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India

Sugar

Sugar Semi-Annual

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Report Highlights:

Post's estimate of 1998/99 sugar production has been increased three percent to 16.8 million tons due excellent growing conditions, especially in the South. Enhanced production should trim imports to less than one-half of last year's estimated one million tons. High imports and stock drawdowns stabilized prices and enabled 1997/98 consumption to increase by more than eight percent despite disappointing domestic production. Delicensing of the industry in August is not expected to increase India's milling capacity in the short run, but may lead to improved efficiency through takeovers of inefficient units.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Commodity : Centrifugal Sugar (Quantity in 1000 MT on raw-value basis)

PSD Table						
Country:	India					
Commodity:	Sugar					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1996		10/1997		10/1998
Beginning Stocks	8455	8455	6979	6979	5861	5700
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	14616	14616	14232	14481	16322	16826
TOTAL Sugar Production	14616	14616	14232	14481	16322	16826
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	27	27	800	1000	300	400
TOTAL Imports	27	27	800	1000	300	400
TOTAL SUPPLY	23098	23098	22011	22460	22483	22926
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	740	740	50	60	50	60
TOTAL EXPORTS	740	740	50	60	50	60
Human Dom. Consumption	15379	15379	16100	16700	16600	17200
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	15379	15379	16100	16700	16600	17200
Ending Stocks	6979	6979	5861	5700	5833	5666
TOTAL DISTRIBUTION	23098	23098	22011	22460	22483	22926

Note : All figures in this report are on raw value basis, unless specified otherwise.

Production

Sugarcane and sugar production in India follow a 4-5 year production cycle wherein 2-3 years of production increases are followed by 2-3 years of decline. Following two years of decline, sugarcane and sugar production are expected to increase in 1998/99.

1997/98 Production Performance

India's total centrifugal sugar production for the marketing year (MY) 1997/98 (October/September) is estimated at 14.5 million metric tons (mmt), marginally lower than in 1996/97. Despite 1997/98 being an "ebb" year in India's sugar production cycle, the normal decline (10-20 percent) in sugar production was contained due to improved cane availability and higher sugar recovery by mills. Despite a bleak outlook for sugarcane production at the beginning of the season, the situation improved considerably following beneficial fall and late-winter rains in major cane growing areas. Late winter rains also helped check the diversion of cane to the production of alternative sweeteners such as gur and khandsari (Ref:IN8021). The sugar recovery rate in 1997/98 (10.0 percent) was also marginally higher than in 1996/97.

Gur and khandsari production picked up from February with the return of more normal weather conditions. Due to high prices, gur producers offered attractive cane prices (5-10 percent above prices offered by sugar mills) to farmers. However, due to lower production during the early part of the season, 1997/98 gur production declined by nearly 10 percent to 8.9 mmt. Higher sugar and molasses prices supported 1997/98 khandsari production which is estimated at 838,000 mt, 4 percent higher than last year's level.

1998/99 Production Prospects

In response to higher cane prices and prompt payments by sugar mills to cane farmers during 1997/98, the area planted to sugarcane in 1998/99 increased by 5 percent to an estimated 4.15 million hectares. The improved financial status of farmers facilitated larger fertilizer and pesticide use and improved cultivation practices. Excellent monsoon rains in major cane production areas provided favorable growing conditions. However, recent heavy rains and flooding in parts of Uttar Pradesh and Bihar have hampered cane production prospects in these states. Post continues to forecast 1998/99 sugarcane production at 278 mmt.

The forecast for centrifugal sugar production (1998/99) has been increased to 16.8 mmt, including 776,000 mt of khandsari sugar. Most of the anticipated increase is likely to occur in Maharashtra, Karnataka and Tamil Nadu where the crop has benefitted from excellent rains. Industry sources anticipate a decline in gur production in 1998/99, as gur traders incurred heavy losses during the 1997/98 season. Post estimates 1998/99 gur production at 7.8 mm, nearly 12 percent lower than the previous year.

Sugar Industry Delicensed

On August 20, the government approved the delicensing of the sugar industry. Consequently, construction of new mills or expansion of existing mills will no longer require government approval (or licensing). Government sources believe that delicensing will lead to increased capacity, greater efficiency and higher sugar production. However, the sugar industry in general and the cooperative sector in particular have been highly critical of the government's decision as it will expose them to increased competition. Most sources believe that delicensing will not result in any significant increase in the existing capacity in the next 3-4 years, as licensing

was never viewed as a constraint in setting up mills. Some private mills believe delicensing will lead to improved efficiency in existing units through retooling and takeovers of inefficient units by more efficient companies.

Prices

Despite two consecutive years of lower sugar production, wholesale market prices of sugar during MY 1997/98 eased due to higher imports and large stocks. Wholesale prices during the season ranged from rs. 14.5 - 15.5/kg in the Delhi market to rs. 14.5 - 16.0/kg in Calcutta and Madras (all figures in this section on actual weight basis). The imposition of an import duty on sugar in April 1998 resulted in a rs 0.8 - 1.0/kg increase in domestic sugar prices. To prevent speculation and check the price rise during the upcoming festival season, the government has increased the September free-sale sugar quota by 13 percent, forcing down prices to rs. 14.0 - 14.8/kg in various markets. With higher production forecast in 1998/99 and a likely continuation of imports (at least until the end of 1998), sugar prices are expected to ease further in MY1998/99.

Note: \$1 equals rs.42.00

Prices Table					
Country:					
Commodity:					
Year:	1998				
Prices in (currency)	rupees	per (uom)	Metric Tons		
Year	1997	1998	% Change		
Jan	11600	14200	22.4%		
Feb	12200	14000	14.8%		
Mar	12400	14000	12.9%		
Apr	13700	14800	8.0%		
May	13700	14800	8.0%		
Jun	14200	15250	7.4%		
Jul	13950	15420	10.5%		
Aug	14400	14750	2.4%		
Sep	14250		-100.0%		
Oct	14250		-100.0%		
Nov	14250		-100.0%		
Dec	14400		-100.0%		
Exchange Rate	42.3	(Local currency/U S \$)			
Date of Quote	16-Sep-98	(MM/DD/ YY)			

The cost of sugar production increased in MY 1997/98 to an estimated rs. 12,000/mt (actual weight basis), marginally higher than in 1996/97. The government has yet to announce the 1998/99 minimum support price (MSP) for sugar, and therefore state governments have not yet established the state advised prices which are typically higher than the MSP.

The following table provides month-end wholesale prices of gur in the Delhi wholesale market.

Prices Table			
Country:	India		
Commodity:	Gur		
Year:	1998		
Prices in (currency)	rupees	per (uom)	Metric Tons
Year	1997	1998	% Change
Jan	6750	10000	48.1
Feb	7700	12000	55.8
Mar	7750	10000	29.0
Apr	9250	10000	8.1
May	10500	10000	-4.8
Jun	11000	12000	9.1
Jul	11500	12250	6.5
Aug	11750	12000	2.1
Sep	12000		-100.0
Oct	11500		-100.0
Nov	9000		-100.0
Dec	12000		-100.0
Exchange Rate	42.3	(Local currency/US \$)	
Date of Quote	09/16/98	(MM/DD/YY)	

Consumption & Stocks

MY 1997/98 domestic sugar consumption through July 1998 reached 12.5 mmt, vs. 12.4 mmt during the same period last year. Taking into account August and September consumption of an estimated 2.55 mmt of sugar under the government quota, 0.8 mmt of imported sugar, and 0.84 mmt of khandsari sugar, total 1997/98 centrifugal sugar consumption is estimated at 16.7 mmt, an increase of 8 percent over 1996/97. The increase is mainly due to the larger availability of imported sugar, most of which is consumed by bulk users. The 1998/99 centrifugal sugar consumption is forecast to increase by 3 percent to 17.2 mmt.

Sugar stocks with mills on July 30 totaled 7.9 mmt, compared with 9.3 mmt a year ago. With higher consumption during the season, 1997/98 ending stocks were lowered marginally to 5.7 mmt, sufficient for more than four months of normal consumption.

Trade

Sugar exports during 1997/98 are estimated at 60,000 mt, mostly confined to preferential quota exports to the U.S. and EU countries. Despite improved production prospects for 1998/99, no significant increase in exports is anticipated as domestic prices will continue to remain uncompetitive vis a vis international prices. Following the liberalization of sugar exports in January 1997, exports by the private trade have been unviable as subsidies provided by the Indian Sugar and General Import Export Corporation (ISGIEC) were stopped.

After being a net exporter of sugar in 1995/96 and 1996/97, India became a net sugar importer in 1997/98 (Ref: IN 8021). Although official import data are not yet available, industry sources estimate that around 740,000 mt (actual weight basis) arrived through July 10, 1998 at various ports, including 234,000 mt from Brazil, 155,000 mt from the EU, 145,000 mt from Pakistan, 87,350 mt from Dubai, 38,500 mt from Thailand and the balance from Argentina, Mexico, South Africa, China, and Sudan. Since June, most sugar imports have been from Pakistan via land route and some small quantities from the EU and Brazil. Post forecasts additional imports of 200,000 mt (actual weight basis) for the July-September period to meet the festival season demand, taking total 1997/98 imports to 1.0 mmt (raw value basis). Likely higher domestic sugar prices during the first quarter of 1998/99 would support continued sugar imports, forecast at 400,000 mt for the marketing year.

Despite the imposition of a 5 percent import duty plus an additional countervailing duty (CVD) of rs. 850/mt on sugar imports from April 1998, imports have continued at a steady pace. A continued decline in international sugar prices, combined with firm domestic prices, has insured substantial profit margins for importers. Officials with the Agriculture and Processed Foods Exports Development Authority (APEDA), the agency entrusted with registering all sugar imports, indicate that total import registrations through August 1998 exceeded 1.2 mmt. Most July/August registrations were for imports from Pakistan for August-November delivery, with prices ranging from \$250-280/mt CIF. The current wholesale price of sugar in the domestic

market (\$350-360/mt) continues to offer sufficient incentive to importers even after accounting for the import duty and distribution costs of around \$20/mt. Indian sugar producers have been lobbying for a higher import duty on sugar (40 percent plus a CVD) to provide a level playing field to the domestic industry as most sugar exporting countries are believed to be providing export subsidies. Although, there are no indications that government intends to increase the import duty, it may act during the forthcoming season if sugar imports continue at their current pace.

Commodity : Sugarcane (Area in 1000 hectare and Quantity in 1000 MT)

PSD Table						
Country:						
Commodity:	Sugar Cane Non-Centri fugal					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	4168	4168	3960	3950	4152	4150
Area Harvested	4168	4168	3960	3950	4152	4150
Production	277254	277254	265000	262090	278000	278000
TOTAL SUPPLY	277254	277254	265000	262090	278000	278000
Utilization for Sugar	143379	143379	133130	141170	159310	166395
Utilizatn for Alcohol	133875	133875	131870	120920	118690	111605
TOTAL UTILIZATION	277254	277254	265000	262090	278000	278000

Note : Virtually no cane is utilized for alcohol in India. The 'Utilization for Alcohol' data includes cane milled for gur, seed, feed and waste. The 'Utilization for Sugar' data includes cane milled to produce centrifugal sugar, including khandsari.