							
Commodity:			Sugar Cane Non-Ce ntrifugal				
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin							(MONTH/ YEAR)
Area Planted	4200	4300	4100	4100	0	4000	(1000 HA)
Area Harvested	4200	4300	4100	4100	0	4000	(1000 HA)
Production	300320	299200	285000	279000	0	272000	(1000 MT)
TOTAL SUPPLY	300320	299200	285000	279000	0	272000	(1000 MT)
Utilization for Sugar	192000	187650	174200	180500	0	173000	(1000 MT)
Utilizatn for Alcohol	108320	111550	110800	98500	0	99000	(1000 MT)
TOTAL UTILIZATION	300320	299200	285000	279000	0	272000	(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 milled to produce centrifugal sugar, including khandsari.

Table 3-Sugar Cane Area (million hectares), Production (million metric tons), and Utilization (million metric tons)

YEAR		AREA	1/	YIELD	1/	PROD- UCTION	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	
1999/00		4.23		70.74		299.23		178.515		12.000		72.807		35.908	
2000/01		4.30		69.63		299.21		176.650		11.000		75.657		35.905	
2001/02		4.10		68.05		279.00		170.000		10.500		65.020		33.480	
2002/03	3/	4.00		68.00		272.00		162.000		11.000		66.360		32.640	

Sources:1/- Directorate of Economics & Statistics, Ministry of Agriculture

2/- Indian Sugar Mills Association

3/- Agricultural Affairs Office estimate/forecast

Table 4-Price Table: Centrifugal Sugar (price on actual weight basis)

Prices Table			
Country:			
Commodity:			
Year:	2002		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2001	2002	% Change
Jan	14000	14350	2.5%
Feb	14000	14620	4.4%
Mar	15100	15000	-0.7%
Apr	15000		-100.0%
May	15250		-100.0%
Jun	15250		-100.0%
Jul	15000		-100.0%
Aug	15000		-100.0%
Sep	15000		-100.0%
Oct	15400		-100.0%
Nov	14400		-100.0%
Dec	14750		-100.0%
Exchange Rate	48.5	(Local currency/US \$)	
Date of Quote	04/05/02	(MM/DD/Y Y)	

Source & contract terms: Indian Sugar Mills Association, month end prices in the wholesale market, Delhi.

Table 5-Price Table: Gur (price on actual weight basis)

Commodity:	Gur		
Year:	2002		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	2001	2002	% Change
Jan	10000	10000	0.0%
Feb	9750	9800	0.5%
Mar	10500	10200	-2.9%
Apr	12000		-100.0%
May	13250		-100.0%
Jun	14500		-100.0%
Jul	14750		-100.0%
Aug	15250		-100.0%
Sep	14500		-100.0%
Oct	9750		-100.0%
Nov	10250		-100.0%
Dec	11000		-100.0%
Exchange Rate	48.5	(Local currency/US \$)	
Date of Quote	04/05/02	(MM/DD/YY)	

Source & contract terms: Indian Sugar Mills Association, month end prices in the wholesale market, Delhi.

Table 6-Price Table: Sugarcane Prices - MSP and SAP for 1999/00, 2000/01 & 2001/02
(in rs./metric ton)

PRICE	2001/02	2000/01	1999/00
Minimum Support Price (MSP)*	620.5	595	561
State Advised Price for			
Uttar Pradesh	950-1000	900	850
Haryana/Punjab	1050-1100	1050	1050
Southern States	750-780	760	740

* : Prices linked to a basic recovery rate of 8.5 percent.

Exchange Rate: 1999/00 (Oct/Sept) 1 US\$ = 43.5 Indian Rs.
2000/01 (Oct/Sept) 1 US\$ = 46.5 Indian Rs.
2001/02 1 US\$ = 48.5 Indian Rs.

Table 7-Export Trade Matrix: Centrifugal Sugar (quantity in crystal/actual weight basis)

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Oct-Sep		
Exports for	2001		2002
U.S.		U.S.	
Others		Others	
Pakistan	412,985	Indonesia	144,020
Indonesia	243,303	Sri Lanka	38,375
Bangladesh	189,300	Sudan	24,167
Sri Lanka	189,205	EU	10,000
Yemen	58,575	Vietnam	4,730
Sudan	38,500	Dubai	1,008
Somalia	24,500	Maldives	900
Afghanistan	18,620	Uganda	63
China	15,200		
Vietnam	13,000		
Total for Others	1,203,188	Oct'01-Jan'02	223,263
Others not listed	67,812		
Grand Total	1,271,000		223,263

* - Export figure for 2002 shows Oct'01-Jan'02.

Source: Indian Sugar Mills Association & Trade Sources.

SECTION III-Narrative on Production Policy & Developments

Each year the GOI establishes a minimum support price for sugarcane which state governments typically augment by 20-50 percent (Table 6). The successive raising of cane prices (largely for political purposes) has resulted in a supply glut. The high cane price (accounting for nearly 65 percent of the cost of production) has driven the cost of Indian sugar production to an estimated \$270-280/ton. Although the local industry has strongly advocating rationalization of the cane pricing policy, linking it with sugar prices in the domestic/world markets, the political muscle of the farmers' lobby will likely maintain the current policy for at least a few more years.

Mills are required to supply a portion of their production as 'levy sugar' at below market prices, which the government then sells through its public distribution system (PDS) to consumers below the poverty line. The mills are further required to sell the balance of the 'free sugar' at market prices subject to periodic quotas so as to maintain price stability in the market. Over the past few years, the GOI has had a phased policy of liberalization of the sugar sector, with the proportion of levy sugar progressively scaled down from historical levels of 40 percent to 30 percent (Jan 1, 2000), and 15 percent (Feb. 1, 2001) and 10 percent (April 1, 2002). In order to provide more marketing flexibility to the mills, the government has changed the free sale sugar quota release mechanism from a monthly to quarterly basis from January 2002, with the clause that 50 percent of the quota be utilized in each half. Another step has been acceptance of futures trading in sugar with permission being granted to three companies to begin trading sometime in MY 2002/03. The GOI plans the complete removal of the levy requirement and sugar release mechanism from the next marketing season once future trading commences. Henceforth, the government will procure sugar from the market for subsidized sale through the PDS, and will allow futures trading to take care of stabilizing market prices.

Total decontrol of the sugar sector in the longer run will lead to consolidation and the phasing out of inefficient units. Nevertheless, the pricing of cane, which has remained largely outside the purview of liberalization, will be critical if India is to emerge as an efficient sugar producer and exporter.